Today I’m feeling

ANNUAL REPORT 2010

TIKKURILA

Tikkurila provides consumers, professionals and the industry with user-friendly and environmentally sustainable products for protecting and decorating surfaces. Tikkurila is a strong regional player, whose aim is to be the leading paint company in the Nordic countries and Eastern Europe, including Russia.

According to Tikkurila's vision, Tikkurila inspires people to color their lives and encourages them to use their creativity and imagination. Tikkurila wants to be more than a traditional paints and coatings company.

Tikkurila was listed on the NASDAQ OMX Helsinki in March 2010.
The company's history dates back to 1862.

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TIKKURILA

TIKKURILA

Tikkurila's long tradition and values create a good basis for developing its operations. Tikkurila tries to apply its values to all of its operations – Tikkurila is innovative, professional and worthy of customers' trust.

Trustworthy

We create and offer quality brands, services and products that people can trust are safe, reliable, and environmentally sustainable.

Tikkurila's growth strategy

Tikkurila is a strong regional player, whose aim is to be the leading paint company in the Nordic countries and Eastern Europe, including Russia. Tikkurila's aim is to increase its revenue, in particular on the Russian markets but also in the neighboring areas such as Belarus, Ukraine, other CIS countries and Central Eastern European countries.

Innovative

We drive change in the market and offer novel solutions for our customers' needs.

Tikkurila's sustainable solutions

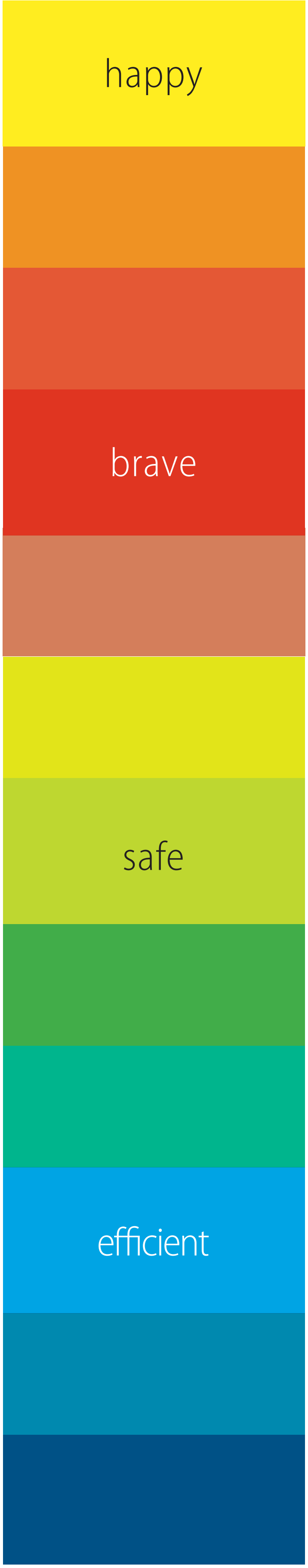
Tikkurila provides consumers, professionals and the industry with user-friendly and environmentally sustainable products for protecting and decorating surfaces. The core of our corporate responsibility thinking is clear – we help our customers make sustainable choices. This requires an open-minded and innovative approach from us.

Professionals

We add value to our customers, owners, and the community – every day.

Tikkurila's leading market position

Tikkurila is the leading decorative paint company in Finland, Sweden, Russia and the Bactic countries, and one of the leading companies in the sector in Poland. Tikkurila's market leadership position is based on its long-term local operations in these countries and on the fact that Tikkurila has adjusted its products and services to meet the local conditions in each of its market areas.



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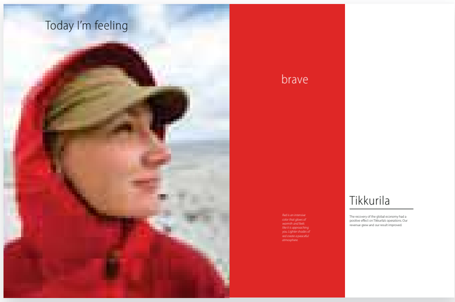
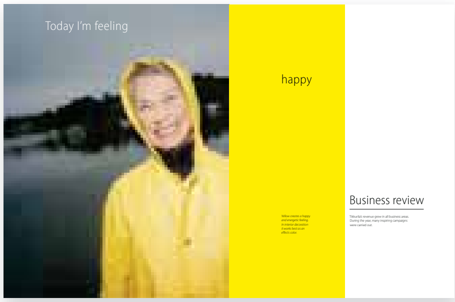


Today I'm feeling

brave

Tikkurila

Tikkurila has always made brave moves. Read about our objectives on pages 2–15.

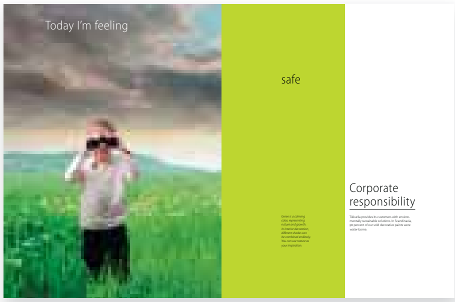


Today I'm feeling

happy

Business review

Tikkurila wants to bring joy to people's lives with colors. Read about our operations on pages 16–27.

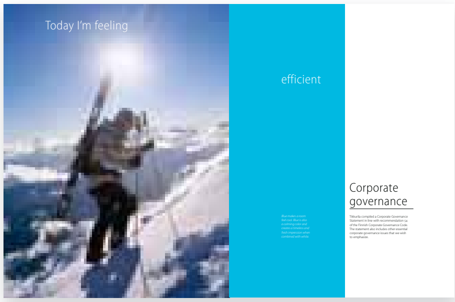


Today I'm feeling

safe

Corporate responsibility

Tikkurila helps its customers make sustainable choices. Read about our operating methods on pages 28–39.



Today I'm feeling

efficient

Corporate governance

Tikkurila aims at efficient operations. Read about our business principles and achievements on pages 40–134.

brave

Red is an intensive color that glows of warmth and feels like it is approaching you. Lighter shades of red create a peaceful atmosphere.

Tikkurila

The recovery of the global economy had a positive effect on Tikkurila's operations. Our revenue grew and our result improved.

From the CEO

Recovery of the global economy supported the positive development of Tikkurila's operations. A major event during the year was the listing of the company on the stock exchange.

Dear reader,

2010 was a good year for Tikkurila. It seems that the worst in the economic recession, that began as a result of the financial crisis in late 2008, is over. The crucial factors in terms of paint demand, such as GDP, residential construction activity and consumer confidence, developed positively. Our sales volumes grew in all of our market areas, and we achieved an operating profit margin of 10 percent, in line with our medium-term target. Among our strategic business units, the biggest growth was seen in the East and Scandinavia.

A year of changes

Long-term preparation for the listing of Tikkurila was completed in March 2010. It resulted in a new consumer product brand company being included on the Helsinki stock exchange and in nearly 30,000 new shareholders for Tikkurila. We also changed our reporting and organization structure. From the beginning of 2010, we have operated as four geographical areas, which differs from the product-group-based model that is typical for the paint industry. The geographical division is natural for us because decorative paints already generate approximately 85 percent of our revenue. We want to be a strong local player that understands the differences between different operating environments. The changes have required extensive internal work and reorganization in accordance with our new strategy is well on its way.

Tikkurila has become even more focused. Through increased focus, we aim to improve steerability and customer orientation. Development of operating models, as well as product and service selections, is an integral part of our operations in order for us to continue to be an important cooperation partner for our customers. The world around us is changing, and we want to respond to the changes with more flexible operating methods.

Sustainable solutions

The importance of a company's social responsibility becomes emphasized through increasing environmental awareness and increased interest towards the ways companies operate. A responsible company carries its responsibility in all of its operations and throughout the value chain. In terms of corporate responsibility, we will also seek more uniform operating methods in order to ensure good practices in different operating environments. There is still work ahead in eco-efficiency and operational development. Ensuring the safety and well-being of our personnel is also an integral part of our corporate responsibility and crucial for competitiveness – now and in the future.

Tikkurila's responsible operations are concretized in our wish to offer our customers environmentally sustainable solutions. The share of water-borne paints in Tikkurila's total production is over 70 percent, and the share is even higher in decorative paints. In Scandinavia, as much as 98 percent of the decorative paints we sold in 2010 were water-borne.

Growth on the paint markets

Even though the future outlook is more positive than before, I believe that we are facing years of moderate growth. Paint demand reflects general economic development, which is expected to be the strongest in emerging countries, such as Russia and China. Currently, approximately half of our revenue is generated in mature markets and half in emerging markets. Our aim is to grow in all areas and in particular in the east by utilizing organic growth, first and foremost.

Our objective is to continue to strengthen our market-leader position in 2011. Our growth is supported by a relatively positive outlook for the construction industry and increasing interest in home decoration and renovation. Our largest short-term challenges are still connected with the availability and price development of raw materials.

Today, Tikkurila is very different from the company it was ten years ago. The bases of our operation – innovativeness, customer focus and courage – are still the same, however. Only satisfied customers enable profitable operations which benefits all of our interest groups.

I would like to thank our customers and partners for their excellent cooperation during the past year. I extend my heartfelt thanks to Tikkurila's personnel for their committed and professional work.

Erkki

Inspiring people to paint

Tikkurila's objective is profitable growth, which is supported by the company's strong brands, close customer relationships, local presence and continuous improvement of operational efficiency.

Year highlights

Implementation of the strategy that was revised at the end of 2009.

The first year of operation with the new organization structure.

Tikkurila's sales increased both in developed and developing markets.

Approximately 85 percent of revenue came from decorative paints.

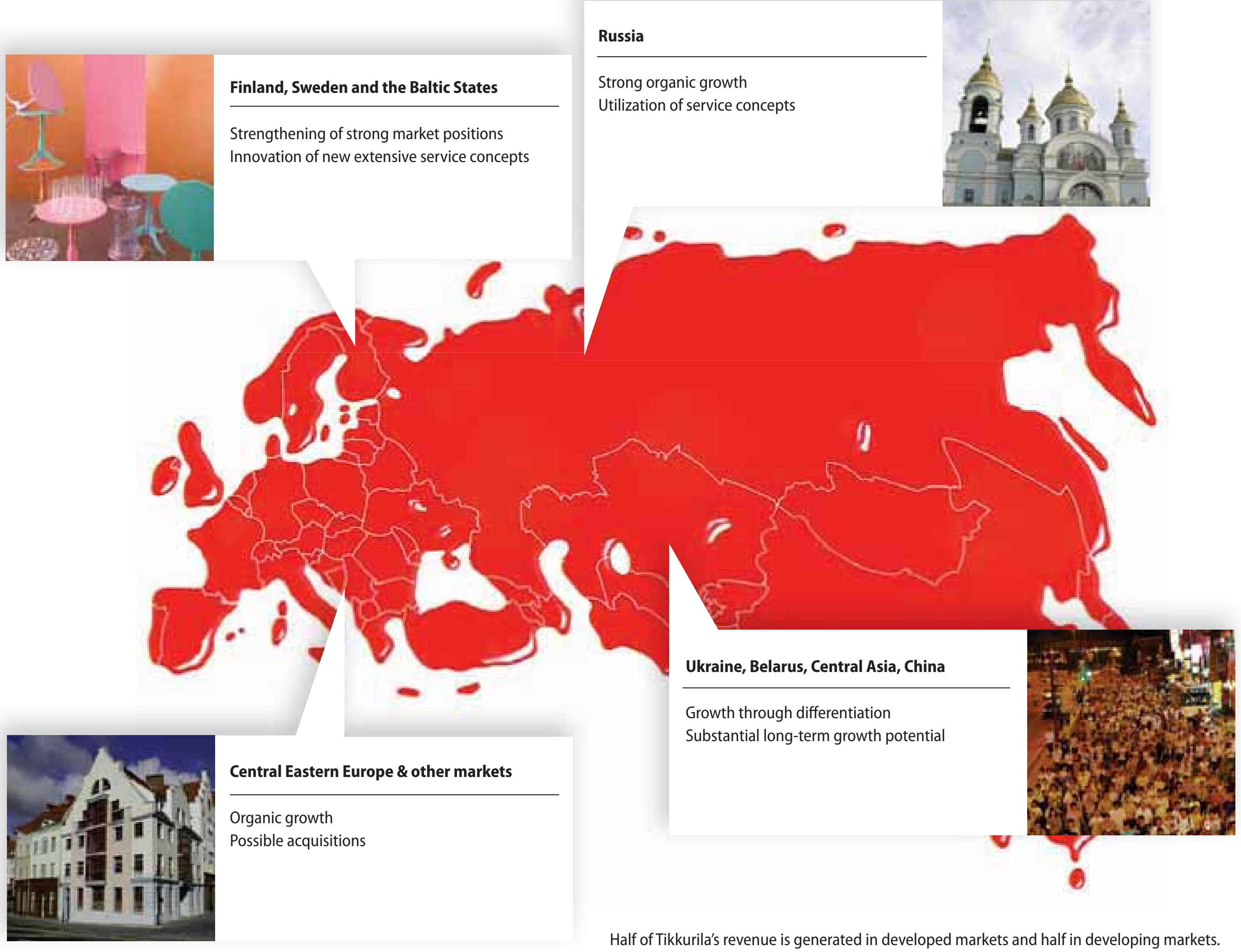
Tikkurila is a strong regional player, whose aim is to be the leading paint company in the Nordic countries and Eastern Europe, including Russia. Growth is sought both organically and through targeted acquisitions. According to Tikkurila's view, the biggest growth potential in the company's current operating area is offered by Russia and other CIS countries, Ukraine, China and Central Eastern Europe. Particularly in Central Eastern European countries, acquisitions are also possible.

Factors for profitable growth

1. Emphasizing customer approach
Tikkurila focuses on offering added value to consumers, professionals and selected industrial users. Tikkurila's aim is to increase its understanding of customers' needs and help its customers succeed in protecting and beautifying surfaces by continuously offering them new products, concepts and services. Close cooperation with retailers is crucial. Tikkurila wants to be a cooperation partner that offers the strongest brands, supports sales, actively develops new products and services and offers training to the retailers' personnel, professionals and the industry. According to Tikkurila, understanding of customers' needs requires a local presence.

2. Strong brands
Tikkurila actively markets its products to retailers, consumers, painting contractors, industrial users and other core actors. Selling of paints is consultative, which emphasizes the importance of both sales and strong brands. Paint brands are typically regional. Tikkurila has four strategic brands: Alcro, Teks, Tikkurila and Vivacolor. In addition, Tikkurila has several local brands. Marketing efforts include the creation of locally tailored marketing campaigns, direct contacts with retailers and painting contractors, as well as select marketing channels to maintain and improve the awareness of Tikkurila's products among consumers. Tikkurila will continue its brand segmentation to enable competitive offering of its products in all price and quality categories. Tikkurila's brand management also includes developing new sales and marketing activities. Read more about the inspiring brand campaigns of 2010 on pages 20–28.

3. Geographical focus
In Finland and Sweden, where Tikkurila is the leading decorative paint company, the aim is to further strengthen its strong market position, among other things, by inventing new extensive service concepts to help inspire people to paint more. In Russia, Tikkurila is the leading decorative paint company and the company strives to grow by utilizing its service concepts and long-term customer relationships. The strong geographical focus enables Tikkurila to ensure effective use of its resources, to truly understand the customers' needs and the development trends in different areas, as well as to better utilize the strong local brand recognition of its products and services. Read more about the business development in different market areas on pages 20–28.



Finland, Sweden and the Baltic States

Strengthening of strong market positions
Innovation of new extensive service concepts

Russia

Strong organic growth
Utilization of service concepts

Ukraine, Belarus, Central Asia, China

Growth through differentiation
Substantial long-term growth potential

Central Eastern Europe & other markets

Organic growth
Possible acquisitions

Half of Tikkurila's revenue is generated in developed markets and half in developing markets.

4. More unified and efficient operations
Tikkurila constantly strives to improve its operational efficiency and profitability. The company utilizes for instance its centralized procurement to improve its price competitiveness. Tikkurila aims to develop its supply chain network in Russia and its neighboring emerging markets to allow faster and more cost-efficient deliveries, increased local market presence and knowledge of the market. In addition to region-specific targets, Tikkurila's group-wide objective is to systematically transfer know-how and concepts between its business units, including brand and service concepts, technologies, innovations and business-to-business know-how.

Customer segments

Tikkurila has three customer segments: consumers, professionals and industry. All strategic business units serve all customer segments.

Consumers and professionals
Tikkurila sells decorative paints and related services to consumers and professionals. The consumers segment includes paint retailers and end customers. The professionals segment includes contractors, designers, house managers, construction companies, developers and influencers. Revenue from the sale of decorative paints and related services to consumers and professionals accounted for some 85 percent of Tikkurila's total revenue in 2010.

Tikkurila's product offering of decorative paints is, to a large extent, based on utilization of tinting technology in retail stores. Tinting is an economical way of producing colored paints with a virtually unlimited number of colors to meet the precise individual needs of both large and small customers. Tikkurila is a forerunner in tinting technology.

Tikkurila is distinguished from its competitors by offering a wide variety of services in addition to paints and coatings. Tikkurila offers its customers in Finland, Sweden and Poland, for instance, a phone helpline that answers customers' questions concerning decorative paints and offers painting ideas and color suggestions. Tikkurila also arranges guidance and trainings related to decorative paints in its training centers.

Industry

Tikkurila sells paints and coatings and related services to customers within the wood and metal industry, both directly and through the Temaspeed sales network. The industrial paint operations require a more global presence than sales of decorative paints, which is based on regionalism, because industrial companies are increasingly operating globally. In 2010, the share of industrial coatings in Group revenue was approximately 15 percent. In terms of industrial coatings, Tikkurila offers its retailers and customers guidance and training at the Temaspeed Academy in Vantaa. Tikkurila also offers technical service to its industrial customers.

> Tikkurila is the forerunner in tinting.

Tikkurila's well-known brands

Each of Tikkurila's decorative paint brands is directed at a certain customer segment and a certain price and quality category. In 2010, the Tikkurila Group's sales and marketing expenses accounted for some 15 percent of the Group revenue.

TIKKURILA

TIKKURILA. A premium brand offering water-borne and solvent-borne products for consumers, professionals and industrial users. The Tikkurila brand drives sustainable beauty and acts as your inspirational guide. Tikkurila offers individual solutions, from ideas to a successful end result – you'll never walk alone.

ALCRO

ALCRO. A premium brand providing only water-borne products for consumers and professionals. Alcro products are extensively eco-labeled. Alcro acts together with professional painters and designers to drive the development of how paint can be used in order to create modern environments and solutions. By choosing Alcro, you show that you are competent and conscious.

VIVACOLOR

VIVACOLOR. A medium, good-quality paint brand offering a wide assortment of both water-borne and solvent-borne paint products for consumers and professionals. Vivacolor believes that people's ability to see and use colors is the value that should be celebrated. Through colors Vivacolor can help you change your life and the world around you – and show that sometimes even a small change can make a big difference.

TEKC

TEKS. A value-for-money brand, which aims at making the world around you more comfortable and beautiful. By choosing the leading Russian brand, you get products with an optimal ratio of price-quality.

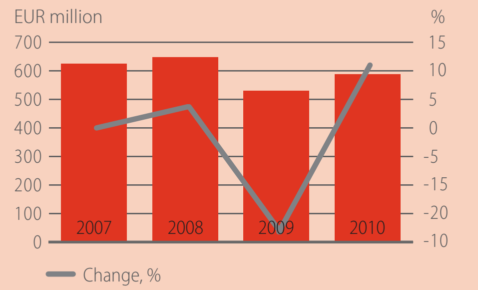
Financial objectives

In 2010, Tikkurila set the following financial targets for the medium-term:

Growth

Over five percent annual organic revenue growth

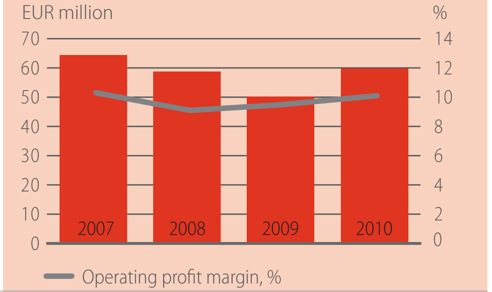
In 2010, Tikkurila's revenue increased by 11 percent. Of the total growth, some 7 percent was based on the exchange rate fluctuations and some 4 percent on higher sales volumes.



Profitability

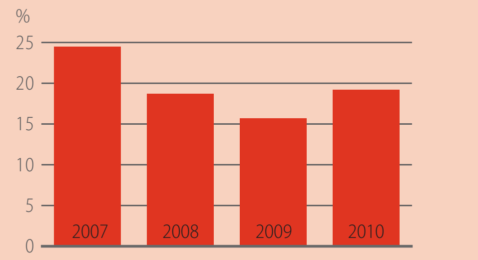
Operating profit (EBIT) over 10 percent of revenue

In 2010, Tikkurila's operating profit margin was 10.1 percent (2009: 9.5%).



Continued improvement of return on capital employed (ROCE)

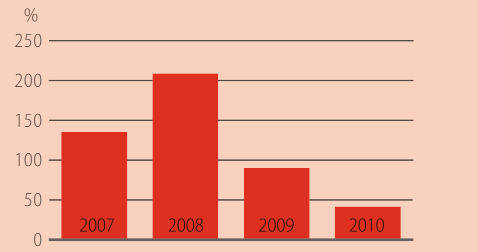
In 2010, Tikkurila's return on capital employed increased to 19.2 percent (2009: 15.7%).



Solvency

Gearing under 100 percent

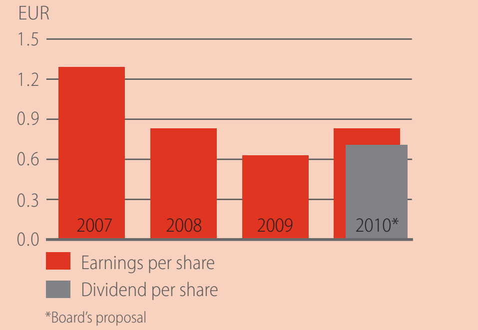
In 2010, Tikkurila's gearing decreased to 41.4 percent (2009: 90.0%).



Dividend

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

The Board proposes that a dividend of EUR 0.70 per share will be distributed for 2010, corresponding to approximately 86 percent of the 2010 operative net income.



*Board's proposal

Paint markets are growing

Paint consumption typically grows in line with general economic growth. Water-borne paints are increasing their market share in decorative paints.

Year highlights

The global economy recovered, and the outlook for construction improved.

Raw material prices increased.

The strengthening of currencies, central for Tikkurila, increased consumer purchasing power.

Consolidation development continued in the entire value chain of the sector.

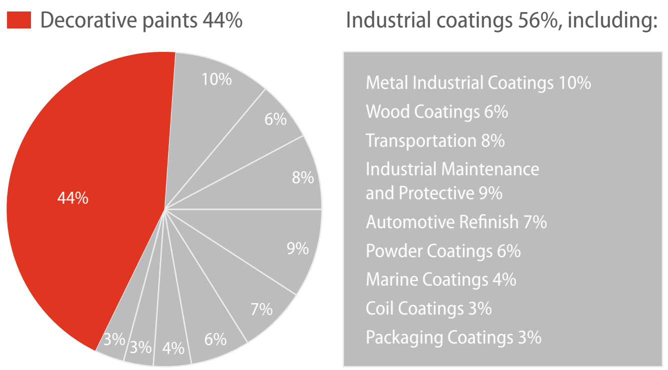
The importance of professionals is emphasized as an increasing number of consumers buy painting services.

The paint markets can be divided into two main categories, based on the end use of the products: decorative paints and industrial coatings. Tikkurila operates in decorative paints and selected industrial coatings segments, including certain metal and wood industry coatings, in particular.

According to research published by IPPIC (The International Paint and Printing Ink Council) in December 2010, the total value of the global paint and coatings market amounted to approximately USD 87 billion in 2009. Decorative paints represented 51 percent of the total market volume and 44 percent of the market value. The value of European paint sales is estimated to have been approximately USD 27 billion in 2009. The share of European paint sales in global sales volumes was 24 percent and 30 percent of the sales value. The demand for decorative paints is expected to grow in the next few years.

In addition to segmentation based on the end use of the product, the paint markets can also be divided based on the price and quality of the product. Paints are usually divided into three quality and price categories: premium, medium and economy. The size of each category varies by country and market area, depending on the standard of living, local painting traditions, construction styles and available materials, decorating trends and the general construction, renovation and industrial activity. A considerable share of Tikkurila's products consist of premium and medium products.

Value distribution of the global paints and coatings market



Global paint sales are approximately USD 87 billion. Tikkurila operates in the Nordic countries and Eastern Europe in decorative paints and in select industrial coatings segments.

Factors that affect paint demand

The main factors affecting the demand of paints and coatings are:

- general economic development
- activity on construction and renovation markets
- employment situation and consumer confidence

Below is a more detailed description of factors and market trends affecting the sector and that also have an effect on Tikkurila's operations.

Increasing paint consumption per capita

Paint consumption is linked to the standard of living. The structure of the paint markets and the consumption of paint vary according to the geographical area. The Western European paint markets have settled at a consumption of over ten liters per capita in most countries. Characteristic for these markets is that the sales volumes grow moderately, and relatively stabilized market shares are divided between certain actors. In Central Eastern Europe and CIS countries, the current consumption of decorative paint per capita is considerably lower than in Western Europe.

General economic development

The global economic recession in the past years particularly affected e.g. Western Europe; however, recovery is expected over the next few years. In terms of Russia, the oil price has a considerable effect on general economic development and purchasing power.

In 2010, the economies in Tikkurila's operating areas recovered gradually from the global economic crisis. The employment situation and consumer confidence improved in almost all markets. The positive economic development also had a positive effect on Tikkurila's operations.

Construction and renovation

The construction and renovation of buildings and structures is an important end-use of paints and coatings. During slower new construction periods, renovation activities have often picked up. The recession seen in the past years clearly decreased the activity of new construction, particularly in Europe and the United States. The share of new construction in decorative paints' overall demand is approximately 20–25 percent. For Tikkurila, renovation construction also plays a larger role than new construction. In the future, construction is expected to grow most in emerging markets, such as Russia and its neighboring areas.

Residential construction picked up clearly in 2010, particularly in Finland and Sweden, and some areas of Russia are showing signs of volume growth. New construction usually affects paint demand with a lag of approximately one year, and the first positive signs were visible in Tikkurila's sales in late 2010.

Increasing demand for premium and medium products

The paints produced and sold in Western Europe are almost exclusively medium or premium products. Economy products have traditionally been popular in Russia, other CIS countries and Central Eastern Europe. The preferences regarding the quality of paint will change towards medium and premium products in the long-term as the standard of living improves in the emerging economies.

Particularly in the SBU East area, the focus of consumer demand shifted towards higher quality products in 2010.

Increasing interest towards home decoration

Consumer interest towards home decoration has increased. In the Nordic countries in particular, home product and interior design markets have grown in the past years, although the recession was also visible in the interior design markets. The importance of quality is also emphasized in home decoration materials and products. Tikkurila's strong focus on beautifying the home and its surroundings is for instance visible through active participation in trade fairs and other events.

Increasing regulation

The regulation of paint production, product safety, handling and marketing of paints and coatings is increasing as a result of the implementation of new safety and environmental rules. One major legislative change that affects the manufacturing and sale of paints and coatings is the REACH regulation (the EU regulation concerning the registration, evaluation, authorization and restriction of chemicals), which obligates chemical manufacturers and importers to assess the risks related to product use and provide end-users with instructions on how to use them safely. Paints themselves are not substances referred to in the regulation, but paint manufacturers must ensure that all substances used in their paints meet REACH requirements. The REACH regulation may decrease the number of paint manufacturers in Europe and reduce the importing of paints and raw materials to the EU.

In terms of the REACH regulation, 2010 was extremely important for raw material suppliers because the first stage registrations had to be completed by the beginning of December. Apart from some individual notifications, raw material suppliers have by now registered their materials for the usage purposes for which Tikkurila's products have been developed.

Other important legislation projects related to paints involve for instance the amount of emissions of organic solvents into the air.

Environmental awareness among consumers

In addition to the regulation regarding content and safety of paints, the environmental awareness of end-users in relation to both products and their packaging has increased. The share of water-borne paints is approximately 80 percent of the world's decorative paint volume, and the share is estimated to grow in the future, particularly in emerging countries, most likely, however, at a moderate rate. Read more about Tikkurila's environmental responsibility issues on pages 34–35.

Consolidation development in the sector

A common trend in Tikkurila's value chain is the growth of larger players. Raw material suppliers merge, and there is ongoing restructuring in the paint industry. In retail trade, the share of so-called Big Box players, i.e. large players that are mainly based on self-service construction materials stores, are growing.

Raw material markets

The global economic crisis that began in 2008 led to capacity cuts among some raw material suppliers. In addition, in the past years several considerable acquisitions have been carried out in the chemical industry, which have clearly decreased the number of raw material suppliers in the paint industry. The economic recovery in 2010 led to an imbalance between demand and supply. As a result, the prices of some main raw materials used in paint production rose, and there were some challenges in the availability, particularly towards the end of the year. Higher raw material costs decreased Tikkurila's relative profitability in the second half of the year. Tikkurila tries to move a majority of the cost pressure forward in the value chain.

All in all, the average consumer prices of paints have increased over the past five years, but the increase has not covered the steep increase in raw material prices seen in the past few months. The prices of raw materials and packaging materials are highly dependent on the price development of oil, energy and metals, which are expected to increase in the next few years. Tikkurila also expects that the challenges related to raw material availability, for instance titanium dioxide, will continue in 2011. Read more about paint consumption in our markets on page 18.

Competition

Tikkurila's decorative paints are currently market leaders in Finland, Sweden, Russia and the Baltic region. In Poland, Tikkurila is one of the largest suppliers of decorative paints. The competitive situation on the decorative paint markets has been relatively stable in the past few years, and there have not been many changes in market shares. Considerable changes in market shares have mainly been seen in connection with acquisitions. In industrial coatings markets, Tikkurila delivers various products and solutions to several market areas, and the competition is fragmented by area and customer segment. More information about the competitors on page 19.

For instance IPPIC's (The International Paint and Printing Ink Council) paint market report (December 2010) has been used as a source for the text.

Different ways to distribute paints

Tikkurila's customers, to whom it sells decorative paints, consist mainly of DIY (do-it-yourself) retailers, paint retail store chains and independent paint retailers. They, in turn, sell Tikkurila's products through over 10,000 retail outlets in approximately 40 countries. A small amount of decorative paints are sold directly to painting contractors.

In Scandinavia, Tikkurila operates its own paint stores, unlike in its other market areas. In Sweden, decorative paints are sold to DIY retailers and painting contractors. Paints are also sold to Happy Homes and Colorama paint store chains, all of which market products further to consumers and professionals. Tikkurila holds a 45 percent share in the steering company of the Happy Homes chain. In addition, Tikkurila has a paint store, Måleributiken, in Alvik, Sweden, which serves as a flagship store for the Alcro brand.

In Finland, small independent paint shops have, to some extent, been replaced by DIY retailers. Similar development can also be seen in other markets where Tikkurila operates. Large chains that are mainly based on self-service are becoming more common, particularly in Central Eastern Europe and Russia, where the distribution system contains even more layers than elsewhere in Europe.

Optimization of the supply chain

The objective of the supply chain is to produce high-quality products from the raw materials and deliver them to the customer in an efficient and safe manner.

Year highlights

Volumes rose as demand recovered.

There were challenges related to raw material availability, and their prices increased.

We reacted to the raw material situation in advance and were successful.

Delivery reliability and speed to customers were at good levels.

Efficiency in the management of net working capital improved.

The most important task of Tikkurila's supply chain is to keep customers satisfied with high-quality products and correct deliveries completed on schedule. The supply chain is responsible for planning demand, sourcing and procuring raw materials and packaging materials, production and logistics. In addition, the supply chain is also actively involved in the procurement of other products and services needed in Tikkurila's operations. Tikkurila has 11 production plants in seven countries. In addition, Tikkurila has nine logistics centers and 14 distribution warehouses in 18 countries. Half of Tikkurila's personnel work in different parts of the supply chain.

Tikkurila's main raw materials are pigments, binders, solvents and additives. Raw materials are procured at the group level from over 250 local and international suppliers. In general, Tikkurila seeks to have at least two sources for the purchase of each raw material.

Tikkurila produces almost all paints itself, with the exception of e.g. China, where Tikkurila has minor contract manufacturing.

Tikkurila delivers its products to customers by road and railroad transportation.

A year of challenging conditions

Paint demand recovered in early 2010. There were signs of challenges related to raw material availability during the beginning of the year, as a result of which Tikkurila raised its inventory levels. In addition, the strikes within the Finnish transportation industry created pressure both in raw material and end product transportations during the spring. Thanks to proactive measures, Tikkurila was, however, successful in its deliveries for the summer season.

Uncertainties related to raw materials

The main uncertainty factors in 2011 are still related to the availability and price development of raw materials and in particular of the main raw material, titanium dioxide. The demand for titanium dioxide was anticipated to have been at 2007 levels in 2010, and raw material suppliers were not able to respond fully to the demand due to considerable capacity cuts.

The supply chain will continue to focus on improving its customer service by ensuring the availability of raw materials and optimal deliveries to Tikkurila's customers, which requires good cooperation both with customers and raw material suppliers. Despite the turbulence on the raw material markets, net working capital management and increased cost efficiency are also focus areas in 2011. Read more about the effects of raw materials on Tikkurila's operations on page 12.

New solutions

Research and development supports Tikkurila's business by creating new business opportunities and by studying and adopting alternative raw materials.

Year highlights

The number of Tikkurila's products with eco and anti-allergy labels increased.

Additional resources were allocated to the research of raw materials.

New product launches were warmly welcomed by the markets.

The launch of the new tinting system, Avatint, was completed in Finland and Poland.

Tikkurila's R&D function was reorganized in order to improve customer service.

Tikkurila's research and development (R&D) creates, in cooperation with sales and marketing, new products and concepts with substantial growth potential and renews the existing product range. R&D takes into account various durability requirements of paints, their suitability for production, the existing range of products, application methods, including total painting costs, ease of maintenance and intervals between maintenance. Continuous development and updating of product and raw material portfolios are essential in order to keep Tikkurila competitive, to meet the changing needs of customers, and to comply with increasingly stringent safety and environmental standards.

The structure of Tikkurila's R&D function was reorganized in 2010, enabling the R&D function to further improve the internal cooperation, to serve the customers better and to help Tikkurila reach its strategic goals. The R&D team consists of over 170 experts located in R&D units in all key markets of Tikkurila.

Ecologically sound solutions

Environmental awareness among the customers is increasing, resulting in a higher demand for environmentally and ecologically sound materials and solutions. A major emphasis is placed on further reducing the environmental impact of Tikkurila's products and on extending the service life of paints. One example of Tikkurila's activity in the field is its participation in the FINLCA (Life Cycle Assessment Framework and Tools for Finnish Companies), a project facilitated by the Finnish Environment Institute (SYKE). The project aims at developing life cycle approaches and improving the environmental competitiveness of Finnish companies. Life cycle assessment and related methods, such as carbon and water footprints, are commonly used in assessing the environmental impacts of products and services.

Focus on raw materials

The escalating costs of certain key raw materials constitute a challenge. Since raw materials account for a significant share of the production costs of each paint liter, this has a major impact on R&D. R&D will play a crucial role in finding price-competitive replacements that do not compromise quality. Tikkurila cooperates with the suppliers of binders and other raw materials, and also with universities and research institutes. R&D function will also continue efforts to increase the share of water-borne paints in Tikkurila's product range, as well as developing high-quality and user-friendly paints and tinting systems.

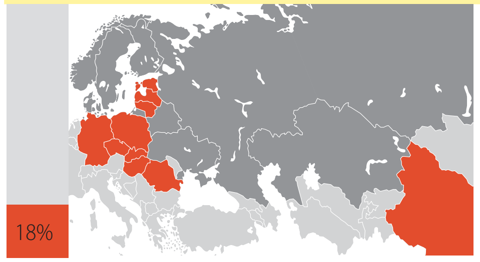
happy

Yellow creates a happy and energetic feeling. In interior decoration it works best as an effects color.

Business review

Tikkurila’s revenue grew in all business areas. During the year, many inspiring campaigns were carried out.

Business in brief

Revenue by segment	Operating area	Market position	Paint market	Demand structure	Factors impacting demand	Brands	Distribution channels	Competitors
SBU East								
33% 	• Operating area: Russia and other CIS countries, Ukraine • Largest market: Russia • Production sites: St. Petersburg and Stary Oskol, Russia; Kiev, Ukraine	• The leading supplier of decorative paints in Russia with a market share of approximately 18%	• The value of the Russian paint market approximately EUR 1.5 billion • Paint consumption per capita approximately 4–7 liters, depending on the country • The average yearly volume growth of the Russian decorative paints market over 10% between 2004–2008. The market decreased along with the recession in 2009 • According to Tikkurila's estimates the volume of the Russian paint market grew by less than 10% in 2010	• Economy price and quality category products • Premium price and quality category products expected to rise the fastest along with improving standards of living and higher quality standards	• GDP growth • Improving standard of living and rise of middle class • Increasing demand for premium and medium products • Activity of new construction, renovation and home sales • Industrial activity level	• Tikkurila, Teks, Finncolor, Kolorit, Gamma	• Deco: DIY retailers, independent retailers, wholesalers • Industry: direct sales, Temaspeed	AkzoNobel, Lakra-Sintez, Empils, ABC-Farben, Meffert, Caparol, Sniezka, a large number of local suppliers
SBU Scandinavia								
31% 	• Operating area: Sweden, Norway, Denmark • Largest market: Sweden • Production sites: Nykvarn, Sweden	• The leading supplier of decorative paints in Sweden with a market share of approximately 40%	• The value of the paint market approximately EUR 800 million • Paint consumption per capita approximately 13 liters • The average yearly growth of the Swedish paints market some 4% in 2004–2008. The market decreased along with the recession in 2009 • According to Tikkurila's estimates the value of the Swedish paint market grew by approximately 1.5% in 2010	• Premium and medium price and quality category products	• GDP growth • Activity of new construction, renovation and home sales • Increasing environmental awareness • Increase in importance of home interior decoration and refurbishing • Increasing demand for buying professional services • Industrial activity level	• Alcro, Beckers, Tikkurila	• Deco: DIY retailers, in Sweden also own professional stores, Happy Homes chain and Colorama retail chain • Industry: direct sales, Temaspeed	AkzoNobel, Flügger, Jotun, Becker-Acroma, Teknos, a large number of local suppliers
SBU Finland								
18% 	• Operating area: Finland • Production sites: Vantaa, Finland	• The leading supplier of decorative paints with a market share of over 50%	• The value of the paint market approximately EUR 240 million • Paint consumption per capita approximately 12 liters • The average yearly growth of the Finnish paints market was approximately 6% between 2004–2008. The market decreased along with the recession in 2009 • According to preliminary estimates the Finnish paint market started to grow moderately towards the year-end 2010. The demand for professional construction paints and industrial coatings grew the most	• Premium and medium price and quality category products	• GDP growth • Activity of new construction, renovation and home sales • Increase in importance of home interior decoration and refurbishing • Increasing environmental awareness • Increasing demand for buying professional services • Industrial activity level	• Tikkurila	• Deco: DIY retailers, independent retailers • Industry: direct sales, Temaspeed	AkzoNobel, Teknos, NorMaali, Becker-Acroma, a large number of local suppliers
SBU CEE								
18% 	• Operating area: Baltic countries, Poland, Czech Republic, Slovakia, China, Germany, Hungary and Romania, as well as export to more than 20 countries • Largest market: Poland • Production sites: Dębica, Poland; Tallinn, Estonia; Ansbach, Germany	• No. 4 in decorative paints in Poland with a market share of approximately 14% • The leading supplier of decorative paints in the Baltic countries with a market share of approximately 20% (according to Tikkurila's estimates)	• The value of the paint market approximately EUR 3 billion • Paint consumption per capita approximately 11 liters in Poland, 7–11 liters in the Baltic countries and 1.3* litres in China • The average yearly growth was approximately 3–10% in recent years, and more than 10% in China • According to Tikkurila's estimates the Polish paint market decreased somewhat in 2010 with regard to consumers and remained stable or grew slightly with regard to professional and industrial customers *Decorative paints	• Medium and economy price and quality category products • Premium price and quality category products expected to rise the fastest along with improving standards of living and higher quality standards	• GDP growth • Improving standard of living and rise of middle class • Increasing demand for premium and medium products • Activity of new construction, renovation and home sales • Industrial activity level • Increasing importance of ecological values	• Tikkurila, Jedynka, Vivacolor, Polifarb Debica, Finkolora, Pigrol	• Deco: DIY retailers, independent retailers, wholesalers • Industry: direct sales, Temaspeed	AkzoNobel, PPG, Caparol, Meffert, Teknos, Jotun, Hempel, a large number of local and regional suppliers

Back to the growth path

Tikkurila is in a good position to utilize the growth potential in the east and in Central Asia thanks to its long history in Russia, its leading market position and well-known brands.

Year highlights

The economies in the area recovered and consumer confidence improved.

The East's revenue increased and profitability improved.

New water-borne paint lines were taken in use in St. Petersburg.

The new Avatint tinting system was introduced in Russia at year-end 2010.

Industrial powder coatings business was divested.

The gradual recovery of the markets, improved consumer confidence, slightly lower interest rates and a pick-up in the construction sector supported the East's sales development, although the GDP growth slowed down temporarily in Russia in the third quarter, mainly due to the unusually hot weather. In the first half of 2010, the rouble strengthened compared to the euro but weakened again during the second half of the year, although the price of crude oil, which is crucial for the Russian economy, remained at a relatively high level.

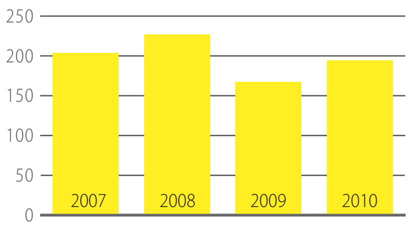
During the year, the demand for decorative paints recovered more than that of industrial coatings. The East's revenue improved in 2010 due to exchange rate fluctuations and higher sales volumes. Sales development was particularly positive in the outskirts of the market area such as Belarus, Ukraine and Central Asian countries. Improved operating profit for 2010 was boosted by changes in the product mix and prices, as well as by higher sales volumes.

Growing markets

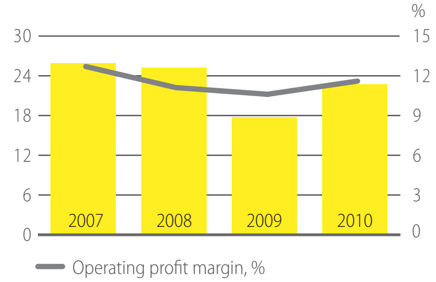
The East operates on markets where paint consumption is expected to grow towards the level of consumption in the western markets. Typical trends related to paint consumption in this market area are a shift in demand towards more high-quality products, increased use of color and increased popularity of more environmentally and user-friendly water-borne paints.

The objective of the East is to grow profitably, which also requires, apart from additional investments in customer service and marketing, continuous improvement of operational efficiency. In order to support its strategy, Tikkurila reorganized its operations in Russia during the year and pruned overlapping activities. On the other hand, Tikkurila strengthened its management presence in different country units in the area, which improves the know-how of local markets and customer needs. Tikkurila considers local presence and knowledge of local conditions to be a clear strength.

Revenue
EUR million



Operating profit*
EUR million



*excluding non-recurring items

Key figures

EUR million	2010	2009
Revenue	194.5	167.1
Operating profit*	22.7	17.7
Operating profit margin, %*	11.6%	10.6%
Operating profit	24.1	17.7

*excluding non-recurring items

A major event during the year was the reorganization of production at Tikkurila's two plants in St. Petersburg. The production of water-borne paints was centralized to the Obukhovo site where new lines were taken into use early in the year. Obukhovo's new production lines for water-borne paints are the most modern in Russia.

In late 2010, Tikkurila presented its new Avatint tinting system in Russia. Launching of the new system is a significant project, because there are approximately 1,000 Tikkurila tinting system units in use in Russia.

In December 2010, Tikkurila divested its industrial powder coatings business by selling all the shares in OOO Tikkurila Powder Coatings, a Russian subsidiary. The transaction was completed in January 2011.

Positive market outlook

Tikkurila is the market leader in Russia in decorative paints, and the company's products are sold in over 5,000 retail stores. According to research published by TNS in 2010, Tikkurila is the best-known paint brand in Russia.

Understanding and foreseeing customer needs and their development are crucial in terms of success. All in all, the recovery of the economies in Russia and its neighboring areas is expected to continue, but the growth rate is dependent for instance on raw material price development.

Brand of big volumes

One of Tikkurila's strategic brands, TEKS, is a value-for-money brand, which aims at making the world around more comfortable and beautiful. By choosing the leading Russian brand, you get products with an optimal ratio of price-quality.

TEKS was added to Tikkurila's brand portfolio in 2006, when Tikkurila acquired the Russian decorative paint company OOO Kraski Teks. Tikkurila has been exporting paints under the Tikkurila brand to Russia since the 1970s and opened the first western paint factory in 1995 in St. Petersburg. Tikkurila is well-known especially in the western parts of Russia.

TEKS is sold in more than 5,000 retail stores in Russia. In addition to Russia, TEKS is sold in Ukraine, Belarus, Georgia, Central Asia, Lithuania, and Latvia.

A good year

Tikkurila invests in providing inspiration for the Scandinavians, who are very much into interior design and home refurbishing, combined with high environmental awareness.

Year highlights

The recovery of the Swedish economy surpassed expectations.

Scandinavia's profitability improved clearly.

98 percent of Tikkurila's decorative paints sold in Scandinavia were water-borne.

According to Tikkurila's estimates, the company strengthened its market position in Scandinavia.

According to preliminary estimates, the gross domestic product of Sweden, the biggest market for Tikkurila in Scandinavia, grew by approximately 5.0 percent in 2010. Consumer optimism was underpinned by a turnaround in the labor market and increases in house prices. With the strong recovery in the GDP growth in the first half of 2010, the poor employment situation started to improve towards the year-end. Also, the market for building construction recovered in the Nordic region.

The revenue of SBU Scandinavia increased clearly in comparison to the previous year. The revenue was boosted by exchange rate changes and higher sales volumes. The significantly improved operating profit was based on a lower level of variable costs, higher sales volumes and better efficiency of the production plant located in Nykvarn, Sweden.

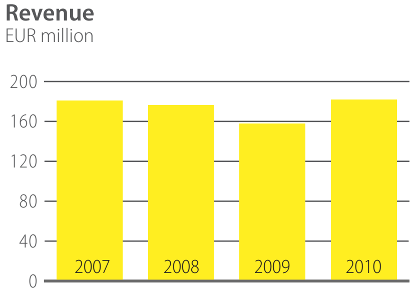
Environmental forerunner

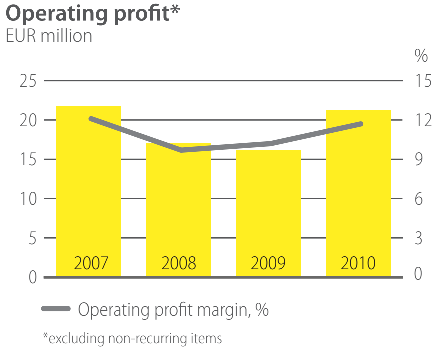
Environmental awareness of consumers has increased during the past few years, particularly in the Nordic countries. In Scandinavia, Tikkurila has, for a long time, been a forerunner in environmental issues. As a result of comprehensive research and systematic efforts, 98 percent of the decorative paints sold in Scandinavia in 2010 by Tikkurila were water-borne.

Tikkurila's decorative paints in Scandinavia also have the most comprehensive range of eco-labeled paint products in the Nordic countries. One example of Tikkurila's eco-labels is the Swan, which is the official environmental label of the Nordic countries, setting strict requirements on the entire life-cycle of products, from raw materials to production and use, all the way to waste disposal.

Providing inspiration

The Scandinavians have traditionally been interested in interior design. Tikkurila has strong premium decorative paint brands, Alcro and Beckers, in the region, providing inspiration for home decoration. One example of successful novelties was the tenth Alcro Designers collection, ad. 10, focusing on color combinations and representing the up-and-coming colors for 2010–2012.


Revenue
EUR million


Operating profit*
EUR million

*excluding non-recurring items

Key figures

EUR million	2010	2009
Revenue	181.8	157.8
Operating profit*	21.3	16.1
Operating profit margin, %*	11.7%	10.2%
Operating profit	21.3	15.7

*excluding non-recurring items

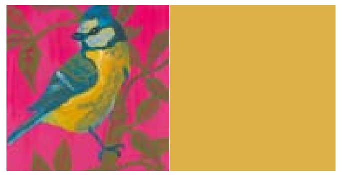
In addition, new web-based color programs were launched for the brands Alcro and Beckers, enabling consumers and professionals to download their own images to the service and to crop and color them easily by themselves. The programs are also in use in paint stores. Read more about the products and services of Alcro and Beckers at www.alcro.se and www.beckers.se.

In Norway, Tikkurila was awarded for its professional approach in 2010. Tikkurila received the Supplier of the Year award in November from Byggmakker, which is the best-known retail chain of building and home improvement stores in Norway.

Top-class brand awareness

Tikkurila is the market leader in Sweden in decorative paints. Tikkurila managed to further strengthen its market position in all customer segments and in particular among professionals. In Scandinavia, the trend of renovating and other services is on the increase, due to the improvement of the standard of living and the increased number of elderly people wanting to live in their own houses or apartments. Thus, the role of professional influencers, builders and painters is becoming stronger.

The brand awareness of Tikkurila's premium brands, Alcro and Beckers, is over 90 percent in Sweden. Tikkurila believes that its dedication to offer environmentally sustainable products gives a competitive edge to the company. The overall recovery of the Scandinavian market is expected to continue in the coming years.



World of birds provides inspiration

Alcro-Beckers, a subsidiary of Tikkurila, launched its tenth Alcro Designers collection, focusing on the up-and-coming color combinations for 2010–2012. The ad.10 collection includes 31 colors that are inspired by the colorful world of birds.

The collection was designed in cooperation with one of the world's leading trend gurus, Li Edelkoort. She has been called the world's most influential person when it comes to trends.

The goal was to make the ad.10 collection an important aid for consumers when it comes to combining colors. The colors of the collection are divided into seven bird families: Baby Birds, Urban Birds, Rural Birds, Weaver Birds, Cocktail Birds, Singing Birds, and Black Birds. Singing Birds (in the picture) are diminutive birds that add a burst of energy to the gray working days.

A solid position

Tikkurila wants to offer all of its customers comprehensive solutions, from an idea to a successful outcome.

Year highlights

The Finnish economy recovered and housing construction in particular picked up.

The hot summer decreased the demand for outdoor paints.

Next generation Avatint tinting systems were taken into use in stores.

Tikkurila's color materials and shop furniture were renewed.

The new products and services were welcomed by the markets.

Finns increasingly value domestic products, quality and individuality.

The Finnish economy grew as anticipated during the year. The employment situation improved, and consumer confidence hit record levels. Construction picked up and building licenses for residential construction in particular, as well as housing starts, increased clearly compared to the previous year. The advance deliveries of outdoor paints in early 2010 started favorably, but due to the record long heat wave during the summer, additional orders by stores were lower than normal. Finland's revenue remained at the previous year's level. The pick-up in construction and recovery in the order book of the metal industry started to slowly be reflected in industrial product demand.

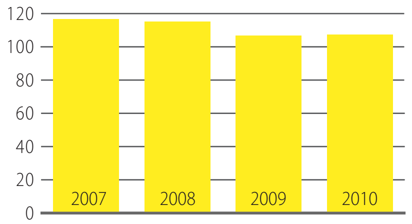
Customer needs steer operations

During the year, SBU Finland specified its strategy and changed its operations so that it will better serve all three customer segments – consumers, professionals and industry.

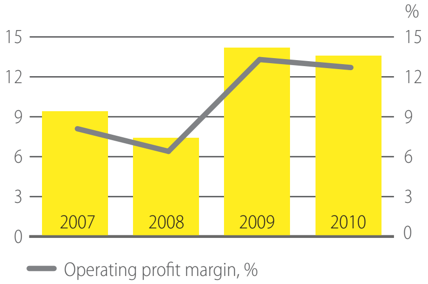
As usual in countries with high standards of living, the demand for buying services and for comprehensive solutions is also growing in Finland. As a response to this, Tikkurila wants to ensure that its customers are successful, by offering high-quality products and highly developed service concepts.

Cherishing of free-time and easier everyday life, as well as the tax deduction right for domestic work have increased the utilization of professionals in renovation and interior decoration at home. Consumers are served by Tikkurila's paint helpline (Maalilinja), Contractor Pool (Tekijäpankki), that offers renovation and painting services, and Designer Pool (Suunnittelijapankki) that was opened in 2010. For professionals and the industry, Tikkurila offers various services and tools that are needed for planning and surface treatment.

Revenue
EUR million



Operating profit*
EUR million



*excluding non-recurring items

Key figures

EUR million	2010	2009
Revenue	107.2	106.8
Operating profit*	13.6	14.2
Operating profit margin, %*	12.7%	13.3%
Operating profit	13.6	12.2

*excluding non-recurring items

Successful launches

The importance of the internet is constantly growing and Tikkurila is continuously developing new web applications. The Designer's Portfolio (Suunnittelijan salkku) is an Internet-based service entity that helps architects and interior designers choose products and colors. The idea behind Designer Pool is to combine professionals that offer interior design and planning services with customers that are interested in such services on the web.

Successful product launches during 2010 included Supi Saunavaha that can be tinted, water-borne tin roof paint Panssari Akva and the Tikkurila ProHouse concept developed for the needs of the construction industry and the sawmill industry. Good reception is also expected for Tunto Kivi that enables authentic stone surfaces indoors and the Zen product family for treatment of interior wooden surfaces. The products will be launched in the spring of 2011. A considerable achievement is also the launch of the more environmentally friendly Avatint tinting system in all stores that use Tikkurila's tinting system.

Interest in home decoration continues

Tikkurila is the market leader in decorative paints and a leading supplier of industrial coatings in Finland. The changes in market shares are usually minor even though new actors have entered the field. Tightening competition ensures development in the sector. Tikkurila believes that the economic recovery and the increasing interest towards home renovation and decoration will continue. Read more about Tikkurila's products and services at www.tikkurila.fi

Store concept was awarded

In the spring of 2010, Grafia ry awarded Tikkurila's Visio store concept with the Hopeahuippu award in the service design series. According to the judges, the store concept, with its comprehensive approach, makes the selection of colors easier and encourages the customer to find the small interior designer that lives within him or her.

Tikkurila introduced Visio to the markets in the autumn of 2009, and the aim was to encourage consumers to change the look of their home and to help them select colors and the right products. Shop-in-shop solutions, in line with the concept, have been delivered to interior design stores and DIY stores across Finland.

The Vuoden Huiput (the best of the year) competition, arranged by Grafia, is the most important competition for graphic design and advertising in Finland. It aims at improving the level of design, strengthening creativity and originality and developing designers' professionalism.

An area of opportunities

The Central Eastern European markets are expected to grow faster than the Western European markets, due to the anticipated improvement in the standard of living.

Year highlights

The markets in the SBU Central Eastern Europe's operating area recovered at different rates.

Sales improved somewhat despite challenging conditions.

Tikkurila invests in building and developing operations in the area.

According to Tikkurila's estimates, its market share strengthened in Poland.

The Central European markets are highly competitive.

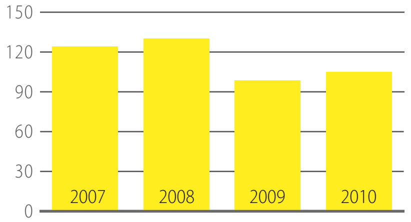
In addition to Central Eastern European countries, SBU Central Eastern Europe's (CEE) operating area also covers the Baltic countries and China, among others. The economies in the heterogeneous operating area recovered from the recession at different rates. The most important market area for Tikkurila in the CEE area, Poland, did not suffer considerably from the recession, and its GDP is estimated to grow by a rate of approximately four percent in the next few years. Demand also developed favorably in Estonia, whose economy developed more positively than in the neighboring countries Latvia and Lithuania. The biggest economic growth was recorded in China, where Tikkurila operates mainly in the premium product segment. All in all, the smallest countries in the region and the industrial sector suffered most from the recession.

The revenue of the CEE area increased, and operating profit decreased slightly compared to the previous year. Tikkurila has a strong market position in Poland and the Baltic countries, but the CEE area also includes many countries in the start-up phase, which naturally affects the profitability of the business unit.

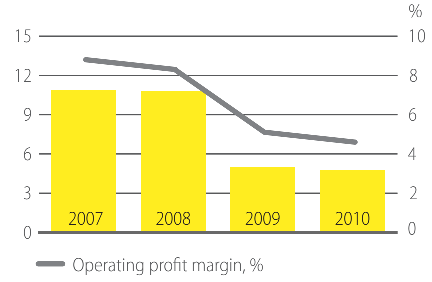
Considerable marketing investments

During the year, Tikkurila invested in developing marketing and sales. The company launched a new economy class brand called Finkolora on the Czech, Slovakian and Romanian markets. In Poland, the Be Special concept was launched around the Tikkurila brand. The concept offers surface treatment solutions based on different effects for consumers looking for individuality. In Poland, the company also launched products approved by the allergy federation. In the Baltic countries, Tikkurila launched the water-borne Vivacolor PROF series for interior surfaces and for professional use. Vivacolor, used in the Baltic countries, is one of Tikkurila's strategic brands.

Revenue
EUR million



Operating profit*
EUR million



*excluding non-recurring items

Key figures

EUR million	2010	2009
Revenue	105.2	98.5
Operating profit*	4.8	5.0
Operating profit margin, %*	4.6%	5.1%
Operating profit	4.4	5.0

*excluding non-recurring items

In the Central Eastern European region, the importance of so-called Big box stores is emphasized. Big box stores that are based on large volumes are mainly self-service stores, where the ease of buying is important. Tikkurila's strategy is mainly based on utilizing tinting technology at the stores, but the company also tints its paints at the Polish plant to respond to the increasing demand of Big box stores.

Tikkurila's Avatint tinting system was launched in Poland in 2009. The system was taken into use in the Baltic countries during 2010, and it will be taken into use in other Central Eastern Europe region's countries during 2011.

Interesting but competitive markets

The paint consumption per capita in Central Eastern European countries is clearly lower than in western countries, and the market is heavily competitive. In Poland, the four largest players have an 80 percent market share in decorative paints. Tikkurila is Poland's fourth largest player on the decorative paints market. One of the main achievements in 2010 was the strengthening of the market share in Poland, in addition to which the company expects that its market position has also strengthened in the Baltic countries.

Central Eastern Europe is a market of organic growth for Tikkurila, and the company expects attractive acquisition possibilities to open up as well. Tikkurila also aims at improving its position in the area by improving the cost-efficiency of its operations. The company believes that the importance of environmental awareness will also increase on the Central Eastern European markets, and it is able to offer its customers increasing amounts of products that are environmentally sustainable.

Tikkurila colored Kirnu

Tikkurila supplied paints and coatings for Finland's pavilion Kirnu in the Shanghai World Expo 2010 that was arranged for May–October 2010. Quality, beauty and durability were emphasized in the product selection. In keeping with the Expo's theme, Better City, Better Life, Kirnu conformed to the principles of sustainable construction, and Finland's theme, Sharing Inspiration, fit perfectly with Tikkurila's desire to inspire people to express their ideas through colors.

The steel structures of Kirnu were primed with Tikkurila's industrial metal coatings, and the concrete floor was coated with durable Temafloor products. The walls were coated with products from the premium trademark Feelings, available on the Chinese markets. The light wood surfaces were treated with Supi products. The exhibit visitors especially liked the "frozen lake" with its fish that were painted on the white concrete floor.

BIE (Bureau International des Expositions) awarded the Finnish pavilion the best in its category for its design. During the exhibition, nearly 6 million people visited Kirnu.

safe

Green is a calming color, representing nature and growth. In interior decoration, different shades can be combined endlessly. You can use nature as your inspiration.

Corporate responsibility

Tikkurila provides its customers with environmentally sustainable solutions. In Scandinavia, 98 percent of our sold decorative paints were water-borne.

Sustainable choices

We help our customers make sustainable choices. We lead our operations in a sustainable direction and pay attention to our personnel and the environment.

Year highlights

Code of Conduct and Corporate Responsibility program were published in 17 languages.

Tikkurila started using international GRI guidelines for sustainability reporting.

Corporate responsibility thinking and environmental reporting have long traditions in Tikkurila.

Tikkurila provides consumers, professionals and the industry with user-friendly and environmentally sustainable solutions for protection and decoration of surfaces. Over time, and as operations have developed, the basis of our responsibility approach has remained the same – the core of our Corporate Responsibility has always been the customer.

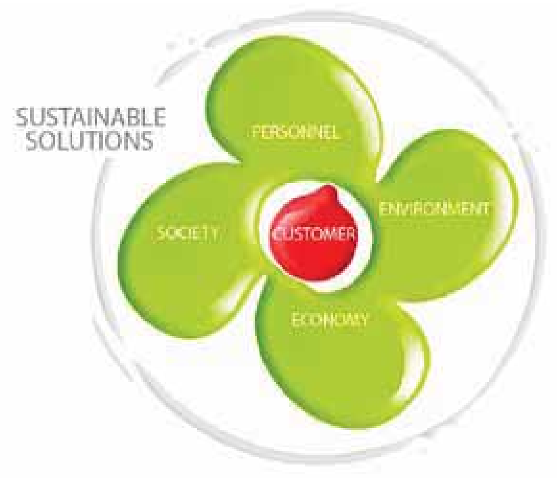
Tikkurila's group-wide Corporate Responsibility program covers the entire product lifecycle from sourcing to end-user support. We help our customers make sustainable choices.

Tikkurila's Corporate Responsibility program complements the Code of Conduct where Tikkurila has outlined the fundamentals of its operations.

Driving force

Responsible actions are in line with Tikkurila's values and support the strategy, where customers, strong brands, local presence, unified ways of working and profitable growth are central. The sustainable development of our own operations is good for our business, for our customers, and for other stakeholders, including society.

The core of Tikkurila's responsibility approach is supported by four key areas of sustainable development: personnel, environment, economy and society. The customer is present and in focus in each of these areas.



Additional information and ordering the report

More information on Tikkurila's corporate responsibility and responsibility reporting is available from Tikkurila Oyj's Communications: Päivi Kivilä, paivi.kivila@tikkurila.com.
Annual reports can be ordered through Tikkurila's website at www.tikkurilagroup.com/media/publications/
or by e-mail from communications@tikkurila.com.

Reporting principles

In 2010, Tikkurila started using international GRI guidelines (Global Reporting Initiative G3) for sustainability reporting. GRI is an international community that develops guidelines for sustainability reporting. The purpose is to promote reliable, intelligible and comparable reporting of information.

The reporting is compiled for every financial year. This report corresponds to level C+, which is verified by KPMG. Responsibility reporting is aimed at anyone interested in corporate responsibility and Tikkurila. Corporate responsibility reporting is part of Tikkurila's annual report, and the corporate responsibility section of the report, pages 30–38, has been assured by KPMG.

Tikkurila's Corporate Responsibility program that was renewed in 2009 has been created around the essential responsibility issues for Tikkurila. Therefore, Tikkurila's responsibility reporting is, in addition to the GRI guidelines, also based on Tikkurila's Corporate Responsibility program. In order to reduce repetition, the report also refers to information presented elsewhere in the annual report.

Tikkurila has long traditions particularly in environmental reporting. Read more about Tikkurila's reporting history at www.tikkurilagroup.com/responsibility.

The figures in the report cover either the Tikkurila Group as a whole or a single strategic business unit (SBU) in accordance with the segment division. The figures of joint ventures, subsidiaries and similar organizations have been reported in relation to the holding and they are included in the Group or SBU figures. Figures for subcontractors are not reported.

The presented figures are based on the Group's internal accounting. There is a list of the GRI guideline items that are included in this report on page 38 of the annual report. The indicators to be reported were defined in the autumn of 2010, based on their significance and Tikkurila's Corporate Responsibility program. In addition, the selection was affected by the availability of historical data and the ability to collect information within the reporting schedule.

In the Group's financial reporting, International Financial Reporting Standards (IFRS) are applied.

What is paint made of?

Paint consists of binders, pigments and fillers, solvents or water, and of so-called additives. When developing new paint, the raw materials are chosen for compatibility with the object to be painted.

Binders form a film and bind the raw materials in the paint to each other. **Pigments** are fine granular powders that are insoluble in water; they are added to paint mainly to provide the desired color and coverage. Pigments also provide protection against the sun's ultraviolet rays and some pigments improve a coating's anti-corrosive properties. **Fillers** are also insoluble fine granular powders, which are used to give paint its required opacity, among others. **Water** and/or **solvents** give paint the required viscosity so that it can be applied sparingly to a substrate. A host of additives may be added to paint, but they constitute a very small part of the production formula. Additives are used to improve the paint-making process flow, or paint preservation and application properties.

Opportunity to influence

The core of Tikkurila's success is competent, inspired and motivated employees, who are encouraged to develop. A strong emphasis is put on employees' well-being and safety at work.

Year highlights

Employee job satisfaction improved further.

Share of employees involved in performance and development discussions increased.

The entire production of water-borne paints in St. Petersburg was transferred to new facilities.

The number of slight lost time accidents increased, but the number of lost working days related to accidents decreased.

Tikkurila's values – trustworthy, innovative and professionals – have been created in cooperation with employees to steer operations and everyday decisions. Tikkurila encourages its personnel to constantly develop their skills and competencies. Well-being and safety have a strong emphasis in corporate responsibility.

Personnel structure

At the end of December 2010, Tikkurila employed 3,468 people (2009: 3,538). Approximately 44 percent worked in Russia and its neighboring areas, 22 percent in Finland, 21 percent in Central Eastern Europe and 13 percent in Scandinavia. Due to the seasonality fluctuation in the paint market, the number of personnel is highest during the outdoor painting season in the summer and lowest during the winter. The average number of employees in 2010 was 3,703 (3,757).

Approximately half of Tikkurila's personnel work in the supply chain (production, procurement, logistics and HSEQ) and one-third in sales, marketing and technical support. The share of temporary workers at the end of 2010 was 5.9 percent (4.9) and 43.6 percent were blue collar workers (43.2).

Own production has a significant effect on Tikkurila's personnel structure and amount. The differences between operational areas are explained, among others, by the degree of production automation and the amount of own sales personnel. The highest degree of production automation is in Sweden, and the highest relative share of sales personnel is in Russia.

Approximately 63 percent (64) of the personnel were men and 37 percent (36) women. The average age of the employees was 38.5 years (38.5).

Rewarding

Salaries and compensation paid in 2010 totaled EUR 88.1 (79.1) million. Remuneration is based on performance, internal equality and external competitiveness. All people are treated equally in recruitment and employment irrespective of gender, race, ethnic or national origin, age, religious beliefs, political opinions or social status.

Development and interaction

A personnel survey covering the entire personnel has been utilized since 2004 to develop operations. The response rate in 2010 was 86.3 percent (86.3) which was clearly higher than the European general norm (74.0). The job satisfaction index indicating the overall employee job satisfaction was 68.0 (65.9) in 2010, when the European general norm was 64.1.

Tikkurila arranges performance and development discussions to discuss the content of the work, the targets and results as well as the operations, goals and development of the team. The aim of the discussion is to provide and receive feedback on the work and to be heard. According to the personnel survey the share of personnel involved in such discussions has been rising and was 78.0 percent in 2010 (77.0).

Occupational health and safety

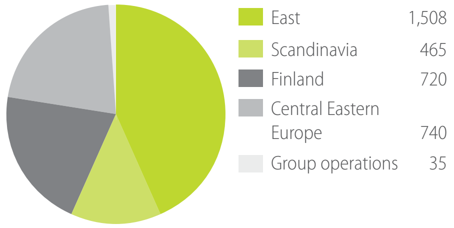
Tikkurila aims at continuously reducing the number of lost time accidents and thus eventually reaching a level of zero accidents. In 2010, the number of lost time accidents increased to 4.8 (3.8) accidents per one million working hours, due mainly to an increase in slight accidents in Finland. The number of lost working days related to accidents decreased, however, and was 11.4 per accident (15.0). No severe personal injuries occurred.

Working conditions improved considerably in St. Petersburg where the production of water-borne paints was transferred in its entirety to Obukhovo at year-change 2009/2010. Thanks to the new production lines for water-borne paints, the outdated lines in Utkin were closed for good.

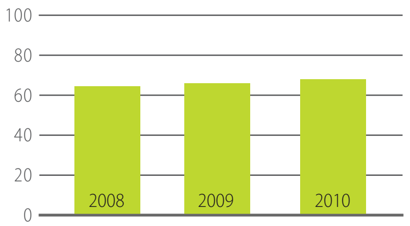
Personnel figrues	2010	2009	2008
Number of personnel, December 31	3,468	3,538	3,867
Average number of personnel	3,703	3,757	4,027
Job satisfaction index based on personnel survey	68.0	65.9	64.5
Lost time accidents (LTA1)/million working hours	4.8	3.8	5.4
Lost working days/accident	11.4	15.0	13.9
Employees involved in development discussions, %	78.0	77.0	64.7
Temporary employments, December 31, %	5.9	4.9	not reported
Blue collar workers, %	43.6	43.2	not reported
Share of women in personnel, December 31, %	37.0	36.0	not reported
Average age of employees, December 31	38.5	38.5	not reported

Personnel by business unit at year-end 2010

Altogether 3,468



Job satisfaction index



Lost time accidents

Share your knowledge

Tikkurila encourages its personnel to develop. Seventy people applied for the Tikkurila Ambassadors program of which 17 were selected as ambassadors. The program is part of the Tikkurila Business School concept whose development is financed by Tekes.

"The financing from Tekes is a great thing because it proves that people outside the company believe in our development efforts. The competence sharing model is being built together with the development of strategic competencies", Tikkurila's HRD Manager Heli Koistinen explains.

The Tikkurila Ambassadors program was launched in 2011, and it will last for 18 months. The attendees improve their skills in selected competence areas and train their colleagues. The ambassadors are supported by mentors representing Tikkurila's top management. The attendees and mentors in cooperation promote competence development within the company.

Life cycle approach

Tikkurila's Corporate Responsibility program covers the entire product life cycle from sourcing raw materials and energy to supporting end-users.

Year highlights

A record level of water-borne paints in production: 70.3 percent.

The demand of water-borne products is growing.

The share of solvent emissions in production decreased.

The share of hazardous waste decreased.

Tikkurila's aim is to develop, produce, market and deliver environmentally sustainable products by using as eco-efficient processes as possible. According to lifecycle reports, the biggest environmental effects caused by paints and coatings come from the energy used to produce raw materials, from packaging materials and the solvents released during the application.

The main task of paint is to protect and decorate. A painted surface can also be expected to have other properties like being hygienic, easy to clean, watertight or water-vapor permeable, to have fire-retardant properties, water or chemical resistance or electric conductivity. The raw materials used in paints and coatings vary depending on the use of the end product, and their effects on the environment and people's health vary considerably.

Efficiency of own operations

Operations that utilize raw materials as carefully as possible and that minimize waste reduce environmental effects. Decentralizing production into seven different countries and close to local consumers, reduces the distance of transportation. Unlike the production of some raw materials used in paint production, the paint production does not require extensive energy. A majority of Tikkurila's energy consumption is directed at heating.

The relative share of hazardous waste was reduced, as targeted by Tikkurila, but the relative share of other waste increased slightly. The direct environmental costs of production increased and amounted to 1.0 cents/product liter (2009: 0.89). The rise was caused by a general increase in cost levels and more detailed reporting.

Growing water trend

The share of water-borne products continued to grow in 2010 and represented 70.3 percent of production (68.9). The increase in the share of water-borne products also helped decrease the relative share of solvent emissions from production (VOC) to 0.40 grams per product liter (0.49).

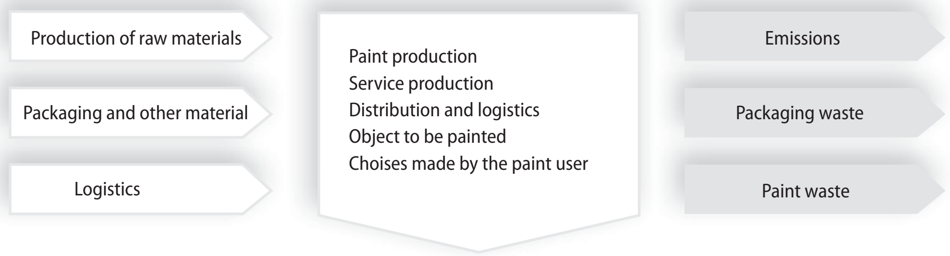
Forerunner in water-borne products

Scandinavia is the forerunner of Tikkurila's operating areas when it comes to water-borne products, as 98 percent of the decorative paints sold by Tikkurila in this area are water-borne.

Based on Tikkurila's own calculations, Alcro and Beckers brands have the most eco-labelled paints in Scandinavia. The best-known eco-labels are the EU flower, the Nordic eco-label (Swan) and approval by the Swedish Allergy and Asthma Association.

"As the market leader, we want to carry our responsibility for the environment, and I am very happy that our retailers share our view", says Niklas Frisk, responsible for operations in Scandinavia.

The environmental awareness of paint users is constantly growing. Eco-labels direct the consumers and professionals to buy products that are also easy to use and work well.



Water-borne products are safer to produce, store, transport and use, because they do not involve a similar inflammability and explosion risk as solvent-borne paints do. They also do not emit solvents into the air. The increase of water-borne products is also supported by their ease of use, increased environmental awareness and tighter legislation. The increase in popularity of water-borne products steers Tikkurila's research and development, and it has a cascade effect on the entire supply chain.

The beauty of tinting

Tikkurila's operating model is mainly based on paints being tinted at the retail outlet. The use of tinting technology requires that the paint is of uniform quality. Tinting reduces storing and transportation needs in all parts of the supply chain, increases the color selection, enables a wider product portfolio and reduces the amount of paint waste.

A successful outcome

Paints can be used to increase the service life of objects, structures and buildings. On the other hand, the life cycle of the paint is related to the life cycle of the surface to be painted. The paint user is also key, because selecting the right product and using it responsibly reduces the environmental load caused by the paint and the object to be painted.

In order to ensure a successful painting job, Tikkurila publishes an extensive selection of instructions and guides for end-users, in addition to labels, product cards and operational safety bulletins. The marketing material is, in addition to providing inspiration, also intended to make paint and color choices and usage easier. Customer training is important when guiding users towards environmentally sustainable choices and usage methods.

Environmental legislation

Tikkurila's business operations mainly fall within the chemical industry, whose products and actions are regulated by numerous international agreements, as well as by local and national legislation. Tikkurila discusses its environmental responsibilities and risks in its financial statements. Also Tikkurila's Code of Conduct includes items concerning the environment, health and safety, where the minimum requirement is to comply with statutory demands. The main legislative projects are related to the risks of product use and instructions (REACH), packaging labels and the amount of solvents that emit into the air from paints and coatings.

Environmental information	2010	2009	2008
Direct energy consumption*, kWh/product liter	0.08	0.07	0.06
Indirect energy consumption**, kWh/product liter	0.29	0.30	0.29
Solvent emissions in production (VOC) into the air, g/product liter	0.40	0.49	0.38
Amount of hazardous waste, g/product liter (supply chain)	8.3	8.6	9.6
Amount of other waste, g/product liter (supply chain)	28.9	27.8	23.0
Share of water-borne products in production, %	70.3	68.9	66.8
Investments in environmental protection, EUR million	0.2	0.2	0.2
Operating cost of environmental protection, EUR million	2.1	1.7	2.3
Direct environmental costs in production, cent/product liter	1.0	0.89	1.0

* fuel consumption at production sites

** electricity, district heating, purchased steam

Welfare to the stakeholders

Well-managed corporate responsibility furthers business opportunities. We aim to act responsibly and ethically in all markets.

Year highlights

Tikkurila was listed successfully in 2010.

Tikkurila was awarded for design and professionalism on several occasions.

Investment in operational efficiency will be increased.

Acting in a sustainable way will make it possible to do business in the long run but also brings new opportunities. Well-managed corporate responsibility furthers the achievement of objectives and makes Tikkurila an attractive player. Tikkurila's aim is to be a sought-after employer, reliable tax payer and good neighbor in the communities in which it operates. Read more about generated and distributed direct value on the following page.

Operational efficiency is part of social responsibility. Focused and successful business operations create continuity which in turn ensures tax income for the society and job opportunities for its members. Tikkurila had several ongoing projects in 2010 to make operations more unified and improve efficiency.

Code of Conduct

Tikkurila's Code of Conduct defines the fundamental requirements for the business practices. The Code of Conduct includes guidelines for instance for professional business relations, conflicts of interest, company assets, fair competition, human rights and equality, safety, trust and privacy. It is about law and ethics. Every single Tikkurila employee is responsible for acting according to the Code of Conduct. Read more at www.tikkurilagroup.com/responsibility/code_of_conduct/

Stakeholders

Tikkurila wants to promote openness and transparency, encourage networking and open dialogue. The listing of Tikkurila on the stock exchange, carried out in March 2010, increased the amount of interest in the company and extends it to financers, investors, analysts and the financial media. Instead of its previous single owner, the company now has more than 25,000 owners.

Social center opened in St. Petersburg

In December 2010, Tikkurila and YIT opened a new social center called Warm Island in St. Petersburg. Operating under the "Warm House" Charity Fund, the center gives support to indigent families.

The city administration made appropriate premises available. Tikkurila and YIT financed the renovation and new furnishings, and also donated toys and playsets. In the center, families receive psychological help, and also meals.

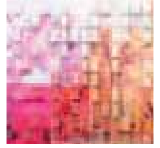
The new social center is the third of its kind in the city, and it came to fruition with the help of the state, organizations and companies. Simo Laitala, Managing Director of OOO Tikkurila says that their employees were happy to work as volunteers in the renovation.

There are plans for more centers, and Tikkurila aims to continue in this project.

Awarded expertise

In 2010, Tikkurila was awarded for design and professionalism on several occasions.

- Tikkurila's Visio shop-in-shop store concept received a silver award for service design in Finland (3/2010)
- Tikkurila´s self-cleaning facade paint HybriSil was awarded in the innovation contest organized by the exhibition organization KazBuild in Kazakhstan (3/2010)
- Tikkurila's Optiva interior paint received two international awards for packaging design in Poland (9/2010)
- Tikkurila was selected as the "Supplier of the year" by the Byggmakker retail chain in Norway (10/2010)
- The Finnish Kirnu pavilion painted with Tikkurila's products received an award for best design at the Shanghai World Expo (10/2010)
- Tikkurila's Aivars Danenberg received the Latvian Ventspils city architecture award for best consulting in the renovation of historical buildings (12/2010)



The core of Tikkurila's business and responsibility approach is the customer and personnel. Due to the company's new independent status, the interest by authorities, interest groups and the general public towards the company has increased. Read more about stakeholders at www.tikkurilagroup.com/responsibility/

Customer satisfaction

The satisfaction of retailers and contractors has been measured for a long time in Finland and Sweden. This is an important tool when developing operations. Consumer satisfaction measurement will be started in Finland in 2011. The aim is to find a common indicator for the entire Tikkurila Group, even though the fact that the markets are in different development stages and the company's market position varies immensely in different countries creates a challenge. Read more about customer satisfaction at www.tikkurilagrop.com/responsibility/

Product safety

Tikkurila's research and development selects the best technical and safest raw material composition in terms of user safety. When Tikkurila takes new raw materials into use, their environmental and health risks are assessed, and the information is recorded in the database. The collected information is then used to assess the products, and the paint products are classified and labelled in accordance with local legislation.

Fines and penalties

In May 2010, the Polish competition authority ordered a sanction of approximately 9.3 million zloty (approximately EUR 2.2 million) for Tikkurila Oyj's Polish subsidiary, Tikkurila Polska S.A., related to the regulation of retail prices in Poland between 2000–2006. Tikkurila has appealed against the decision.

In August 2010, the Polish competition authority lowered a sanction ordered in 2009 related to delivery agreements from EUR 0.6 million to EUR 0.2 million.

Generated and distributed direct economic value 2010	EUR million
Direct economic value generated (I)	
a) Revenue	588.6
Economic value distributed (II)	
b) Operating costs	414.7
c) Employee wages and benefits	113.1
d) Payments to providers of capital	8.7
e) Payments to government (Gross taxes)	15.5
f) Community investments	0.1
Economic value retained (I–II)	36.5

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● Reported in accordance with GRI ○ Partly reported in accordance with GRI

Independent assurance report

To the Management of Tikkurila Oyj

We have been engaged by the Management of Tikkurila Oyj (hereafter Tikkurila) to provide limited assurance on the corporate responsibility information presented in Tikkurila's Annual Report on pages 30–38 (hereafter Corporate Responsibility Information) from the reporting period 1.1.–31.12.2010.

The Management of Tikkurila is responsible for the preparation and presentation of the Corporate Responsibility Information in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3), as well as for the presented data, assertions and gathering of information.

Our responsibility is to carry out a limited assurance engagement and to express an independent conclusion on the information subject to the assurance based on the work performed. We have conducted the engagement in accordance with the Finnish Institute of Authorised Public Accountants' Standard 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. Amongst others, this standard requires that the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information to be assured, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

The evaluation criteria used for our assurance are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3).

Limitations of the engagement

Data and information related to corporate responsibility are subject to inherent limitations applying to data accuracy and completeness, which are to be taken into account when reading our assurance report. The presented Corporate Responsibility Information is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by Tikkurila. Our assurance report is not intended for use in evaluating Tikkurila's performance in executing the corporate responsibility principles Tikkurila has defined. To assess the financial state and performance of Tikkurila, Tikkurila's audited Financial Statement for the year ended December 31, 2010 is to be consulted.

The work performed in the engagement

Our assurance procedures are designed to obtain limited assurance on whether the Corporate Responsibility Information is presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3) in all material respects. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Corporate Responsibility Information, and applying analytical and other evidence gathering procedures, as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

In our engagement we have performed the following procedures:

- Interviews with three (3) members of senior management to reassert our understanding of the connection between Tikkurila's corporate responsibility procedures and Tikkurila's business strategy and operations as well as corporate responsibility objectives;
- An assessment of data management processes, information systems and working methods used to gather and consolidate the presented Corporate Responsibility Information, and a review of Tikkurila's related internal documents;
- Comparison of the presented Corporate Responsibility Information to underlying rules of procedure, management and reporting systems as well as documentation;
- An assessment of the Corporate Responsibility Information's conformity with the principles of the GRI-guidelines;
- A review of the performance data and assertions presented in the Corporate Responsibility Information, and an assessment of information quality and reporting boundary definitions;
- Testing of data accuracy and completeness through samples from the Group's information systems and original numerical information received from the Group companies;
- Three detailed assessments in units selected on the basis of a risk analysis taking into account both qualitative and quantitative information.

Based on the assurance procedures performed, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3) in all material respects.

Helsinki, March 8, 2011

KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

Nina Killström
Corporate Responsibility Advisor

efficient

Blue makes a room feel cool. Blue is also a calming color and creates a timeless and fresh impression when combined with white.

Corporate governance

Tikkurila compiled a Corporate Governance Statement in line with recommendation 54 of the Finnish Corporate Governance Code. The statement also includes other essential corporate governance issues that we wish to emphasize.

Tikkurila Corporate Governance Statement 2010

Tikkurila Oyj (later referred to also as "Tikkurila" or "Group" both in relation to Tikkurila Oyj and the Group it forms) has prepared this corporate governance statement based on existing legislation and the Finnish Corporate Governance Code, the latest version of which came into force on October 1, 2010. This corporate governance statement is issued separately from the Board of Directors' report, and is also available on our website, www.tikkurilagroup.com, as well as included in the 2010 Annual Report of Tikkurila.

General principles and framework

Tikkurila's governance principles and decision-making processes are based on:

- the Finnish Companies Act;
- the Finnish Securities Market Act;
- the Finnish Corporate Governance Code;
- the Articles of Association of Tikkurila Oyj;
- the standards issued by the Finnish Financial Supervision Authority;
- the rules and regulations of Nasdaq OMX Helsinki Ltd.;
- the Helsinki Takeover Code, issued by the Finnish Central Chamber of Commerce; and
- other legislation or regulations (e.g. the EU-level REACH Directive) applicable to the Group's business

The Corporate Governance Code can be found in full at www.cgfinland.fi.

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

As the Group's business is, either directly or indirectly to a major extent, dependant on markets outside of the domicile of Tikkurila Oyj, relevant local (i.e. non-Finnish) laws and regulations must also be taken into account in the Group's operations.

Overview of Tikkurila's Governing Bodies

The following diagram summarizes the key governing bodies of Tikkurila:

*)Tikkurila established a so-called Nomination Committee in August 2010. Although technically the body has, for the latter half of 2010, been called a "Committee", fundamentally the Board of Directors of the Group has decided that it will be a body organized by and governed by the major shareholders of the Company with a task of proposing to the Annual General Meeting of shareholders the nomination and remuneration of the members of the Board of Directors. Therefore, going forward, the nomination body is planned to be elected by the major shareholders and to be called a Nomination Board. This has already been reflected in the diagram above, as well as elsewhere in the text of this document.

The main duties of the Group's governing bodies are mostly defined by the Finnish Companies Act.

In March 2010, Tikkurila Oyj was spun off out of Kemira Oyj, and listed on the Helsinki Stock Exchange on March 26th, 2010; hence, the legal status of the Company was changed from Oy (limited liability company) to Oyj (public limited liability company). Therefore, from March 2010, the regulations related to listed public entities have been applied to Tikkurila as an independent entity.

General Meeting of Shareholders

The General Meeting (GM) is the supreme decision-making body of Tikkurila Oyj, and the tasks of the GM are based on and defined in the Finnish Companies Act, Tikkurila's Articles of Association and any other relevant regulations. As stipulated by the Companies Act, the Annual General Meeting (AGM) shall be held once a year, at the latest before the end of June. The AGM resolves on e.g.:

- the adoption of the financial statements of the previous financial year;
- the use of profit as stated by the adopted and audited financial statements;
- the number of members of the Board of Directors;
- the election of members of the Board of Directors;
- the remuneration of the members of the Board of Directors;
- the election of the Auditor;
- the compensation to be paid to the Auditor;
- the discharging from liability of the members of the Board and the President and CEO;
- any proposals by the Board of Directors or by the shareholders or group of shareholders related to e.g. authorisations granted to the Board, share buy-backs or granting of special rights related to shares; and
- any change in the Articles of Association.

Tikkurila Oyj has one share serie; therefore, all shares have equal voting rights at the General Meetings of Shareholders. More detailed information on the process of the Annual General Meetings can be found in Tikkurila's Articles of Association, which are available on the Company's web page, www.tikkurilagroup.com.

The decisions of the Shareholders' meetings during 2010 are presented in the interim report for January-March 2010, which is available on Tikkurila's web page. When the Company held its Annual General Meeting in February 2010, Tikkurila Oyj was a private limited company (Oy) and had only one shareholder. All the meeting materials and decisions of Shareholders' meetings will be published on the Company's web page. The Annual General Meeting of 2011 is scheduled to take place on March 31, 2011.

Nomination Board

In September 2010, the four biggest shareholders of Tikkurila Oyj, based on shareholding at the end of August 2010, established the Nomination Board. The Nomination Board consists of five members, four of them being members outside the Board of Directors of Tikkurila and representing the four largest shareholders of the company on August 31, 2010. The fifth member of the Nomination Board is the Chairman of the Board of Directors of Tikkurila Oyj, who acts as an expert member. The members of the Nomination Committee at the time of publication of this report were: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Kari Järvinen, Managing Director of Solidium Oy; Harri Kerminen, President and CEO of Kemira Oyj; Risto Murto, Executive Vice President, Chief Investment Officer of Varma Mutual Pension Insurance Company; and Jari Paasikivi, Chairman of the Board of Directors of Tikkurila Oyj. The Nomination Board prepares the nomination and remuneration proposals of the members of the Board of Directors to the Annual General Meeting. During 2010, the Nomination Board convened two times.

Board of Directors

The duties and responsibilities of the Board of Directors are governed by the Finnish Companies Act and other relevant legislation. The Board of Directors oversees the management and business operations of Tikkurila. The main duties of the Board include:

- to approve the strategy of the Group;
- to decide on long-term financial and operational goals;
- to approve annual budgets and medium-term business plans;
- to decide on any major corporate restructuring, merger, acquisition or divestment;
- to decide on major investments and major expenses and commitments;
- to decide on key funding and risk management issues and related pledges and commitments;
- to approve or confirm the appointment and remuneration of the Group management;
- to appoint and dismiss the Group President and CEO, and to approve the members of the Tikkurila Management Board;
- to monitor and evaluate the performance of the Group President and CEO;
- to ensure the adequacy of planning, information and control systems, as well as the handling of financial reporting and risk management;
- to make proposals for, including but not limited to proposing the dividend payout, and to convene the Annual General Meeting;
- to oversee that the Group's disclosure policy is applied; and
- to ensure that the supervision of the accounting and financial matters, and any audits thereby, are properly organized.

The Board of Directors represent all the shareholders and shall always work to the best advantage of the Group and all the shareholders of Tikkurila Oyj.

In accordance with the Articles of Association, the Board of Directors of Tikkurila Oyj comprises 3–7 members that have been elected by the Annual General Meeting for a term that lasts until the end of the next Annual General Meeting. The Board is convened by the Chairman, which is elected by the Board within its members immediately after the Annual General Meeting of the Shareholders. The Board of Directors has a quorum when more than half of its members attend the meeting. The President and CEO, as well as the CFO, of the Group attend the Board meetings presenting the issues being discussed or decided upon, and the Group Vice President, Legal Affairs, acts as the Secretary of the Board.

During 2010, the Board of Directors concentrated firstly to finalize the listing process, which was concluded at the end of March, and secondly, to implement the revised Group strategy agreed upon at the end of 2009, including e.g. the change of the organization structure of Tikkurila. As a key strategic target for the Group, the Board stated that Tikkurila shall become the leading paint company in the Nordic countries and Eastern Europe, including Russia. The Board also set medium-term financial targets in relation to organic revenue growth, EBIT margin, return on capital employed and gearing ratio. Moreover, the Board stated that at least 40 percent of after-tax profits, excluding any non-recurring items, should be distributed to the Shareholders as dividends.

In order to ensure the effectiveness of the Board of Directors' work, the Board annually conducts a self-evaluation, the results of which are used to develop the working methods of the Board, as well as to enhance the cooperation between the Board and the President and CEO.

According to the decision of the Annual General Meeting that took place in February 2010, the Board has five members. The members of the Board are Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Ove Mattsson and Pia Rengren.

All of the Board members are independent of the Company, and except for Jari Paasikivi, they are also independent of the significant shareholders. Chairman of the Board, Jari Paasikivi, is the CEO of Oras Invest

Oy. Oras Invest Oy owns over 10 percent of Tikkurila Oyj's shares. Eeva Ahdekivi is employed by Solidium Oy, which held more than 10 percent of Tikkurila shares until November 25, 2010.

During 2010, the Board held ten meetings, and the attendance rate was 98 percent.

The members of the Board of Directors are presented in more detail on pages 48–49.

The Annual General Meeting decides on the remuneration to be paid to the members of the Board. According to the decision, the Board remuneration was the following:

- Chairman of the Board, EUR 54,000 per year;
- Deputy Chairman of the Board, EUR 36,000 per year; and
- other members of the Board, EUR 30,000 per year.

The annual remuneration of the Board members was paid as a combination of shares and cash so that 40 percent of the annual remuneration was paid as shares: either from shares already owned by Tikkurila or, if this is not possible, in shares acquired from the market, and 60 percent was paid in cash.

In addition, a meeting-specific fee was paid during 2010 for the amount of:

- EUR 600 per meeting to members living in Finland;
- EUR 1,200 per meeting to members living in other EU countries; and
- EUR 2,400 per meeting to members living outside the EU.

The meeting-specific fee was also paid for any committee meetings. Members' travel expenses related to meetings were compensated in accordance with Tikkurila's Group travel policy. The meeting-specific fees were paid in cash.

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

The fees paid to the Board in 2010 are specified in note 38 to the financial statements on page 112.

Audit Committee

The Chairman of the Audit Committee is Eeva Ahdekivi, and the members are Pia Rudengren and Jari Paasikivi.

As defined in the Corporate Governance Code, the Audit Committee members shall have the needed qualifications, and at least one member must have expertise in financial management, accounting or auditing, in order to accomplish the Audit Committee's tasks.

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and Tikkurila's process for monitoring compliance with laws and regulations and the Tikkurila Code of Conduct.

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

- to assess and oversee the preparation of Tikkurila's financial statements and interim reports, and to review the results of any impairment testing;
- to evaluate Tikkurila's compliance with laws, regulations and Tikkurila's internal Code of Conduct and Corporate Social Responsibility programs;
- to approve audit plans for both external audit and internal audit;
- to prepare the election of auditors; and
- to review the Group's risk management policies and action;
- to review Tikkurila's corporate governance statement.

During 2010, the Audit Committee met four times. The attendance rate was 100 percent. The Group's Chief Financial Officer, Jukka Havia, acted as the Secretary of the Committee.

President and CEO

The Board of Directors appoints the President and CEO and decides upon his/her remuneration and other benefits. The President and CEO is in charge of the day-to-day management of the Company and the Group it forms. The President and CEO's responsibilities are based on the Finnish Companies Act, the Finnish Corporate Governance Code and the guidance and authorization given by the Board of Directors.

Erkki Järvinen has been the President and CEO of Tikkurila since January 2009. The President and CEO's duties include managing the business according to the instructions issued by the Board of Directors, presenting the matters to be dealt with in the Board of Directors' meeting, implementing the matters resolved by the Board of Directors and other issues determined in the Companies Act.

Tikkurila Management Board

The Tikkurila Management Board is chaired by the President and CEO, and it assists the CEO in the management and development of the Company.

In 2010, the Tikkurila Management Board was comprised of the following persons:

- Erkki Järvinen, President and CEO, Group (Chairman)
- Jukka Havia, Chief Financial Officer, Group
- Janno Paju, Senior Vice President, SBU East
- Arto Lehtinen, Senior Vice President, SBU Finland
- Niklas Frisk, Senior Vice President, SBU Scandinavia
- Ilpo Jousimaa, Senior Vice President, SBU Central Eastern Europe
- Petri Miettinen, Group Vice President, Supply Chain & HSEQ
- Kenneth Sundberg, Group Vice President, R&D

The President and CEO proposes the appointment of the Tikkurila Management Board members, and the Board of Directors approves the appointments as well as approves the compensation for the members of the Management Board.

The Tikkurila Management Board has three preparatory bodies set to prepare and discuss operational issues to be decided on by the Tikkurila Management Board:

- Business Board
  Chaired by Janno Paju
  Including: SBU leaders, Business Development, Marketing
- Operations Board
  Chaired by Petri Miettinen
  Including: Supply Chain Management, R&D, Marketing
- Corporate Office
  Chaired by Jukka Havia
  Including: Finance, HR, IT, Legal, Communications

Moreover, the Business Board, Operations Board and Corporate Office act as steering groups for internal projects in their area of expertise, unless any project-specific steering groups are established.

Tikkurila has operations in multiple countries, and hence also has a large number of legal entities in various countries. The President and CEO is the decision-maker for any major decisions, which do not require the Board of Directors' resolution, and the Group or regional management teams make the operational decisions. The Boards of Directors of Tikkurila's subsidiaries do not have any operational or other major decision-making power, but the subsidiary boards ensure that local legal entities are managed in accordance with local laws and regulations, as well as in accordance with the Tikkurila Group's internal policies.

Remuneration of the Tikkurila Management Board members

The Board of Directors determines the President and CEO's and other executives' salaries and other remuneration, as well as employment terms. The President and CEO and other executives form the Management Board of the Tikkurila Group.

Remuneration of the Management Board consists of total salary and performance-based bonuses. Total salary includes salary in money and taxable benefits. Performance-based bonuses are determined by the achievement of performance targets for each financial year. The performance-based bonuses consist of cash bonuses.

In 2010 or previous years, Tikkurila has not had a share or share-based incentive systems in use.

Remuneration of the President and CEO in 2010

The total salary, including taxable benefits, paid during the financial period of 2010 to President and CEO Erkki Järvinen was EUR 570,000. There was a bonus accrued to the CEO for the financial year of 2010, and it will be paid in March 2011. The bonus may not exceed 50 or 100 percent, depending on the program, of his annual salary.

President and CEO Erkki Järvinen is entitled to retire at the age of 63 and has a defined contribution-based supplementary pension plan. In 2010, the cost of the supplementary pension was EUR 53,000. The pension is based on a defined contribution pension scheme.

A six-month period of notice applies to the President and CEO. In addition, the President and CEO will receive a severance pay equaling his 12-month salary if the Company terminates his employment.

The President and CEO was a member of the long-term incentive program 2009–2010 and bonus system of 2010. The principles of the incentive systems are described in more detail in the sections "Long-term Incentive program 2009–2010" and "Bonus System for 2010".

Remuneration of the Tikkurila Management Board in 2010

Tikkurila has a long-term incentive program covering the years 2009–2010 and a bonus system for 2010. The principles of the incentive systems are described below, and more detailed information can be found in note 38 to the financial statements on page 112.

Long-term Incentive program 2009–2010

On May 4, 2009, the Board of Directors of Tikkurila approved a long-term incentive program (the "LTI Program") for 2009 and 2010.

Participants in the LTI Program are the 13 persons who were members of the Tikkurila Management Board in May 2009. The LTI Program is based on cumulative operative average operating profit (between EUR 80 million and EUR 115 million), and the payment of the incentive is subject to Tikkurila's cash flow being positive both in 2009 and 2010. The maximum incentive percent is 100 percent (Tikkurila Group's President and CEO), or 50 percent (strategic business unit Senior Vice Presidents) or 30 percent (other Management Board members in May 2009) of the respective annual salaries.

Remuneration paid to CEO and other Management Board members *

EUR	Annual salary with fringe benefits	Performance bonus paid in 2010	2010 total	2009 total	Cost of supplementary pension plans in 2010
President and CEO	450,000	120,000	**570,000**	510,000	53,000
Other Management Board members	995,000	96,000	**1,091,000**	2,238,000	85,000
Total	1,445,000	216,000	**1,661,000**	2,748,000	138,000

*The Management Board (excl. President and CEO) comprised 7 persons in 2010 and 12 persons in 2009.

Bonus System for 2010

On February 2, 2010, the Board of Directors of Tikkurila approved a new bonus system for 2010.

Participants in the new bonus system are the members of the Tikkurila Management Board, employees on the management team level and functions of the business units, managing directors of the companies belonging to the Tikkurila Group as well as selected managers and experts in specific positions in companies belonging to the Tikkurila Group, altogether 130 persons currently. Bonus criteria for 2010 consist of the Tikkurila Group and business unit operating profit and cash flow, as well as individual targets. Receiving a bonus is subject to fulfilling two to four different objectives. All targets must be measurable in figures, and at least 80 percent must be financial targets.

Auditor (statutory audit)

According to the Articles of Association of Tikkurila Oyj, Tikkurila has one ordinary auditor that shall be an auditing firm approved by the Finnish Central Chamber of Commerce. For the financial year 2010, KPMG Oy Ab was elected as auditors, and KPMG has been auditing Tikkurila Oyj since 2006.

The Audit Committee of the Board prepares the election process of Auditors. The aggregate duration of the principal auditor cannot exceed seven years. Therefore, taken into account that the Finnish Audit Act came into force in 2007, the current principal auditor, Pekka Pajamo of KPMG, can remain in that role until no later than the financial year 2013.

The Auditor has a statutory responsibility to audit Tikkurila Oyj's accounting (based on Finnish accounting legislation), the Tikkurila Group's consolidated accounts (based on IFRS), the Board of Directors' report, financial statements with all notes, as well as the administration of the Company. Tikkurila's financial year is equal to the calendar year. The Auditor primarily reports via the Audit Committee but also takes part in at least one Board meeting.

The Auditor is elected by the Annual General Meeting for one year's term of service. The Auditor reports to the Board of Directors at least once a year.

During 2010, the Group paid a total of EUR 417,000 for auditing services and EUR 374,000 for other services for KPMG.

Internal Control

Tikkurila maintains an internal control system, the purpose of which is:

- to safeguard the value of its assets; and
- to ensure the effectiveness and efficiency of its operations, including
  - the reliability of financial and operational reporting;
  - compliance with applicable regulations, policies and practices; and
  - consistency of its operations with set objectives.

Internal control is an integral part of all Tikkurila's operations and covers all levels of the Company. The entire personnel of the Company is responsible for internal control, and its effectiveness is monitored by managers as part of operational management.

The main components of internal control are:

- management and organizational culture;
- risk assessment;
- control activities;
- reporting and communication; and
- monitoring and auditing.

Tikkurila's Values, Code of Conduct and Group-level policies provide the basis for corporate governance and internal control in the Company. The internal policies and the Code of Conduct have been communicated to all staff in the Tikkurila Group. The Company also provides training concerning the main policies for people who need to know the policies in question.

Every employee has the right and duty to report, anonymously if needed, to the Group's Compliance Officer any violations of the law and the Code of Conduct.

Each year, the target is to evaluate the need for further pragmatic steps to develop the internal controls. During 2010, the Group has made efforts to clarify and intensify the internal controls, and to have more coherent group-wide application of equal practices and processes. As examples of the practical issues being evaluated and/or decided upon and/or implemented, the following issues can be highlighted:

- at the time of listing the Company to the Nasdaq OMX Helsinki Stock Exchange, a thorough internal and external diligence process was carried out, and a prospectus was published;
- training and education of personnel has been constantly carried out;
- internal policies and manuals have been written and/or updated, including but not limited to Group Risk Management Policy, Group Business Control Manual, Group Finance Manual, Group Investment Manual, Group HSEQ Principles;
- internal audit function has been reorganized with internal resources to run the function going forward;
- in the beginning of 2010, a risk appraisal project was carried out with an external expert organization;
- the Group's Treasury operations and related software have been set up, including e.g. interest rate and foreign exchange rate risk management principles, and later during 2010, the Treasury operations and guidelines have been reviewed by an external expert;
- the organization structure of the Group was changed at the end of 2009 with a target to establish more unified processes across the Group;
- at the end of 2010, principles have been decided, and subprojects started, as to how the Group's IT software application portfolio (including e.g. CRM, ERP and EHS solutions) will be developed and/or changed going forward;
- in order to have more controlled internal whistle blowing opportunities and governance control overview, the Group Vice President for Legal Affairs has also been elected to act as the Compliance Officer of the Group, and in cooperation with the Group's Internal Auditor to set up the needed processes to ensure that the Code of Conduct is followed.

Internal audit

The internal audit provides independent appraisal and assurance for the review of operations within the Group in order to support the management and the Board of Directors in fulfilling their oversight responsibilities.

The purpose is to evaluate and contribute to the improvement of risk management, control and governance systems in the Group. The internal audit function has complete and unrestricted access to all activities of Tikkurila.

The internal audit function regularly reports to the Audit Committee of the Board, and the President and CEO of Tikkurila acts as the administrative superior for the Internal Auditor. Internal audit plans and findings are subject to regular review with the external auditors during the course of the year.

Tikkurila's internal audit function was purchased as a service from Kemira Oyj until the end of 2010. From the beginning of 2011, Tikkurila has had its own internal audit resources, including a dedicated Internal Auditor, who will be, to the required extent, helped by third-party experts to carry out the internal audit activities.

Risk Management

The goal of risk management is to identify risks that may hinder the Company from achieving its business objectives. A risk can be defined as any uncertainty that affects Tikkurila's business objectives and ability to reach its results.

Tikkurila's business involves a number of risks, some of which could be of substantial nature. As the Group's business operations are divided into several geographical areas and diverse product and customer segments, the amount, likelihood and impacts of different risks may vary between the Group's business units. The materialization of such risks may have a major adverse effect on Tikkurila's business, financial position or results of operations. The Group's internal control, internal audit and risk management aim at decreasing the adverse effects of possible risk materializations to a relevant extent.

Tikkurila divides its risks into four main categories:

- strategic risks;
- operational risks;
- financial risks; and
- hazard risks.

Tikkurila endeavors to identify, analyze, evaluate and treat risks systematically and proactively. Tikkurila's objective is to reach the desired aggregate risk level and ensure the continuity of operations.

Tikkurila aims at systematic and proactive identification, analysis, evaluation and treatment of various risk categories, such as strategic, operational, accident and financial risks. Tikkurila's objective is to determine and maintain the desired aggregate risk level in relation to the Group's risk tolerance, while ensuring business continuity.

Tikkurila's risk management is based on the Finnish Corporate Governance Code and on Tikkurila's Code of Conduct. In addition, Tikkurila has Group guidelines and policies in place that specify management objectives, responsibilities and risk limits in greater detail.

Tikkurila's Board of Directors defines the main principles of Tikkurila's risk management and approves the Group's risk management policy, and the Audit Committee assists the Board in risk management supervision. The business units and functions are responsible for the risks involved in their activities and for the related risk management.

In Tikkurila, each business unit and function performs its overall risk management in conformity with the jointly agreed risk self-assessment methodology. All units use a common risk register, managed and coordinated by the Group's Risk Manager, to monitor known or expected risks. The results of the risk management process are regularly reported, both internally and as part of Tikkurila's external reporting.

Some risk management measures are performed centrally in order to generate cost benefits and ensure a sufficient level of protection. These include insurance coverage for certain risks, such as general third-party and product liability, cargo, property damage and business interruption insurance for major production sites, as well as the hedging of treasury risks.

The responsibility for the implementation of the Group's risk management activities lies with the President and CEO as well as the Tikkurila Management Board. The Board of Directors is responsible for approving key policies and principles of risk management processes, as well as defining Tikkurila's overall level of risk tolerance. The Board of Directors and its committees approve and follow up the reporting procedures, and monitor the adequacy, appropriateness and effectiveness of the Group's business and administrative processes.

Management of insider issues

As provided by the Finnish Securities Markets Act, Tikkurila Oyj's insiders consist of insiders subject to disclosure requirements, permanent company-specific insiders and project-specific insiders.

On the basis of their positions, Tikkurila's insiders subject to disclosure requirements comprise Board members, the Managing Director, members of the Management Board and the responsible auditor representing the independent firm of public accountants. Tikkurila Oyj's permanent company-specific insiders comprise certain other persons separately specified by the Group General Counsel and approved by the President and CEO of Tikkurila.

Tikkurila Oyj complies with the Insider Guidelines issued by the NASDAQ OMX Helsinki Ltd, according to which insiders should trade in Company shares at a time when the marketplace has the fullest possible information on circumstances influencing the value of the Company's share. Accordingly, and based on the resolution of the Board of Directors, Tikkurila's permanent insiders may not trade Company's securities during the period that starts at the end of a reporting period and lasts until the publication of the following interim report or financial statement bulletin.

Tikkurila's Legal function maintains Tikkurila Oyj's insider register and updates information on the Company's insiders subject to statutory disclosure requirements to be entered in the public insider register of Euroclear Finland Oy. Information relating to insiders subject to statutory disclosure requirements is available on the company's website.

Silent Period

Tikkurila observes a silent period (closed window) before it publishes financial statement release and interim reports. The silent period begins when the reporting period in question ends and continues until the financial statements or interim report for the period in question has been published.

During the silent period, Tikkurila's spokespersons are not available for meetings with capital market representatives and may not discuss Tikkurila's performance or market development.

Guidance

Tikkurila gives guidance in the form of an official outlook statement published in interim reports, financial statements and the review of the Board of Directors. Tikkurila will provide outlook statements only for a period for which the company has reasonable visibility. The outlook includes management's descriptive estimate on revenue and profitability. The estimate may also include other elements. No other forward-looking statements or answers to questions concerning the future performance are given unless the Company decides to update the guidance and publish a stock exchange release regarding the update. Any such updates are published without undue delay once reasonable visibility and accuracy of future prospects exist.

Communications

Tikkurila is committed to transparency, which means that we communicate in a proactive, open, credible, consistent, unbiased and timely manner.

Tikkurila's shares are listed on the NASDAQ OMX Helsinki stock exchange. Tikkurila will strictly adhere to all regulatory disclosure requirements for listed companies. Tikkurila complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

The aim of Tikkurila communications is to support the correct valuation of the Company shares by providing the markets with sufficient information on financial position, strategy and objectives. The Board of Directors has approved the disclosure policy that defines the guidelines in communications to financial markets and investors and other parties. The Tikkurila web site contains all information made public according to the disclosure requirements for listed companies.

Deviations from the Finnish Corporate Governance Code (which came into force on October 1, 2010)

The Finnish Corporate Governance Code, which came into force on October 1, 2010, has altogether 55 recommendations. The Code also has the so-called "comply or explain" principle. Tikkurila complies fully with almost all recommendations in the Code, but there were the following deviations during 2010, as it has been considered that the alternative way of organizing the below-mentioned issues better suits Tikkurila's current situation, and as they also partially reflect the transition of the Company into a new listed entity:

Recommendation 28, Nomination Committee

Tikkurila has had a nomination committee since August 2010, established by the Board of Directors. The nomination committee has not been formed from the members of the Board, as required in Recommendation 28 of the Corporate Governance Code, but rather consists of members nominated by the four largest shareholders of Tikkurila.

Recommendation 31, Remuneration Committee

Tikkurila does not have a separate remuneration committee, but the nomination board will also make proposals to the shareholders as to the remuneration of the members of the Board; and moreover, to a relevant extent, the Board of Directors uses their discretion and authority to decide upon the remuneration of the Group President and CEO as well as other members of the management team.

Board of Directors

Jari Paasikivi

Born 1954
Member of the Board since 2008 and Chairman since 2010. Member of the Audit Committee since 2010.
Member of the Nomination Board since 2010.
Independent of the company, not independent of the significant shareholder.
Finnish citizen.
M.Sc. (Econ.), President & CEO, Oras Invest Ltd
Tikkurila shares on Dec 31, 2010: 33,200

Career history
Jari Paasikivi has been the Chief Executive Officer of Oras Invest since 2006. Paasikivi served in various positions at Oras Ltd between 1989 and 2007, including as the President and the Chief Executive Officer between 2002 and 2007, the Managing Director between 1994 and 2001 and a Plant Director between 1989 and 1994.

Positions of trust
Jari Paasikivi has been a member of various companies' Boards of Directors. He has been the Chairman of the Board of Directors of Uponor Corporation since 2008 and a member of the Supervisory Board of the Finnish Scout Foundation since 2008, the Deputy Chairman and a member of the Board of Directors of the Central Chamber of Commerce of Finland since 2007, a member of the Board of Directors of the Federation of Finnish Technology Industries since 2006 and a Deputy Chairman since 2010, a member of the Board of Directors of Oras Ltd since 2005 and the Chairman of the Board of Directors of Vakka-Suomi Youth Foundation since 1998.

Petteri Walldén

Born 1948
Member of the Board since 2008 and Vice Chairman since 2010.
Independent Board member.
Finnish citizen.
M.Sc. (Eng.)
Tikkurila shares on Dec 31, 2010: 2,494

Career history
Petteri Walldén served as the President and Chief Executive Officer of Alteams Oy between 2007 and 2010, of Onninen Oy between 2001 and 2005 and of Ensto Ltd. between 1996 and 2001. He has also served as the President of Nokia Cables Ltd. and of Sako Ltd.

Positions of trust
Petteri Walldén has been a member of the Board of Directors of Mesera Oy since 2010, a member of the Board of Directors of Comptel Corporation and of Teleste Corporation since 2009, a member of the Board of Directors of Kuusakoski Group Oy since 2007, the Chairman of the Board of Directors of Nokian Tyres plc since 2006, a member of the Board of Directors of eQ Corporation since 2005, a member of the Board of Directors of SE Mäkinen Logistics Ltd since 1995 and a member of the Board of Directors of the Haemopathy Research Foundation since 1991.

Eeva Ahdekivi

Born 1966
Member of the Board since 2009. Chairman of the Audit Committee since 2010.
Independent Board member.
Finnish citizen.
M. Sc. (Econ.), Investment Director, Solidium Oy
Tikkurila shares on Dec 31, 2010: 1,135

Career history
Eeva Ahdekivi has been the Investment Director of Solidium since 2009. Prior to that, she was the senior financial specialist at the Prime Minister's Office in the ownership steering department between 2007 and 2009, the Director of Pohjola Asset Management Ltd between 2004 and 2006 and the partner of Conventum Oyj between 1997 and 2003. Ahdekivi has also served as the Director of Merita Corporate Finance Oy.

Positions of trust
Eeva Ahdekivi has been the auditor of Young Enterprise Finland since 2006.

Ove Mattsson

Born 1940
Member of the Board since 2009.
Independent Board member.
Swedish citizen.
Ph.D., Board Professional
Tikkurila shares on Dec 31, 2010: 6,804

Career history
Ove Mattsson has served as a member of the Board of Management of Akzo Nobel nv and COO of Akzo Nobel Coatings between 1994 and 2000, the President and CEO of Nobel Industries AB between 1991 and 1994 and the President of Casco Nobel AB between 1978 and 1991.

Positions of trust
Ove Mattsson has been a member of the Board of Directors of Fabryo Corporation Srl since 2008, the Chairman of the Board of Directors of Biotage AB since 2007, a member of the Board of Directors of Arctic Island Ltd since 2003 and the Chairman of the Board of Directors of Aromatic AB since 2003.

Pia Rudengren

Born 1965
Member of the Board since 2009. Member of the Audit Committee since 2010.
Independent Board member.
Swedish citizen.
M.Sc. (BA & Econ.), Board Professional
Tikkurila shares on Dec 31, 2010: 773

Career history
Pia Rudengren was Executive Vice President of W Capital Management AB between 2001 and 2005. Between 1990 and 2001, Rudengren held a variety of positions at Investor AB, ultimately serving as Chief Financial Officer and a member of the Management Group between 1998 and 2001.

Positions of trust
Pia Rudengren has been a member of the Board of Directors of Metso Corporation and of Swedbank AB since 2009, of Social Initiative AB since 2008, of Duni AB and of WeMind Digital Psykologi AB since 2007. Since 2006, Rudengren has worked as a board professional, serving on the Boards of Directors of several companies in Sweden.

Management Board

Management Board members from left to right: Erkki Järvinen, Jukka Havia, Kenneth Sundberg, Petri Miettinen, Arto Lehtinen, Ilpo Jousimaa, Niklas Frisk, Janno Paju. The Management Board posed with Tikkurila's Touching installation. Read more about the exhibition on the inner back cover of the Annual Report.

Erkki Järvinen

Born 1960

President and CEO

Chairman of the Management Board and President and CEO since 2009.
Finnish citizen.
M.Sc. (Econ.)
Joined Tikkurila in 2009.
Tikkurila shares on Dec 31, 2010: –

Career history

Erkki Järvinen served as the President and CEO of Rautakirja Corporation between 2001 and 2008, and as the Senior Vice President of Kiosk Operations in Rautakirja Corporation between 1997 and 2001. Prior to joining Rautakirja, Järvinen held positions in companies that belonged to the Cultor Group, as Vice President, Marketing (Nordic) in Vaasamills Ltd between 1991 and 1996, as Managing Director of Siljans Knäcke AB between 1995 and 1996 and as Marketing Manager in Vaasamills Ltd between 1990 and 1991. Järvinen served as Product Manager and Marketing Manager in Fazer Bakeries, Oy Karl Fazer Ab between 1984 and 1990.

Positions of trust

Erkki Järvinen has been a member of the Board of Directors of the Chemical Industry Federation of Finland and of the Association of Finnish Paint Industry since 2010, of the Association of Finnish Advertisers since 2009, of Sannäsin Kartano Oy since 2008 and of the Economic Information Office since 2007.

Jukka Havia

Born 1968

Chief Financial Officer (CFO)

Member of the Management Board since 2010.
Finnish citizen.
M. Sc. (Econ.)
Joined Tikkurila in 2010.
Tikkurila shares on Dec 31, 2010: –

Career history

Jukka Havia has been the Chief Financial Officer of Tikkurila since 2010. Previously, Havia worked for Ruukki Group Plc as the Chief Financial Officer since 2005 and the Deputy Chief Executive Officer since 2008. Prior to that, he worked as the director of finance at the Student Union of the Helsinki School of Economics and as a managing director in KY-Palvelu Oy between 2001 and 2005, as the financial director of RSL Com Finland Oy between 1997 and 2001 and as controller at Oy Canon Ab between 1995 and 1997.

Positions of trust

Jukka Havia is the Chairman of the Board of the Finnish Transport Safety Agency, as well as a member of the finance committee of the student union of Aalto University. He also acts as a deputy auditor of the National Union of University Students in Finland.

Kenneth Sundberg

Born 1965

Group Vice President, R&D

Member of the Management Board since 2010.
Finnish citizen.
M.Sc. (Eng.), Doctor of Technology
Joined Tikkurila in 2010.
Tikkurila shares on Dec 31, 2010: –

Career history

Kenneth Sundberg has been the Group Vice President, Research and Development of Tikkurila since 2010. Prior to joining Tikkurila, Sundberg was the Head of Innovation Center Paper and R&D Site Head at Ciba Finland Oy between 2007 and 2009, the Managing Director of Top Analytica Ltd. between 2006 and 2007, the Head R&D, Sizing and Starch at Ciba Specialty Chemicals Oy between 2004 and 2006 and the Research Manager for a specialty group of Raisio Chemicals Oy between 2002 and 2004.

Positions of trust

Kenneth Sundberg has been a member of the Industrial Advisory Board of the Åbo Akademi Process Chemistry Center (ÅAU) since 2005.

Petri Miettinen

Born 1968

Group Vice President, Supply Chain & HSEQ

Member of the Management Board since 2007.
Finnish citizen.
M.Sc. (Econ.)
Joined Tikkurila in 2007.
Tikkurila shares on Dec 31, 2010: –

Career history

Petri Miettinen has been the Group Vice President, Supply Chain of Tikkurila since 2007. In 2008, the HSEQ (Health, Safety, Environment and Quality) was also transferred to his area of responsibility.
Prior to joining Tikkurila, Miettinen served at ABB; in the ABB Marine business as the Vice President of Sourcing and Logistics between 2002 and 2007, Vice President, controlling in addition to his normal duties between 2003 and 2004 and Business Controller between 2000 and 2002 and previously in the ABB electric machine business as Controller and Project Manager between 1997 and 2000.

Arto Lehtinen

Born 1958

Senior Vice President, SBU Finland

Member of the Management Board since 2008.
Finnish citizen.
Graduate from Business College
Joined Tikkurila in 1981.
Tikkurila shares on Dec 31, 2010: 2,000

Career history

Arto Lehtinen has been the Senior Vice President of SBU Finland of Tikkurila since 2009, and prior to that, he was the Vice President for Tikkurila Group Marketing between 2008 and 2009 and Marketing Director for Tikkurila Paints Oy/Deco Finland between 2000 and 2008. Since 1991, Lehtinen has held various positions in the sales and marketing of Tikkurila's products, especially decorative paints, in Finland. Between 1981 and 1990, he worked in the financial department of Tikkurila.

Ilpo Jousimaa

Born 1957

Senior Vice President, SBU Central Eastern Europe

Member of the Management Board since 2003.
Finnish citizen.
M.Sc. (Econ)
Joined Tikkurila in 1987.
Tikkurila shares on Dec 31, 2010: 1,574

Career history

Ilpo Jousimaa has been the Senior Vice President of SBU Central Eastern Europe of Tikkurila since 2009. Jousimaa has served in various positions in Tikkurila Group since 1987. Between 2005 and 2009, he was the President of the Industrial Coatings business unit and between 2002 and 2004, the Vice President of Tikkurila Deco West and of Tikkurila Deco East. He has acted as the President of Tikkurila Polska S.A. between 2004 and 2005, of Vivacolor companies (Estonia, Latvia, Lithuania) between 1998 and 2002 and of AS Flora Kommerts (a company not belonging to Tikkurila) between 1997 and 1998.

Niklas Frisk

Born 1975

Senior Vice President, SBU Scandinavia

Member of the Management Board since 2007.
Swedish citizen.
MBA
Joined Tikkurila in 1995.
Tikkurila shares on Dec 31, 2010: 1,000

Career history

Niklas Frisk has been the Senior Vice President of SBU Scandinavia of Tikkurila since 2009 and the Managing Director of Alcro-Beckers AB/President, Deco Scandinavia since 2006. Prior to that, he served in other positions at Alcro-Beckers AB between 2002 and 2006. Since 1995, he has held various positions in Dickursby Färg, later called Tikkurila AB after merging with Alcro-Beckers.

Positions of trust

Niklas Frisk has been the Chairman of the Board of Directors of SVEFF (The Swedish Paint and Painting Ink Makers' Association) since 2007. He is also the Chairman of the Board of Directors of Tikkurila Danmark A/S, Tikkurila Norge A/S, Tikkurila AB and Måleributiken AB, as well as a member of the Board of Happy Homes AB.

Janno Paju

Born 1971

Senior Vice President, SBU East

Member of the Management Board since 2000.
Estonian citizen.
Degree in Economics
Joined Tikkurila in 1993.
Tikkurila shares on Dec 31, 2010: 325

Career history

Janno Paju has been the Senior Vice President of SBU East of Tikkurila since 2009. Prior to that, he was the Group Vice President of Tikkurila's Deco Eastern Europe business area between 2004 and 2009. He served as the President of Tikkurila Polska S.A. between 2000 and 2004 and as the Vice President of Commerce of Tikkurila-Baltcolor Sp.z.o.o. between 1998 and 2000.

Investor information

Interim reports and Annual General Meeting

March 31, 2011 Annual General Meeting
May 6, 2011 Interim report for January–March
August 11, 2011 Interim report for January–June
October 27, 2011 Interim report for January–September

The material related to the Annual General Meeting and financial reports, as well as the dates for investor meetings can be found on Tikkurila's web pages at www.tikkurilagroup.com/investors/

Dividend distribution

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.70 per share will be paid for the financial year 2010. The dividend will be paid to shareholders that are registered in the Company's shareholder's register on the proposed record date for the payment of the dividend, which is April 5, 2011.

Financial targets

Financial targets are presented on page 9 of the annual report.

Change of address

Shareholders are kindly requested to report any change of address to the bank in which they have their book-entry account. If the account manager is Euroclear Finland Oy, the address change is to be reported to Euroclear Finland.

Investor relations

The objective of Tikkurila's investor relations activity is to support the creation of fair valuation of Tikkurila's share through timely communication of relevant, understandable, reliable and comparable information, in order for capital market participants to be able to form a well-justified picture of Tikkurila as an investment.

Tikkurila's disclosure policy describes the main principles on how Tikkurila communicates with the capital markets and discloses share-price sensitive information to its stakeholders. Read more at http://www.tikkurilagroup.com/investors/disclosure_policy/

During 2010, Tikkurila's management met nearly 1,000 persons interested in Tikkurila's share in 160 different events. A majority of the events were individual investor meetings of which approximately half were arranged in Finland and half in Central Eastern Europe, Sweden, Great Britain and the United States. The Company also participated in seminars and visits to Tikkurila, Helsinki, Oulu and St. Petersburg.

IR contact information

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susanna.aaltonen@tikkurila.com

Minna Avellan, Manager, Financial communications
Tel. +358 40 533 7932, e-mail:
minna.avellan@tikkurila.com

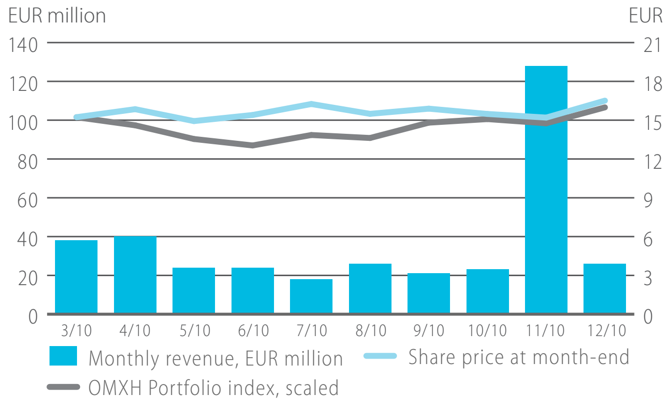
Basic share information

Listed on: NASDAQ OMX Helsinki, Finland
Trading code: TIK1V
Business sector: Chemicals
Number of shares: 44,108,252
Date of listing: March 26, 2010

More information on Tikkurila's share and shareholders can be found on pages 130–132 of the annual report.

You can order annual reports on Tikkurila's website at www.tikkurilagroup.com/fi/meda/publications/ or by sending email to communications@tikkurila.com.

Tikkurila share's monthly revenue and share price on the NASDAQ OMX Helsinki in 2010



Tikkurila Group

Financial Statements 2010

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Board of Directors' Review

Market Review

The economies in Tikkurila's operating area experienced some recovery during 2010. Tikkurila's largest markets are Russia, Sweden, Finland and Poland. The Russian GDP grew by 3.7 percent in January-September 2010 and the unemployment rate decreased. The ruble strengthened compared to the euro during the year, mainly due to higher crude oil prices. Russian consumer price inflation was 8.8 percent in 2010 (2009: 8.8%). (Source: BOFIT) Housing construction experienced an upturn during the second half of 2010. According to Tikkurila's own estimates the volume of the Russian paint market grew by less than 10.0 percent in 2010.

The Swedish GDP is estimated to have grown by approximately 5.0 percent in 2010 and housing construction picked up clearly. The employment situation improved faster than expected and inflation remained low mainly due to moderate wage settlements. The krona strengthened clearly against the euro during the year. According to Tikkurila's estimates the value of the Swedish paint market grew by approximately 1.5 percent in 2010.

The Finnish GDP is estimated to have grown by approximately 3.5 percent in 2010. Housing construction clearly picked up but commercial construction still decreased somewhat. Employment figures experienced an upturn in Finland during the year, but the unemployment rate still grew slightly to 8.4 percent (2009: 8.2%) (Source: Statistics Finland). The real purchasing power of households is slowly increasing. The average inflation in 2010 was 1.2 percent. According to preliminary estimates, the Finnish paint market started to grow moderately towards the year-end 2010. The demand for professional construction paints and industrial coatings grew the most.

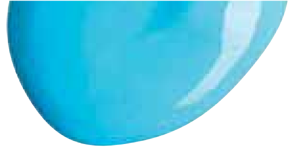
The Polish GDP is estimated to have grown by approximately 3.4 percent in 2010. Restocking and increased household spending boosted demand, but the uncertainty related to the recovery of the global economy and low capacity utilization rates had a negative effect on private investment levels. (Source: European Commission) According to Tikkurila's estimates the Polish paint market decreased somewhat in 2010 with regard to consumers, and remained stable or grew slightly with regard to professional and industrial customers.

Financial Performance in 2010

The revenue and profitability by reporting segments for the full financial year are presented below.

	Revenue		Operating result (EBIT) excluding non-recurring items	
January–December (EUR million)	1–12/2010	1–12/2009	1–12/2010	1–12/2009
SBU East	194.5	167.1	22.7	17.7
SBU Scandinavia	181.8	157.8	21.3	16.1
SBU Finland	107.2	106.8	13.6	14.2
SBU Central Eastern Europe	105.2	98.5	4.8	5.0
Group common and eliminations	0.0	0.0	-2.7	-2.8
Consolidated Group	588.6	530.2	59.7	50.2

The Tikkurila Group's revenue for 2010 totaled EUR 588.6 (530.2) million, up by 11.0 percent (EUR 58.5 million) from previous year. Of the total growth, EUR 37.5 million was based on the exchange rate fluctuations. Higher sales volumes accounted for EUR 22.6 million. Improved sales volumes followed from the general recovery of the economies, the acceleration of new construction activity and the



housing trade, and improved consumer purchasing power. Decorative paints accounted for 83.8 (83.8) percent, and industrial coatings for 16.2 (16.2) percent, of the total revenue for 2010.

Operating profit excluding non-recurring items for 2010 was EUR 59.7 (50.2) million, which equals 10.1 (9.5) percent of revenue. The non-recurring items arose in the second and fourth quarter of 2010. In the second quarter of 2010 they were related to an insurance compensation payment received in Russia (with a positive effect of EUR 1.5 million on the operating profit), and a fine from the Polish competition authorities (with a negative effect of EUR 0.8 million on the operating profit). The non-recurring items recognized in the last quarter of 2010 concerned a fine from the Polish competition authorities in October 2009, which decreased in August 2010, but which came legally into effect in the last quarter of 2010, having a EUR 0.4 million positive effect on the operating profit. A non-recurring expense of EUR 2.4 million was caused in the second quarter of 2009 by personnel reductions in the Group's Finnish and Swedish operations.

Operating profit for 2010 was EUR 60.8 (47.7) million. Higher sales volumes and a lower level of variable costs, in comparison to the previous year, contributed to the improvement. Exchange rate changes had a EUR 3.1 million positive impact on the operating profit.

Net financial expenses for 2010 totaled EUR 8.7 (12.0) million. Profit before tax was EUR 52.0 (35.7) million. Taxes totaled EUR 15.5 (8.0) million, representing an effective tax rate of 29.8 (22.2) percent. Earnings per share were EUR 0.83 (0.63).

Financial Performance by Reporting Segments

SBU East

SBU East, Income Statement

(EUR million)	1–12/2010	1–12/2009	Change, %
Revenue	194.5	167.1	16.4%
Operating result (EBIT), excluding non-recurring items	22.7	17.7	27.7%
Operating result (EBIT) margin, excluding non-recurring items, %	11.6%	10.6%	
Operating result (EBIT)	24.1	17.7	36.0%
Operating result (EBIT) margin, %	12.4%	10.6%	
Capital expenditure excluding acquisitions	4.5	7.2	-37.1%

SBU East's revenue in 2010 grew by 16.4 percent compared to the year before and amounted to EUR 194.5 million. Exchange rate changes increased revenue by EUR 14.0 million as the rouble strengthened against the euro. Higher sales volumes increased revenue by EUR 8.9 million and changes in the product mix and prices by EUR 4.5 million. Sales improved thanks to a recovery in the economy in Russia and its neighboring areas as well as improved purchasing power among consumers. The positive development in the product mix is based on shift in demand towards higher-quality and more expensive products.

The 2010 operating profit excluding non-recurring items grew by 27.7 percent from previous year and was EUR 22.7 (17.7) million. Operating profit was boosted by changes in the product mix and prices and higher sales volumes. The effect of exchange rates was EUR 1.0 million positive.

The non-recurring items recognized in 2010 were related to a Russian insurance compensation, which had a positive effect of EUR 1.5 million on SBU East's EBIT.

Tikkurila divested its industrial powder coatings business by selling all the shares in OOO Tikkurila Powder Coatings, a Russian subsidiary, to Teknos Group Oy in December 2010. OOO Tikkurila Powder Coatings' revenue was EUR 2.4 million in 2010, and the company employed some 50 people. The divested subsidiary was consolidated into Group until the end of November, and the sold assets and liabilities were classified as held for sale items on the balance sheet date. The transaction was completed at the end of January 2011.

Significant events in 2010 include, among others, the launch of the new and more environmentally friendly Avatint tinting system, representing the newest technology, in Russia. There are approximately 1,000 Tikkurila tinting system units in use in Russia.

SBU Scandinavia

SBU Scandinavia, Income Statement

(EUR million)	1–12/2010	1–12/2009	Change, %
Revenue	181.8	157.8	15.2%
Operating result (EBIT), excluding non-recurring items	21.3	16.1	32.5%
Operating result (EBIT) margin, excluding non-recurring items, %	11.7%	10.2%	
Operating result (EBIT	21.3	15.7	35.5%
Operating result (EBIT) margin, %	11.7%	10.0%	
Capital expenditure excluding acquisitions	2.3	2.1	8.2%

SBU Scandinavia's revenue in 2010 grew by 15.2 percent compared to the year before and amounted to EUR 181.8 (157.8) million. Exchange rate fluctuations increased revenue by EUR 17.8 million as the Swedish krona strengthened against the euro. Higher sales volumes increased revenue by EUR 9.0 million and changes in the product mix lowered it by EUR 2.8 million. The economy in SBU Scandinavia's largest market area Sweden grew clearly during the year and construction picked up. Tikkurila estimates that it has strengthened its market position in decorative paints and in particular in the professional customers segment in Sweden, where the general paint market growth is expected to have been slower than general economic growth.

SBU Scandinavia's 2010 operating profit excluding non-recurring items increased by 32.5 percent compared to the year before and amounted to EUR 21.3 (16.1) million. Operating profit was boosted by a lower level of variable costs and higher sales volumes compared to previous year. The improvement in operating profit is also based on better efficiency at the production plant located in Nykvarn in Sweden. The exchange rate changes had a EUR 1.7 million positive effect on operating profit.

The development of water-borne paints has been especially active in Scandinavia, where 98 percent of the decorative paints sold by Tikkurila in 2010 were water-borne. Year's significant launches include, among others, the Alcro brand's color collection ad.10, which was designed in cooperation with the Dutch trend expert, Li Edelkoort.

SBU Finland

SBU Finland, Income Statement

(EUR million)	1–12/2010	1–12/2009	Change, %
Revenue	107.2	106.8	0.3%
Operating result (EBIT), excluding non-recurring items	13.6	14.2	-3.8%
Operating result (EBIT) margin, excluding non-recurring items, %	12.7%	13.3%	
Operating result (EBIT)	13.6	12.2	11.8%
Operating result (EBIT) margin, %	12.7%	11.4%	
Capital expenditure excluding acquisitions	2.2	2.1	3.5%

SBU Finland's 2010 revenue was at previous year's level at EUR 107.2 (106.8) million. SBU Finland's sales started out well at the beginning of the year but the unusually long heat wave in the summer clearly decreased the peak time sales. Higher sales volumes increased revenue by EUR 2.5 million and changes in the product mix lowered it by EUR 2.2 million. SBU Finland's 2010 operating profit excluding non-recurring items decreased from previous year and was EUR 13.6 (14.2) million. The higher level of variable costs compared to previous year and changes in the product mix decreased the full year operating profit excluding non-recurring items. The operating profit of the comparison period was improved by the cost saving measures conducted during 2009.

Some successful examples of new product launches were Tikkurila's Supi Sauna products, Yki Aitokivi, a coating for outer surfaces containing genuine stone, as well as Tikkurila ProHouse concept aimed at construction and saw mill industries. More environmentally sound Avatint tinting system was launched in all stores utilizing Tikkurila's tinting system.

SBU Central Eastern Europe (CEE)

SBU CEE, Income Statement

(EUR million)	1–12/2010	1–12/2009	Change, %
Revenue	105.2	98.5	6.8%
Operating result (EBIT), excluding non-recurring items	4.8	5.0	-4.6%
Operating result (EBIT) margin, excluding non-recurring items, %	4.6%	5.1%	
Operating result (EBIT)	4.4	5.0	-13.0%
Operating result (EBIT) margin, %	4.2%	5.1%	
Capital expenditure excluding acquisitions	2.2	2.1	1.7%

The 2010 revenue of SBU Central Eastern Europe increased by 6.8 percent compared to the year before and amounted to EUR 105.2 (98.5) million. Revenue was improved by exchange rate fluctuations that had a EUR 5.6 million effect. The positive effect of sales volume growth was EUR 2.2 million and the negative effect of product mix changes was EUR 1.1 million. SBU Central Eastern Europe's 2010 operating profit excluding non-recurring items decreased slightly from previous year and was EUR 4.8 (5.0) million. The effect of exchange rate changes was EUR 0.4 million positive.

SBU Central Eastern Europe's non-recurring items in 2010 were related to fines set by the Polish competition authority for Tikkurila, having a EUR 0.4 million negative effect on the Group's operating profit.

SBU Central Eastern Europe's profitability was clearly weaker than in other business units, which was due apart from the tight competition in the area, also to the higher share of industrial paints than in other business units. In addition, there are several start-ups in the area. Tikkurila aims at improving its position in Central Eastern Europe by improving the cost-efficiency of its operations, as well as through organic growth and selected acquisitions.

Group Functions

Group functions support the SBUs in their operations as well as take care of the responsibilities of the listed parent company. No major changes took place in the Group functions during 2010.

Cash Flow, Financing Activities and Financial Risk Management

Tikkurila's financial position and liquidity remained at a good level.

Cash flow from operations totaled EUR 63.9 (62.5) million in January–December. Net cash flow from investing activities totaled EUR -12.2 (-17.1) million, of which corporate acquisitions accounted for EUR 0.0 (-3.7) million. Cash flow after capital expenditure was EUR 51.4 (45.3) million.

The Group's equity ratio was 41.1 (35.7) percent at the end of December and gearing was 41.4 (90.0) percent. The medium-term target is to maintain gearing under 100 percent. The Group's net financial expenses totaled EUR 8.7 (12.0) million, of which currency exchange rate changes accounted for EUR -0.5 (-0.1) million.

Net working capital totaled EUR 73.0 (76.1) million at the end of the review period. The Group established a centralized procurement, which improved efficiency. This reduced the net working capital thanks to improved payment and other terms. Due to the challenges related to the availability of raw materials and to securing timely deliveries, the amount and average price of inventories increased. These factors improved inventory levels at year end. Due to the seasonal nature of the business, the year end situation does not typically reflect the average amount of the capital employed during the financial period.

The Group's interest-bearing debt on December 31, 2010 was EUR 148.0 (154.1) million, of which finance lease liabilities accounted for EUR 0.4 (0.5) million. The average interest rate of the interest-bearing debt was 5.2 (6.9) percent. A total of EUR 8.7 million of the Tikkurila Group's interest-bearing liabilities will mature during 2011. Tikkurila Oyj paid off an additional EUR 20.0 million of its long-term loan in January 2011. The decision to do this was made after the reporting period.

Cash and cash equivalents totaled EUR 69.4 (24.5) million at the end of December. Cash and cash equivalents are invested in bank deposits and marketable short-term interest-bearing securities from banks and corporations in order to diversify counterparty risk. At the end of the reporting period, a majority of the cash and cash equivalents were in euros. Some subsidiaries had cash denominated in other currencies, such as Russian rubles and Swedish kronas.

The Group had a net debt of EUR 78.6 (129.5) million on December 31, 2010. At the end of December 2010, the Group had a total of EUR 88.4 million in unused committed credit facilities.

In early 2010, the Group's debt portfolio was rearranged, and the loans taken from the previous parent company Kemira Oyj were paid back in full. In addition, in order to diversify financing sources and cash flow management, an additional EUR 5.0 million bank overdraft facility was obtained. Moreover, the maximum amount of factoring limit, which is used to finance trade receivables, was increased.

In conjunction with its listing, Tikkurila Oyj established its own treasury organization and centralized external financing and financial risk management functions to the Group's parent company. In order to manage exchange rate fluctuations, the Group used short-term forward exchange agreements to partly hedge its 12-month estimated net currency position. At the end of the review period, the nominal value of Tikkurila's forward exchange agreements was EUR 119.8 million, and the market value was EUR -0.7 million. Majority of Tikkurila's interest-bearing liabilities are fixed to short-term market rates and part of this open interest rate risk exposure is hedged with interest rate swaps. At year-end 2010, Tikkurila had interest rate swaps for a total nominal value of EUR 20.0 million and a market value of EUR 0.0 million.

Capital Expenditure

Gross capital expenditure in 2010, excluding acquisitions, amounted to EUR 11.1 (13.5) million. The investments carried out during 2010 were related, among others, to the introduction of the Avatint and Novatint tinting systems. Tikkurila estimates that the capital expenditure level will be higher in 2011 in comparison to 2010. In 2010, the capital expenditure level was exceptionally low.

Depreciation and amortization amounted to EUR 20.7 (18.8) million in 2010. The Group carries out impairment tests according to IAS 36.

Sales and Marketing

In 2010, the Tikkurila Group's sales and marketing expenses totaled EUR 88.0 (78.8) million, corresponding to 14.9 (14.9) percent of revenue. Salaries are included in the figures. There are variations in the level of sales and marketing expenses between various brands and market areas.

Research and Development

In 2010, the Tikkurila Group's research and development expenses totaled EUR 10.2 (2009: 10.1 and 2008: 11.2) million, corresponding to 1.7 (2009: 1.9 and 2008: 1.7) percent of revenue. At year end, the unit had 172 (179) employees. Tikkurila has R&D units in Finland, Sweden, Poland and Russia.

Tikkurila's R&D function is responsible for creating new business opportunities, renewing the product range and studying and adopting alternative raw materials. R&D activities are guided by customer needs as well as by environmental and safety perspectives. A major part of R&D operations are related to replacing solvent-borne paints with water-borne or low-solvent products. The development of water-borne paints has been especially active in Scandinavia, where 98 percent of the decorative paints sold by Tikkurila were water-borne.

In 2010, Tikkurila launched more than 40 new products for consumers, professionals and industry. More information on the significant product launches for 2010 can be found in the preceding strategic business unit reviews.

Corporate Responsibility and Environment

At the core of Tikkurila's corporate responsibility approach is not only to improve its own operations but also to assist customers in making sustainable choices. Tikkurila reports as from 2010 on corporate responsibility issues in its annual report, according to GRI (the Global Reporting Initiative). This report is verified by a third party.

Tikkurila's objective is to acquire independently audited and certified quality, environmental and security systems for each of its sites. Unit-specific certification details can be found on the Tikkurila website at www.tikkurilagroup.com/fi/responsibility.

Tikkurila's business operations mainly fall within the chemical industry, the products and actions of which are regulated by numerous international agreements, as well as by local and national legislation. The Group reports on its environmental responsibilities and risks in its financial statements. Tikkurila's operating practices (Code of Conduct) include stipulations concerning the environment, health and safety, where the minimum requirement is to comply with statutory demands.

In 2010, Tikkurila invested EUR 0.2 (0.5) million into environmental protection at its sites, and operating costs totaled EUR 2.1 (1.7) million. Provisions for environmental recovery actions totaled EUR 0.3 (0.5) million. The provisions applied mainly to remediation demands related to soil and groundwater pollution caused by the previous owner of the Polish production unit. The decrease in the provisions was mainly due to remediation expenses being covered by the provision.

Paint production, product safety, the handling and the marketing of paints and coatings are increasingly tightly regulated as a result of new safety and environmental legislation. One major legislative change that affects the manufacturing and sale of paints and coatings is REACH, which obligates chemical manufacturers and importers to assess the risks related to product use and to provide end users with safe use instructions. Paints themselves are not among the substances specified in the regulation but paint manufacturers must ensure that all of the materials used in their paints meet REACH requirements. In terms of the REACH regulation, 2010 was extremely important for raw material suppliers because the first stage registrations had to be completed by the beginning of December. Apart from some individual notifications, raw material suppliers had at the time of writing registered all the materials for the usage purposes relevant to Tikkurila's products.

Other important legislative initiatives related to paints involved the emission of organic solvents into the air, among other issues.

Human Resources

On December 31, the Tikkurila Group employed 3,468 (3,538) people. The average number of employees during 2010 was 3,703 (3,757).

The number of Tikkurila Group's employees at quarter end by SBUs is presented below, starting from Q1/2009.

	Q1/2009	Q2/2009	Q3/2009	Q4/2009	Q1/2010	Q2/2010	Q3/2010	Q4/2010
SBU East	1,657	1,768	1,599	1,563	1,702	1,794	1,657	1,508
SBU Scandinavia	479	512	469	466	464	485	464	465
SBU Finland	832	869	787	732	749	857	762	720
SBU CEE	781	788	771	743	746	774	757	740
Group operations	30	31	32	34	34	36	37	35
Total	3,779	3,968	3,658	3,538	3,695	3,946	3,677	3,468

Approximately half of Tikkurila's employees work in supply chain operations (production, procurement, logistics and HSEQ) and approximately one third in sales, marketing and technical support. During 2010 about 63 (64) percent of the personnel were men and 37 (36) women. The average age was 38.5 (38.5) years.

Salaries and compensation paid in 2010 totaled EUR 88.1 (79.1) million.

Job satisfaction surveys applying to the whole Tikkurila Group have been conducted since 2004. The survey carried out in 2010 had a response rate of 86.3 percent (86.0), which is clearly higher than the European norm (74%). The job satisfaction index indicating the overall employee satisfaction was 68.0 (2009: 65.9 and 2008: 64.5), when the European general norm was 64.1 in 2010.

The number of occupational accidents increased from the previous year, totaling 4.8 accidents per one million man hours (2009: 3.8 and 2008: 5.4). No significant personal damages occurred in 2010. Tikkurila aims at continually decreasing trend of occupational accidents.

Legal Proceedings

The Group's Russian subsidiary OOO Tikkurila has been engaged in a dispute against the Russian company OOO Decolor in relation to the "Finncolor" trademark. In June 2010, the St. Petersburg Arbitration Court confirmed Tikkurila's property right to the Finncolor trademark. OOO Decolor appealed against the decision, and the Court of Appeals reversed the lower court's decision. The third and final instance, the Northern-Western Regional Arbitration Court, reversed the decision of the Court of Appeals on January 17, 2011 and confirmed Tikkurila's property right to the trademark.

In October 2009, the Polish competition authority imposed a fine of approximately EUR 0.6 million on Tikkurila. According to the competition authority, certain distribution agreements of Tikkurila Polska S.A. contained an illegal clause. Tikkurila appealed against the decision, and the Court of appeals decreased the fine to approximately EUR 0.2 million (PLN 0.7 million) on August 5, 2010. This final decision was validated in the last quarter of 2010.

Shares and Shareholders

Trading of Tikkurila Oyj's shares began on NASDAQ OMX Helsinki Ltd on March 26, 2010. At the end of December, Tikkurila's share capital was EUR 35.0 million, from a total of 44,108,252 registered shares. At the end of December 2010, Tikkurila held no treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of 25,806 shareholders on December 31, 2010. A list of the largest shareholders is updated regularly on Tikkurila's website at www.tikkurilagroup.com.

At the end of December, the closing price for the Tikkurila share was EUR 16.51. The volume-weighted average share price for the review period (for the trading period Mar 26–Dec 31) was EUR 15.56, the highest price being EUR 16.95, and the lowest EUR 14.17. At the end of December, the market value of Tikkurila's shares, valued at the closing price, was EUR 728.2 million. During January–December 2010 (Mar 26–Dec 31), a total of close to 23.6 million Tikkurila shares, which is about 53.5 percent of the registered amount of shares, were traded on NASDAQ OMX Helsinki Ltd, and the value of the traded volume was EUR 367.5 million.

Tikkurila Board members and their interest parties held altogether 44,406 shares on December 31, 2010, which is 0.1 percent of the share capital and votes in Tikkurila. The Tikkurila Management Board and their interest parties held altogether 4,899 shares on December 31, 2010, which is 0.01 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila's public insiders is available on www.tikkurilagroup.com/fi/corporate_governance.

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

Corporate Governance Statement

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

Financial Targets and Dividend Policy

Tikkurila's mid-term financial targets and dividend policy were kept unchanged in 2010 in connection with the annual strategy round. According to Tikkurila's dividend policy, Tikkurila aims to distribute a dividend of at least 40 percent of its annual operative net income. Operative net income means net profit for the period excluding non-recurring items and adjusted for tax effects. Any dividends to be paid in future years, their amount and the time of payment will depend on the Company's future earnings, financial condition, cash flows, investments, solvency, business cycle and other factors, which the Company's Board of Directors considers relevant.

Further information on financial targets and dividend policy is available on Tikkurila's website on www.tikkurilagroup.com/fi/investors.

Decisions of the Annual and Extraordinary General Meetings

Tikkurila Oy's Annual General Meeting was held on February 8, 2010 and Tikkurila Oyj's Extraordinary General Meeting on March 4, 2010. The decisions of the General Meetings were disclosed in connection with Tikkurila's Interim Report for January–March 2010, which is available on www.tikkurilagroup.com/fi.

Events after the Review Period

Tikkurila Group sold all the shares in OOO Tikkurila Powder Coatings, a Russian subsidiary, to Teknos Group Oy in December 2010. Tikkurila divested its industrial powder coatings business, because it is not a part of Tikkurila's core business. After the transaction, Tikkurila has no powder coatings related operations. The revenue of OOO Tikkurila Powder Coatings was EUR 2.4 million in 2010, and the company employed some 50 people. The transaction was completed on January 26, 2011.

Tikkurila Oyj decided to make an additional repayment of EUR 20.0 million of its long-term pension loan (TyEL-loan). This decision was made in January 2011.

Short-Term Business Risks and Uncertainties

Tikkurila's business involves a number of strategic, operational, finance and damage risks. Tikkurila tries to recognize, assess and react to risks as proactively as possible and to restrict their possible adverse effects.

The general economic developments affect demand for Tikkurila's products. The economies in Tikkurila's operating area gradually recovered during 2010. The development of the construction sector usually correlates with changes in the economic situation and housing construction picked up in certain important markets, such as Finland, Sweden and Russia. The sale of paints to consumers is integral to Tikkurila's operations, and thus changes in consumers' purchasing power and consumption habits can have a considerable effect on demand for the Group's products. Consumer confidence and employment improved in several markets in 2010. A halt or turnaround in the positive development of the economies in Tikkurila's operating area could have a negative effect on Tikkurila's business, financial position and result.

Due to the international nature of Tikkurila's operations, the Group's statement of comprehensive income, statement of financial position and cash flow are subject to currency risk. The main currency risks arise from the Russian ruble, the Swedish krona and the Polish zloty, which are the reporting currencies of Tikkurila's largest subsidiaries. The Group's equity is subject to currency risk when equity denominated in foreign currencies is translated into euros. Tikkurila hedges against currency risk, for instance with forward exchange agreements.

Tikkurila's business is at its busiest during the outdoor painting season, in the spring and summer. In decorative paints, demand is significantly affected by weather conditions during the outdoor painting season. Abnormal or unseasonal weather conditions can have a negative effect on the demand for Tikkurila's products.

Tikkurila is dependent on its suppliers' ability to deliver the raw materials needed for paint production. The global economic crisis that began in 2008 led to capacity cutbacks among some raw material suppliers. In addition, in the past years, several acquisitions of a considerable size have been carried out in the chemical industry, which have clearly decreased the number of raw material suppliers for the paint industry. The economic recovery in 2010 led to an imbalance between demand and supply, as a result of which the prices of some of the main raw materials used in paint production rose and availability was low towards the end of the year in particular. Tikkurila expects the prices of raw materials to increase in the future and the challenges related to their availability to continue in 2011. It is possible that the Group will not fully be able to transfer the higher costs to its end product prices, at least not with immediate effect. In addition, the uncertainties related to raw materials can affect market share development, the general competitive situation or the product selection.

The competitive situation in the paint industry can change quickly, especially due to changes in market entrants and market structures. In addition, possible alterations of the Group's distribution channels, for instance due to changes in competition, can cause financial losses.

Tikkurila is subject to numerous laws and regulations in the EU and other countries where it conducts business. These laws and regulations are related to environmental protection, selling and exporting of certain chemicals and hazardous materials and health and safety issues. For instance, retroactive effects of new laws and regulations or increased requirements and costs related to the production of consumer information can have a negative effect on Tikkurila's operations.

Tikkurila has acquired a number of companies and business operations, which has resulted in goodwill being booked in the consolidated statement of financial position. At the end of December 2010, goodwill amounted to EUR 68.4 million, which equals 36 percent of Tikkurila Group's equity. Tikkurila carries out impairment testing in accordance with IAS 36. As a result of the unfavorable development of any variable included in impairment testing, Tikkurila may have to adjust its estimates and change the rate of interest used in impairment testing, which could result impairment loss on goodwill to be recognized.

Tikkurila's risk management principles are available on the Group's website at www.tikkurilagroup.com. A report on financial risks is included in the notes to the 2010 financial statements.

The companies in the Tikkurila Group are insured against property, business interruption and liability risk, and the insurance cover is considered to be sufficient for Tikkurila's current operations. However, it will not necessarily cover all future losses in full, depending on deductibles and other insurance terms.

Board of Directors' Proposal for the Distribution of Profit

Tikkurila Oyj's retained earnings totaled EUR 71.1 million on December 31, 2010. The Board proposes to the Annual General Meeting that a dividend of EUR 0.70 per share will be distributed for the year ended on December 31, 2010 and that the rest be retained in the unrestricted equity. The proposed dividend totals EUR 30.9 million, which corresponds to approximately 84 percent of the Group's net profit for 2010. It is proposed that the record date for the payment of the dividend will be April 5, 2011 and that the dividend will be paid on April 12, 2011.

Annual General Meeting 2011

The Annual General Meeting of Tikkurila Oyj will be held at 1:00 p.m. on Thursday, March 31, 2011 at the Finlandia hall (address: Mannerheimintie 13, 00100 Helsinki). The Board of Directors review and Financial Statements will be available on week 10 on www.tikkurilagroup.com/fi.

Outlook for 2011

GDP growth is expected to continue in the key market areas of the Tikkurila Group in 2011. Further raw material cost increases are predicted. The suppliers for the paint industry will probably not be able to fully match the increasing demand, due to some of the capacity shutdowns carried out during the recession.

In 2011, Tikkurila expects revenue growth to exceed the average GDP growth in Tikkurila's main market areas. In spite of the rising raw material prices, Tikkurila expects EBIT margin as a percentage of revenue to stay at the same level as in 2010. These estimates are based on the assumption that foreign exchange rates will stay close to the end of 2010 level and that the gradual economic recovery of Tikkurila's key markets will continue. The estimates are also based on Tikkurila's current business structure.

Key performance indicators

Statement of comprehensive income and profitability

	2010	2009	2008
Revenue, EUR thousand	588,647	530,166	648,146
Foreign operations, EUR thousand	481,462	423,357	532,912
Operating profit, EUR thousand	60,757	47,715	58,786
% of revenue	10.3	9.0	9.1
Share of profit or loss of associates, EUR thousand	-87	75	24
Financial expenses (net), EUR thousand	8,675	12,048	15,585
% of revenue	1.5	2.3	2.4
Interest cover	7.0	5.5	5.0
Profit before tax, EUR thousand	51,995	35,742	43,225
% of revenue	8.8	6.7	6.7
Net profit for the period, EUR thousand	36,524	27,790	36,709
Return on investment (ROI), %	21.8	16.4	19.5
Return on equity (ROE), %	21.9	24.1	36.7
Return on capital employed (ROCE), % 1)	19.2	15.7	18.7
Research and development expenses, EUR thousand	10,155	10,058	11,243
% of revenue	1.7	1.9	1.7

Cash flows

Cash flow from operations, EUR thousand	63,855	62,454	55,749
Disposals of subsidiaries, PPE* and intangible assets, EUR thousand	385	418	5,426
Capital expenditure, EUR thousand	11,267	17,191	36,737
% of revenue	1.9	3.2	5.7
Cash flow after capital expenditure, EUR thousand	51,415	45,329	25,255
Cash flow return on capital invested (CFROI), %	14.8	19.4	16.5

Statement of financial position and solvency

Non-current assets, EUR thousand	228,258	227,201	232,034
Shareholders' equity (attributable to the owners of the parent), EUR thousand	190,038	143,863	86,593
Shareholders' equity including non-controlling interest, EUR thousand	190,038	143,863	86,737
Liabilities, EUR thousand	272,261	259,246	341,037
Total assets, EUR thousand	462,299	403,109	427,774
Interest-bearing financial liabilities, EUR thousand	147,979	154,081	212,110
Interest-bearing net liabilities, EUR thousand	78,607	129,538	180,823
Equity ratio, %	41.1	35.7	20.3
Gearing %	41.4	90.0	208.5
Interest-bearing financial liabilities (net) / EBITDA	1.0	1.9	2.3

* Property, plant and equipment

1) Formula of return on capital employed has been changed during the year. The divisor used is a twelve months rolling average. Due to seasonality of business this will give a better view of capital employed involved in business over the year. Year 2009 and 2008 key ratios have been changed accordingly.

Personnel

	2010	2009	2008
Personnel (average)	3,703	3,757	4,027
of whom in Finland	800	839	939

Exchange rates

Key exchange rates (Dec 31)				
Russian Ruble	RUB	40.8200	43.1540	41.2830
Swedish Krona	SEK	8.9655	10.2520	10.8700
Polish Zloty	PLN	3.9750	4.1045	4.1535

Definitions of key figures

Operating profit (loss), %

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

Interest-bearing net liabilities

Interest-bearing liabilities - cash and cash equivalents

Equity ratio, %

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

Gearing, %

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

Interest cover

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

Return on investment (ROI), %

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

Return on equity (ROE), %

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

Cash flow return on investment (CFROI), %

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

Return on capital employed (ROCE), %

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

Interest-bearing financial liabilities (net) / EBITDA

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

Net working capital

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

Dividend yield

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

Price / earnings ratio (P/E)

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

Equity per share

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

Earnings per share (EPS)

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

Dividend payout ratio

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

* Average of January 1, and end of the year

** Average during the period

Consolidated statement of comprehensive income (IFRS)

(EUR thousand)	Note	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Revenue		588,647	530,166
Other operating income	7	3,025	1,451
Change in inventories of finished goods and work in progress		2,005	-7,980
Materials and services		-291,185	-250,596
Personnel expenses	8	-113,108	-102,198
Depreciation, amortization and impairment losses	9	-20,661	-18,780
Other operating expenses	10	-107,966	-104,348
Operating profit		60,757	47,715
Financial income	12	8,536	1,098
Financial expenses	12	-17,211	-13,146
Share of profit or loss of associates	18	-87	75
Profit before tax		51,995	35,742
Income tax	13	-15,471	-7,952
Net profit for the period		36,524	27,790
Other comprehensive income			
Available-for-sale financial assets		1,825	-
Foreign currency translation differences for foreign operations		8,333	-1,774
Income tax related to components of other comprehensive income		-507	-
Total comprehensive income for the period		46,175	26,016
Net profit attributable to:			
Owners of the parent		36,524	27,759
Non-controlling interest		-	31
Net profit for the period		36,524	27,790
Total comprehensive income attributable to:			
Owners of the parent		46,175	26,080
Non-controlling interest		-	-64
Total comprehensive income for the period		46,175	26,016
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	0.83	0.63
Diluted earnings per share (EUR)	14	0.83	0.63

Consolidated statement of financial position (IFRS)

(EUR thousand)	Note	Dec 31, 2010	Dec 31, 2009
Assets			
Non-current assets			
Goodwill	16, 17	68,386	68,261
Other intangible assets	16	30,544	33,713
Property, plant and equipment	15	114,736	114,857
Investments in associates	18	668	774
Available-for-sale financial assets	21	2,694	929
Non-current receivables	22	7,102	5,860
Defined benefit pension assets	31	413	439
Deferred tax assets	26	3,715	2,368
Total non-current assets		228,258	227,201
Current assets			
Inventories	20	76,814	73,499
Interest-bearing current assets	23	184	288
Trade and other non-interest-bearing receivables	24	81,523	75,895
Current tax assets		3,711	1,683
Cash and cash equivalents	25	69,372	24,543
Assets classified as held for sale	6	2,437	-
Total current assets		234,041	175,908
Total assets		462,299	403,109
Equity and liabilities			
Equity			
Share capital	27	35,000	35,000
Other reserves	27	359	359
Fair value reserve	27	1,350	-
Reserve for invested unrestricted equity	27	40,000	40,000
Translation differences	27	-12,130	-20,431
Retained earnings		125,459	88,935
Equity attributable to owners of the parent		190,038	143,863
Non-controlling interest		-	-
Total equity		190,038	143,863
Non-current liabilities			
Interest-bearing non-current liabilities	28	139,282	115,085
Pension obligations	31	16,559	14,567
Provisions	32	199	411
Deferred tax liabilities	26	11,309	9,607
Total non-current liabilities		167,349	139,670

(EUR thousand)	Note	Dec 31, 2010	Dec 31, 2009
Current liabilities			
Interest-bearing current liabilities	29	8,697	38,996
Trade and other non-interest-bearing payables	30	88,406	76,379
Provisions	32	302	399
Current tax liabilities		6,780	3,802
Liabilities classified as held for sale	6	727	-
Total current liabilities		104,912	119,576
Total equity and liabilities		462,299	403,109

Consolidated statement of cash flows (IFRS)

(EUR thousand)	Note	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Cash flow from operating activities			
Net profit for the period		36,524	27,790
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		20,661	18,780
Employee pension benefits		2,018	1,171
Change in provisions		-309	90
Gain on sale of PPE* and intangible assets		-129	-55
Loss on sale of PPE* and intangible assets		141	246
Other items		4,182	-
Dividend income		-62	-61
Interest and other financial expenses		9,562	12,925
Interest income and other financial income		-1,332	-865
Share of profit or loss of associates		87	-75
Exchange rate differences of financing		508	50
Income tax for the period		15,471	7,952
Funds from operations before change in net working capital		87,322	67,948
Change in net working capital			
Change in inventories		-5,607	10,024
Change in trade and other receivables		-5,082	2,968
Change in trade and other payables		9,715	-1,402
Change in net working capital		-974	11,590
Interest and other financial expenses paid		-8,951	-14,603
Interest and other financial income received		1,332	865
Income tax paid		-14,874	-3,346
Total cash flow from operations		63,855	62,454

(EUR thousand)	Note	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Cash flow from investing activities			
Acquisitions of subsidiaries, net of cash acquired	5	-	-1,216
Acquisitions of associates		-81	-
Acquisition of other shares		-3	-2,502
Acquisition of property, plant and equipment		-9,801	-11,903
Acquisition of intangible assets		-1,382	-1,570
Disposal of associates		0	-
Proceeds from sale of available-for-sale financial assets		51	-
Proceeds from sale of property, plant and equipment		124	414
Proceeds from sale of intangible assets		261	4
Change in non-current loan receivables decrease (+)		-	231
Change in non-current loan receivables increase (-)		-1,671	-644
Dividends received		62	61
Net cash used in investing activities		-12,440	-17,125
Cash flow before financing		51,415	45,329
Cash flow from financing activities			
Change in non-current borrowings, increase (+)		139,678	1,098
Change in non-current borrowings, decrease (-)		-115,221	-20,002
Current financing, increase (+)		4,018	1,574
Current financing, decrease (-)		-34,262	-
Finance lease (-)		-295	-365
Profit distribution		-	-33,975
Repurchase of own shares		-72	-
Other		-339	-1,343
Net cash used in financing activities		-6,493	-53,013
Net change in cash and cash equivalents		44,922	-7,684
Cash and cash equivalents at Jan 1	25	24,201	30,851
Effect of exchange rate fluctuations on cash held		-205	-1,034
Cash and cash equivalents at Dec 31	25	69,328	24,201
Net change in cash and cash equivalents		44,922	-7,684

[*] Property, plant and equipment.

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

Consolidated statement of changes in equity

Equity attributable to the owners of the parent									Non-controlling interest	Total equity
(EUR thousand)	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unre-stricted equity	Translation differences	Retained earning	Total		
Equity at Jan 1, 2009		35,000	359	-	-	-18,752	69,986	86,593	144	86,737
Total comprehensive income for the period	27	-	-	-	-	-1,679	27,759	26,080	-64	26,016
Profit distribution [1]		-	-	-	-	-	-9,417	-9,417	-	-9,417
Reserve for invested unrestricted equity		-	-	-	40,000	-	-	40,000	-	40,000
Changes arising from business arrangements		-	-	-	-	-	607	607	-80	527
Equity at Dec 31, 2009		35,000	359	-	40,000	-20,431	88,935	143,863	-	143,863
Equity at Jan 1, 2010		**35,000**	**359**	**-**	**40,000**	**-20,431**	**88,935**	**143,863**	**-**	**143,863**
Total comprehensive income for the period	27	-	-	**1,350**	-	**8,301**	**36,524**	**46,175**	-	**46,175**
Acquisition / Disposal of treasury shares		-	-	-	0	-	-	-	-	-
Equity at Dec 31, 2010		**35,000**	**359**	**1,350**	**40,000**	**-12,130**	**125,459**	**190,038**	**-**	**190,038**

1) Profit distribution in year 2009 was group contribution given by Alcro-Beckers AB to Kemira companies in Sweden.

Distributable equity of the parent (FAS)

(EUR thousand)	2010	2009
Reserve for invested unrestricted equity *)	40,000	40,000
Retained earnings	49,967	34,501
Net profit for the period	21,112	15,466
Total	111,079	89,967

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

1. Accounting policies for the consolidated financial statements

Basic information

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

Tikkurila offers consumers, professionals and industry with user-friendly and environmentally sustainable solutions for the protection and decoration of surfaces. Tikkurila is a strong regional company, whose aim is to be the leading paints company in the Nordic countries and Eastern Europe, including Russia. From the beginning of the financial year 2010, Tikkurila Group has organized its business operations into four strategic business units defined geographically: SBU East, SBU Scandinavia, SBU Finland and SBU Central Eastern Europe. In the 2010 financial year, Tikkurila Group's revenue amounted to EUR 588.6 million and the average number of personnel was 3,703. The Group operates in 18 countries and has production facilities in 7 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 10, 2011. In accordance with the Finnish Limited Liability Companies Act, the shareholders can approve or reject the financial statements or make a decision on altering the financial statements in the Annual General Meeting arranged after its publication. A copy of the financial statements and annual report is available from the company's headquarters at Kuninkaalantie 1, 01300 Vantaa and at www.tikkurilagroup.com.

Basis of preparation

Tikkurila Oyj's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as with the related SIC and IFRIC Interpretations issued by international IASB (International Accounting Standard Board), in force as at December 31, 2010. International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies' Act. Tikkurila Oyj prepared its first IFRS accordant financial statements for the financial year 2008.

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

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

Tikkurila Group has applied following new and revised standards and interpretations since January 1, 2010, which affect the reported data or data that will be reported in the future:

- Revised IFRS 3 *Business Combinations* (effective for financial years that started on July 1, 2009 or later). Significant amendments have been made to the standard. The amendments expanded the scope of IFRS 3 and impact, among other things, the amount of goodwill to be recognized on business combinations and sales results of businesses. Contingent consideration will be measured at fair value and subsequently re-measured through profit or loss. All acquisition-related costs, such as experts' fees, will be expensed instead of capitalization in the cost of the business combination. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. No acquisitions were carried out in the financial year 2010 but the amended IFRS 3 standard may have considerable effect on future financial statements if a business combinations took place and in particular if these transactions involved contingent considerations.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years that started on July 1, 2009 or later). The amendments affect the accounting treatment of acquisitions and sales achieved in stages. If the parent company retains control, impacts from changes in ownership in a subsidiary are recognized directly in Group's equity. Such transactions carried out with non-controlling interest no longer result in goodwill or gains and losses to be recorded profit or loss. When control is lost, any remaining interest is measured at fair value through profit or loss. A similar accounting treatment is also applied to investments in associates and interests in joint ventures. In future losses of a subsidiary may be allocated to non-controlling interest also when they exceed the value of the investment of non-controlling interest.
- Amendments to IAS 39 *Financial instruments: Recognition and measurement - Eligible Hedged items* (effective for financial years that started on July 1, 2009 or later). The amendments relate to hedge accounting. They deal with designation of a one-sided risk in a hedged item and designation of inflation in a financial hedged item.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years that started on July 1, 2009 or later). The interpretation provides guidance how an entity should account for non-cash dividend distributed to owners. The interpretation would affect future financial statements if the Group would distribute dividend in some other form than cash.

- IFRIC 18 *Transfers of Assets from Customers* (effective for financial years that started on July 1, 2009 or later). The interpretation clarifies the accounting treatment for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation has no effect on the consolidated financial statements.
- *Improvements to IFRSs* (April 2009) (mainly effective for financial years that started on January 1, 2010 or later). The amendments cover in total 12 standards and their effects vary by standard. These have not had any significant effect on the consolidated financial statements.
- Amendments to IFRS 2 *Share-based payment – Share-based operations in a Group paid as cash* (effective for financial years that started on January 1, 2010 or later). These amendments provide additional guidance to the accounting treatment of share-based payment transactions among group entities.

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

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

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

Consolidation principles

The consolidated financial statements include the parent company, Tikkurila Oyj and all subsidiaries in which the parent company holds directly or indirectly over 50% of the votes or otherwise exercises control. The goodwill of business combinations that have taken place prior to 2003 corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2010, the Group consisted of 28 companies including the parent company and the Group had investment in one associate.

Subsidiaries

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

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

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

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

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

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

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

Acquisitions made prior to January 1, 2010 have been treated according to regulations valid at the time. During the 2010 financial period, Tikkurila Group had no acquisitions accordant with IFRS 3 Business Combinations.

Associates

Associates are companies over which the Group exercises significant influence but not control (generally accompanying a shareholding of 20–50 percent of the voting rights). Investments in associates are accounted for using the equity method. The goodwill generated from the acquisition of associates is included in the carrying amount of the investments. No goodwill is included in Tikkurila Group's investments in associates in 2010.

The Group's share of its associates' profits or losses is recognized in proportion to the Group's holdings and presented in the statement of comprehensive income as a separate line item after operating profit and financial items. The Group's share of associates' other comprehensive income is recognized as a line item in Group's other comprehensive income. Tikkurila's associates did not have these during the financial years 2010 and 2009. When the Group's share of losses in an associate exceeds its interest in the associate, the Group does not recognize further losses, unless it has committed to settle the obligations on behalf of the associate.

Joint ventures

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

Translation of foreign currency items

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

Foreign currency transactions

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

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

Exchange differences resulting from transactions denominated in foreign currencies and from the translation of monetary items are recognized in profit or loss. Exchange differences arising from operation-related items are accounted for as adjustments to sales and purchases. Exchange rate differences associated with the hedging of financing transactions and the Group's overall foreign currency position are stated in foreign exchange gains or losses under financial income and expenses. The Group does not apply hedge accounting to manage risks related to financing transactions.

Translation of financial statements of foreign subsidiaries

In preparation of the consolidated financial statements the income and expenses as well as cash flow items of the foreign entities are translated to euro using average exchange rate for the period. Their statements of financial position are translated using the exchange rates at the end of the reporting period (closing rate). Resulting exchange differences are recognized in other comprehensive income.

The exchange differences accumulated in equity are transferred to profit or loss as a reclassification adjustment as part of the gain or loss on disposal when the foreign entity is disposed of, totally or in part.

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

Revenue recognition

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

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

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

Tikkurila's paint production and marketing are based on extensive utilization of tinting. Tikkurila delivers the tinting machines needed for this to the retailers. Retailers often either lease or buy the machines from Tikkurila. The income from the sold tinting machines is recognized in revenue. The rent income from leased tinting machines is included in other operating income.

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

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

Pension obligations

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

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

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

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

Current taxes and deferred taxes

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

Deferred tax assets and deferred tax liabilities are provided in the consolidated financial statements for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. The tax bases in force on the date of the preparation of the financial statements, or adopted by the statement of the financial position date for the following financial year, are used in calculating deferred tax assets and liabilities. No deferred tax liability has been recognized for undistributed earnings of foreign subsidiaries as the majority of such earnings can be transferred to the owner without any tax consequences.

Intangible assets

Goodwill

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

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

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

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

Research and Development Costs

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

The Group's development costs are not capitalized because they do not meet the capitalization criteria. The future financial benefits of new or improved products can only be verified at such a late stage that the share of expenses to be capitalized is insignificant and thus capitalization is not carried out. Development costs previously recognized as an expense are not capitalized in a subsequent period.

If the capitalization conditions were met at an earlier stage in the future the capitalized development costs would be included in other intangible assets and they would be amortized on a straight-line basis over their useful life of a maximum of eight years.

Other intangible assets

An intangible asset is initially capitalized in the statement of financial position at cost if the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Tikkurila's other intangible assets comprise, among others, software as well as brands, product names, marketing channels and customer relationships acquired through business combinations.

Intangible assets separated from goodwill, recognized in connection with acquisitions are recognized at fair value at the time of the acquisition.

Other intangible assets that have finite useful lives are carried at historical cost less accumulated amortization and accumulated impairment losses. They are amortized on a straight-line basis over their known or estimated useful lives. The amortization periods generally applied by the Group are:

Brands	10–20 years
Customer relationships	5–10 years
Marketing channels	5 years
Software	5–8 years

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

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

Borrowing costs are capitalized at the acquisition cost of the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In 2010, Tikkurila did not have these types of intangible asset items.

Property, plant and equipment

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

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

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

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

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

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

Borrowing costs are capitalized at the acquisition cost of property, plant and equipment if the asset meets the conditions of IAS 23 Borrowing Costs. In 2010, Tikkurila did not have these types of asset items.

Leases

The Group as lessee

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

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

The Group as lessor

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

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

Non-current assets held for sale and discontinued operations

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

As from classification date a non-current asset (or a disposal group) held for sale is generally measured at the lower of its carrying amount and fair value less costs to sell, and it is not depreciated or amortized any more. Depreciation on these assets discontinues at the time of classification. Assets classified as held for sale, disposal groups, items recognized in other comprehensive income associated with the assets classified as held for sale as well as liabilities included in the disposal group are presented separately in the statement of financial position.

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

Impairment of property, plant and equipment and intangible assets

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

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

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

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

Inventories

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

The inventory acquired in connection with a business combination is valued at fair value.

Financial assets and financial liabilities

Tikkurila was a part of Kemira Group until the end of March 2010, until which time Kemira also had centralized responsibility for the management of Group financing and financial risks. Therefore, the structures of statement of financial position and risk management principles for the financial years 2010 and 2009 differ considerably from one another, even though there have not been any significant changes in the accounting policy.

Financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

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

The Group had no derivative agreements in the financial year 2009. During 2010, the Group has derivative agreements. (Note 34)

Loans and other receivables

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

Available-for-sale financial assets

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

In the financial year 2009 the available-for-sale financial assets mainly comprised unlisted shares that are measured at cost as their fair values could not be measured reliably. In the financial year 2010 the Group has, however, valued some of these unlisted shares at fair value, thus changing their valuation principle, because the fair value of the shares could be measured reliably. In this case, the change in fair value has during the reporting period been recognized in other comprehensive income, net of tax and presented in the financial statements of December 31, 2010 in equity under the fair value reserve.

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives not fulfilling the criteria set for hedge accounting. Financial liabilities at fair value through profit or loss are measured at fair value. Fair value changes, both realized and unrealized, are recognized in profit or loss in the period in which they arise and they are included in financial income or financial expenses. In the statement of financial position, derivative receivables and liabilities are shown under accrued income and deferred expenses and accrued expenses and deferred income. The Group had no derivative liabilities in the financial year 2009. During 2010, the Group has signed derivative agreements (Note 34).

Other financial liabilities

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset under IAS 23 Borrowing costs, are capitalized as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that incurs in connection with the borrowing of funds. Tikkurila Group has not had such acquired assets with capitalized borrowing costs in the financial years 2010 and 2009.

Provisions and contingent liabilities

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

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

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

Related party transactions

Tikkurila Group has defined the related party relationships with separate internal instructions so that the related parties include for instance Tikkurila Oyj's members of Board of Directors, members of Board committees and group management, the company's auditor, the members of Board of Directors and management of the Group subsidiaries and the entities of control and influence of the above mentioned persons.

In addition, associates in which the Group's holding is 20–50% also belong to related parties. In particular in SBU Scandinavia's market area, the Group has had substantial cooperation with its associate due to a distribution channel concept that differs from the other market areas. The technical implementation of this has been changed from the beginning of 2010 so that Group invoicing has gone directly to the associate in question. This affects the comparability of the financial years 2009 and 2010 in terms of related party transactions.

The related party transactions are presented in a separate note. Until the spring of 2010, Tikkurila Group had considerable related party transactions with its former parent company Kemira Oyj or companies belonging to the Kemira Group. Even after the spring of 2010, Kemira Oyj has owned 14.0% of Tikkurila Oyj, so Kemira Oyj is one of Tikkurila's main shareholders.

Segment reporting

The Group changed its organizational structure on December 31, 2009 so that the former product group based business model was turned into a geographical structure and matrix organization model. The Group has in its internal and external reporting for the financial year 2010 and retroactively also for 2009, started using the following four reporting segments, that are based on the strategic business units ("SBU") of the organization structure:

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

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

Government grants

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

Operating profit

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

Non-recurring items

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

The effect of these non-recurring items on the Group's operating profit has been excluded when the company has during 2010 issued information regarding its operating profit development compared to the previous financial year. Correspondingly, the foreign currency translation differences have not been considered when comparing revenue and operating profit of two financial years because a majority of Tikkurila's business is carried out outside the euro area and is thus subject to exchange rate fluctuations.

Equity

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

Adopting new and amended IFRS standards and interpretations

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

Standard amendments approved in the EU

- Amendments to IAS 32 Financial instruments: *Presentation - Classification of Rights Issues* (effective on financial years beginning on or after February 1, 2010). The amendment relates to the accounting treatment (classification) of rights issues of shares, options or warrants in a currency other than the issuer's functional currency. The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- Revised IAS 24 *Related Party Disclosures* (effective for financial years that started on January 1, 2011 or later). The changes simplify the related party disclosure requirements for government related entities and clarify the definition of a related party. The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- Amendments to IFRIC 14 – *Prepayments of a Minimum Funding Requirement* (effective for financial years beginning on or after January 1, 2011). The amendment results in fixing an undesired effect as a result of the interpretation IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding and the connection between these. The amendment results in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense, when there is a minimum funding requirement (MFR). The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after July 1, 2010). The interpretation provides guidance on accounting for debt for equity swaps, e.g. when equity instruments are issued to a creditor to extinguish all or a part of a financial liability. IFRIC 19 applies retrospectively. The amendment is not expected to have an effect on the Group's forthcoming financial statements.

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

- Improvements to IFRSs (May 2010) (mainly effective for financial years that started on July 1, 2010 or later). The amendments cover in total 6 standards and one interpretation. The amendments are not expected to have a significant effect on the Group's forthcoming financial statements.

- In December 2010 the IASB has published *an amendment proposal for IAS 12 – Income Taxes*. (effective for financial years beginning on or after January 1, 2012). The amendment applies to the recognition of deferred taxes in connection with investment properties. The presumption is that the recovery of the carrying amount for investment properties will, normally, be through sale and that a different tax rate will be applied to the deferred tax from changes in the fair value of investment properties than the income tax rate. The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- *IFRS 9 Financial Instruments* (effective for financial years that started on January, 1 2013 or later) IFRS 9 is the first stage in IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard covers classification and measurement of financial assets. The different measurement methods have been retained. Financial assets are divided into two main groups based on their measurement: those measured at amortized cost and those measured at fair value. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. All other IAS 39 instructions regarding impairment and hedge accounting of financial assets remain valid. In October 2010, IASB complemented the IFRS 9 standard by adding requirements for derecognition of financial assets and financial liabilities. IAS 39 accordant requirements for classification and derecognition of financial liabilities remain intact. The amendment to the measuring of financial liabilities applied to financial liabilities to which the fair value option is applied. The changes in fair value caused by these amendments to the credit risk are recognized in the Group's other comprehensive income and they would not be recognized through profit or loss at a later stage either. This is the case unless it causes bookkeeping asymmetry that affects the result. The company management has not yet assessed the effect these amendments will have on the Group.

2. Critical accounting estimates requiring management's judgement

The preparation of financial statements requires management to make future estimates and assumptions. Actual results may differ from these estimates and assumptions. In addition, management uses judgement in applying the accounting principles and in choosing the applicable accounting policies, if IFRSs allow alternative methods. These estimates and assumptions and their application affect the income and expenses of the financial period and this result of the financial period, the assets and liabilities reported in the closing date and the conditional assets and liabilities presented in the notes. Revisions to accounting estimates and assumptions are recognized in the period in which the estimates and assumptions are revised and in all subsequent period.

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

By the time of the publication of the financial statements the Group is not aware of such major sources of estimation uncertainty at the end of the reporting period nor of such key assumptions concerning the future that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of asset and estimates related to asset valuation

The impairment test of goodwill and other assets involves determining future cash flows which, with regard to the most significant assumptions, are based on gross margin levels, discount rates and the projected time period, as well as the growth rate assumptions for the time after the time period which affects the so-called terminal value. Major adverse developments in cash flows and individual components of discount rate such as interest rate levels, risk premiums or financial structure, may lead to the recognition of an impairment loss. The sensitivity analysis connected to impairment testing is presented in Note 17 of the consolidated financial statements. The Group recognized no impairment of non-current assets in the financial years 2009 and 2010.

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

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

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

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

Business combinations

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

If the Group plans to divest a business operation or sell some asset items, the management has to use consideration in determining how to classify the asset items as in the statement of financial position and make the assumptions of their value, also taking into consideration for instance the estimated likelihood of the planned sale and the time of completion.

Provisions

A provision is recognized when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. A provision can be recognized when the amount of the obligation can be determined reliably. Recognizing provisions requires the management's estimates, since the precise euro amount of obligations related to provisions is not known when preparing the financial statements. If the management estimates that no probable payment obligation arises the item is presented as a contingent liability in the financial statements. On the closing date, December 31, 2010, the provisions amounted to EUR 0.5 million. The corresponding figure in the 2009 financial statements was EUR 0.8 million. A majority of these provisions were related to environmental provisions.

Income taxes

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. The Group has subsidiaries in several countries with different types of tax regulations. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case, the change will affect the taxes in future periods. The amount of deferred taxes in the 2010 financial statements was EUR 3.7 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 4.3 million.

Pension obligations

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

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3. Operating segments

Tikkurila's business activities are organized in four reporting segments based on its strategy to be a strong regional player in Europe and its neighboring areas. The discrepancy of these operating environments and overall management's strategies of the Group have been taken into account while establishing these reporting segments. Revenue arises from the sales of various paints that are sold to retailers, industry and for professional use. Some insignificant revenue is received from the sales of auxiliary services related to paints. Common administrative items and Treasury function transactions of the Group are presented as Tikkurila common section.

The evaluation of profitability and decision making concerning resource allocation are based on segmental operating profit. The valuation principles concerning segments assets and liabilities are disclosed in Note 1 Accounting policies for the consolidated financial statements. Segment assets are items of the statement of financial position that the segment employs in its business activities or which can reasonably be allocated to a segment. Segment assets and external revenue are presented according to the location of the assets and customer. Inter-segment pricing is determined on an arm's length basis. External revenue accumulates from large number of customers.

Operating segments	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila Common	Elimination	Total
2010							(EUR thousand)
External revenue	194,549	181,762	107,176	105,160	-	-	**588,647**
Depreciation and amortization	6,571	6,004	3,681	4,405	-	-	**20,661**
Operating profit (loss)	24,129	21,302	13,643	4,387	-2,704	-	**60,757**
Non-allocated items							
Financial income							**8,536**
Financial expenses							**-17,211**
Share of profit or loss of associates							**-87**
Profit before tax							**51,995**
Segment assets	117,430	161,030	82,673	70,894	68,758	-38,486	**462,299**
Investments in associates							**668**
Capital expenditure	4,502	2,290	2,152	2,164	-	-	**11,108**
2009							(EUR thousand)
External revenue	167,109	157,774	106,809	98,474	-	-	530,166
Depreciation and amortization	5,022	5,377	3,811	4,520	-	50	18,780
Operating profit (loss)	17,748	15,722	12,205	5,045	-2,235	-770	47,715
Non-allocated items							
Financial income							1,098
Financial expenses							-13,146
Share of profit or loss of associates							75
Profit before tax							35,742
Segment assets	108,702	139,900	79,212	77,486	-	-2,191	403,109
Investments in associates							774
Capital expenditure	9,653	3,143	2,079	2,316	-	-	17,191

* Sweden, Norway, Denmark

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

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

Personnel by segments during the period, average

	2010	2009
East	1,674	1,653
Scandinavia	473	485
Finland	766	808
Central Eastern Europe	755	779
Tikkurila common	35	32
Total	**3,703**	3,757

Revenue, by destination

(EUR thousand)	2010	2009
Russia	172,785	149,330
Sweden	147,071	127,487
Finland	107,176	106,809
Poland	58,686	52,824
Other countries	102,929	93,716
Total	**588,647**	530,166

Non-current assets by geographical location *)

(EUR thousand)	2010	2009
Russia	59,629	59,432
Sweden	91,344	89,931
Finland	32,022	36,222
Poland	11,716	11,977
Other countries	19,623	20,043
Total	**214,334**	217,605

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

4. Business combinations

Acquisitions 2010

Tikkurila had no business combinations in 2010.

Final purchase price allocation of Tikkurila JUB Romania s.r.l.

The final purchase price allocation shows a negative goodwill of EUR 52,000, of which EUR 32,000 was recognized as income in the year 2009 and EUR 20,000 in the year 2010. Both items have been presented as other operating income. No expenses were related to this acquisition. All cash flows related to this acquisition occurred in the year 2009.

The final purchase price allocation is presented below:

(EUR thousand)	Fair values recognized on business combinations	Carrying amounts prior to business combinations
Intangible assets	3	3
Property, plant and equipment	91	91
Inventories	269	269
Trade and other receivables	242	242
Cash and cash equivalents	46	46
Total assets	**651**	**651**
Other liabilities	509	509
Total liabilities	**509**	**509**
Net assets	142	
Cost of business combination	90	
Goodwill	**-52**	
Total acquisition cost	90	
Cash and cash equivalents in subsidiaries acquired	-46	
Cash outflow on acquisition	**44**	

Disposals 2010

There were no disposals during the financial period 2010.

Acquisitions 2009

Tikkurila JUB Romania s.r.l. and the non-controlling interest of Dickursby Holding AB -group

Tikkurila Oyj acquired rest 50% of the share capital of Tikkurila JUB Romania s.r.l. on September 1, 2009. The acquired company was previously a joint venture with Slovenian paint company JUB. Tikkurila JUB Romania s.r.l. was established in May 2008 to take care marketing, sales and distribution of consumer and industrial paints of Tikkurila and JUB.

Acquisition cost was EUR 110 thousand and it was settled in cash. Negative goodwill of EUR 32 thousand arising from the acquisition was recognized as income immediately and it is presented as other operating income. No expenses were related to this acquisition. Negative goodwill was mainly due to the uncertainty that related to the receivables at the acquisition date. The purchase price acquisition was determined provisionally, as the fair values of the trade receivable and the final purchase price was confirmed in 2010.

(EUR thousand)	Fair values recognized on business combinations	Carrying amounts prior to business combinations
Intangible assets	3	3
Property, plant and equipment	91	91
Inventories	269	269
Trade and other receivables	242	242
Cash and cash equivalents	46	46
Total assets	**651**	**651**
Other liabilities	509	509
Total liabilities	**509**	**509**

Net assets	142
Cost of business combination	110
Goodwill	**-32**

Total acquisition cost	110
Unpaid at 31 Dec 2009	-20
Cash and cash equivalents in subsidiaries acquired	-46
Cash outflow on acquisition	44

The effect of business combinations on revenue and net profit for the period

The effect of the acquisition of Tikkurila JUB Romania into the revenue during September – December 2009 was EUR 63 thousand and the effect of the acquisition on operating profit was EUR -205 thousand.

Tikkurila's revenue during 1 January – 31 December 2009 would have been EUR 530.4 million and net profit for the period EUR 47.5 million, had the acquisition been made at January 1, 2009.

The acquisition of a non-controlling interest of Dickursby Holding AB

Tikkurila Oyj acquired the 30% non-controlling interest of the Swedish Dickursby Holding AB and its subsidiaries on May 15, 2009. Prior to the acquisition, Tikkurila's ownership of Dickursby Holding was 70%, as purchased in 2007. Subsidiaries' current names are OOO Tikkurila Powder Coatings and OOO Gamma Industrial Coatings. Acquisition cost was EUR 2.5 million. No notes according to IFRS 3 are disclosed of this acquisition as it is not within the scope of the acquisitions as defined in IFRS 3.

Disposals 2009

There were no disposals during the financial period 2009.

5. Supplementary cash flow information from business combinations

Acquisition and disposal of subsidiaries

(EUR thousand)	2010	2009
Acquisition of subsidiaries		
Acquisition cost	-	110
Cash and cash equivalents at acquisition date	-	-46
Cash flow on acquisition net of cash acquired	-	64
Paid for prior year acquisitions	-	-1,172
Unpaid at December 31	-	20
Cash outflow	-	1,216
Acquired assets and liabilities		
Net working capital	-	-34
PPE* and intangible assets	-	62
Other non-interest-bearing receivables	-	36
Total net assets and liabilities of acquired subsidiaries	-	64

* Property, plant and equipment

6. Assets held for sale

Tikkurila Group has classified the assets and liabilities of OOO Tikkurila Powder Coatings as held for sale. OOO Tikkurila Powder Coatings sells and markets its products in Russia under the Ohtek brand. Company's production plant is located in St. Petersburg. The revenue of OOO Tikkurila Powder Coatings was EUR 2.4 million in 2010, and the company employed some 50 people. Tikkurila Oyj's Swedish subsidiary Dickursby Holding AB signed at December 2010 the agreement to sell the whole 100 percent of the shares of OOO Tikkurila Powder Coatings to Teknos Group Oy. The result of OOO Tikkurila Powder Coatings was consolidated in the Group until the end of November. Transaction was subject to approval of the competition authorities and this transaction was completed on January 26, 2011.

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

Tikkurila did not have any assets held for sale in year 2009.

Assets classified as held for sale	(EUR thousand)
Intangible assets	1,287
Property plant and equipment	460
Inventories	265
Trade receivables and other interest-free receivables	258
Cash and cash equivalents	167
Total	2,437

Liabilities classified as held for sale	(EUR thousand)
Deferred tax liabilities	238
Current interest-bearing liabilities	110
Trade and other payables	379
Total	727

7. Other operating income

(EUR thousand)	2010	2009
Gains on sale of non-current assets	87	55
Gains on sale of available-for-sale financial assets	42	-
Insurance compensation	1,522	-
Rental income	1,148	1,063
Other income from operations	226	333
Total	3,025	1,451

Gains on sales of non-current assets in 2010 and 2009 consist mainly of sales of machinery and equipment. Rental income is received mainly from leasing of premises. Insurance compensation consists mainly of compensation related to OOO Tikkurila warehouse fire.

8. Personnel expenses

(EUR thousand)	2010	2009
Emoluments of Board of Directors and Managing Directors	-2,680	-3,221
Wages and salaries	-85,426	-75,846
Pension expenses for defined contribution plans	-12,945	-11,992
Pension expenses for defined benefit plans	-1,091	-1,395
Other personnel expenses	-10,967	-9,744
Total	-113,109	-102,198

Personnel, average	2010	2009
Personnel in Finland, average	800	839
Personnel outside Finland, average	2,903	2,918
Total	3,703	3,757
Personnel at year-end	3,468	3,538

Emoluments of Boards of Directors and CEO of Tikkurila Oyj are disclosed in Note 38 Related parties.

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

Average number of personnel in joint ventures was 6 (6).

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

9. Depreciation, amortization and impairment losses

(EUR thousand)	2010	2009
Depreciation and amortization		
Intangible assets	-5,195	-4,614
Property, plant and equipment*		
Buildings and constructions	-4,255	-3,984
Machinery and equipment	-10,045	-9,643
Other property, plant and equipment	-1,166	-539
Total	-20,661	-18,780

No impairment losses were recognized of PPE* or intangible assets during the year 2010 or 2009.

10. Other operating expenses

(EUR thousand)	2010	2009
Rents	-12,483	-10,855
Other voluntary personnel expenses	-3,736	-1,903
Sales and marketing	-27,613	-25,836
Repair and maintenance	-6,139	-5,201
IT and communication	-3,269	-4,891
Freights for goods sold	-15,349	-14,029
Professional fees	-4,040	-4,430
Transportation and travel	-5,675	-4,859
Energy, heating and water	-5,235	-5,084
Insurances excl. personnel insurances	-1,168	-1,273
Office expenses	-1,696	-1,894
Representation and membership fees	-2,283	-2,111
External services	-8,285	-7,704
Authority fees and environmental tax	-2,076	-1,487
Credit losses, storage and processing expenses for the products	-4,979	-5,302
Other expenses	-3,940	-7,489
Total	-107,966	-104,348
Audit fees:		
KPMG	-417	-313
Other audit firms	-110	-51
Tax advisory, KPMG	-61	-64
Tax advisory, other audit firms	-17	-18
Other services, KPMG	-313	-87
Other services, other audit firms	-156	-28
Total	-1,074	-561

11. Research and development expenses

(EUR thousand)	2010	2009
Research and development expenses total	-10,155	-10,058

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

12. Financial income and expenses

(EUR thousand)	2010	2009
Financial income		
Dividend income from available-for-sale financial assets	62	61
Interest income from loans and other receivables	527	849
Interest income from assets at fair value through profit or loss	801	-
Exchange rate gains		
Exchange rate gains from finanical assets at fair value through profit or loss	4,563	-
Exchange rate gains from loans and other receivables	1,747	165
Exchange rate gains from financial liabilities measured at amortized cost	832	7
Other financial income	4	16
Total	8,536	1,098
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	-7,167	-12,751
Interest expenses from financial liabilities at fair value through profit or loss	-1,341	-
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	-5,133	-
Exchange rate losses from loans and other receivables	-2,145	-30
Exchange rate losses from financial liabilities measured at amortized cost	-371	-192
Other financial expenses	-1,054	-173
Total	-17,211	-13,146
Total financial income and expenses	-8,675	-12,048

Interest income include interests from Kemira Plc in total of EUR 0.1 (0.5) million.
Interest expenses include interests to Kemira Plc and Kemira International Finance BV in total of EUR 1.4 (11.6) million.
Other financial expenses include expenses to Kemira Plc in total of EUR 0.0 (17) thousand.
Other related party transactions with Kemira Group companies are presented in Note 38.

	2010	2009
Net financial expenses as a percentage of revenue	1.5	2.3
Net interests as a percentage of revenue	1.1	2.2

(EUR thousand)		
Exchange rate gains and losses in financing items		
Realized	195	31
Unrealized	-702	-81
Total	-507	-50
Exchange rate gains and losses in operating profit		
Revenue	-345	175
Materials and services	714	-751
Total	369	-576

13. Income taxes

(EUR thousand)	2010	2009
Current income tax charge	-15,360	-8,077
Adjustments for prior years	-464	-431
Deferred taxes	353	556
Total	-15,471	-7,952
Income taxes recognized in other comprehensive income		
Deferred taxes		
Available-for-sale financial assets, fair value changes	-475	-
Current taxes		
Net investment in foreign operations	-32	-
Total income taxes recognized in other comprehensive income	-507	-

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

Taxes at enacted tax rates by countries	-12,370	-8,714
Tax-exempt income	193	1,668
Non-deductible expenditure	-1,441	-1,287
Effect of changes in tax rates	-11	-
Used tax losses, previously unrecognized	52	20
Tax losses carried forward	-400	-438
Taxes from previous financial years	-464	899
Changes to carrying amounts of deferred tax assets related to previous years	-389	-
Other items	-641	-100
Total taxes in the statement of comprehensive income	-15,471	-7,952

Tax rate has changed in Hungary during the years 2010 and 2009. In Hungary, the tax rate decreased from 19% to 10%.

14. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the parent company and a weighted average number of ordinary shares outstanding, calculated as follows:

	2010	2009
Profit for the period attributable to the owners of the parent, EUR thousand	36,524	27,759
Weighted average number of ordinary shares (1000)	44,108	44,108*)
Basic earnings per share (EUR/share)	0.83	0.63

*) Due to comparability the earnings per share is calculated as per the number of shares (44 108 252) after the February 17, 2010 registered free share issue.

Tikkurila Oyj has one class of shares that has no nominal value. The number of shares was 1,025,000 at the beginning of year 2010 and at end of the reporting period 2010 44,108,252. In 2009 the amount of shares was 1,025,000 during the whole year. Dilutive effects didn't exist in either year.

15. Property, plant and equipment

(EUR thousand)	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	**2010 Total**
Acquisition cost at Jan 1, 2010	7,578	115,193	164,293	6,549	3,753	**297,366**
Other increases	-	857	7,073	1,099	867	**9,896**
Other decreases	-	-28	-2,707	-84	-20	**-2,839**
Other changes / transfer held for sale assets	-	-451	-234	-	-	**-685**
Reclassifications	252	92	90	425	-608	**251**
Exchange rate differences	324	3,614	5,726	240	212	**10,116**
Cost at Dec 31, 2010	**8,154**	**119,277**	**174,241**	**8,229**	**4,204**	**314,105**
Accumulated depreciation and impairment losses at Jan 1, 2010	-	-63,381	-116,400	-2,728	-	**-182,509**
Accumulated depreciation relating to decreases and transfers	-	24	2,383	53	-	**2,460**
Depreciation during the financial year	-	-4,255	-10,045	-1,166	-	**-15,466**
Other changes / transfer held for sale assets	-	136	146	-56	-	**226**
Exchange rate differences	-	-937	-3,102	-42	-	**-4,081**
Accumulated depreciation and impairment losses at Dec 31, 2010	-	**-68,413**	**-127,018**	**-3,939**	-	**-199,370**
Net carrying amount at Jan 1, 2010	**7,578**	**51,812**	**47,893**	**3,821**	**3,753**	**114,857**
Net carrying amount at Dec 31, 2010	**8,154**	**50,864**	**47,223**	**4,290**	**4,204**	**114,736**

(EUR thousand)	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2009 Total
Acquisition cost at Jan 1, 2009	7,408	96,279	155,344	4,271	24,141	287,443
Acquisition of subsidiaries	-	-	91	-	-	91
Other increases	218	18,492	10,571	1,082	-18,357	12,006
Other decreases	-	-111	-2,651	-50	-	-2,812
Other changes	-	-	-	-	-739	-739
Reclassifications	-	-434	-886	1,320	-	-
Exchange rate differences	-48	967	1,824	-74	-1,292	1,377
Cost at Dec 31, 2009	7,578	115,193	164,293	6,549	3,753	297,366
Accumulated depreciation and impairment losses at Jan 1, 2009	-	-59,202	-107,742	-2,250	-	-169,194
Accumulated depreciation relating to decreases and transfers	-	104	2,203	44	-	2,351
Depreciation during the financial year	-	-3,984	-9,845	-539	-	-14,368
Exchange rate differences	-	-299	-1,016	17	-	-1,298
Accumulated depreciation and impairment losses at Dec 31, 2009	-	-63,381	-116,400	-2,728	-	-182,509
Net carrying amount at Jan 1, 2009	7,408	37,077	47,602	2,021	24,141	118,249
Net carrying amount at Dec 31, 2009	7,578	51,812	47,893	3,821	3,753	114,857

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

Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 37 Contingent assets and liabilities and contractual commitments.

Assets leased under finance leases

Property, plant and equipment include assets leased under finance lease as follows:

(EUR thousand)	Machinery and equipment	Motor vehicles	Total
Dec 31, 2010			
Acquisition cost	412	1,078	1,490
Accumulated depreciation	200	862	1,062
Net carrying amount	212	216	428
Dec 31, 2009			
Acquisition cost	147	1,328	1,475
Accumulated depreciation	139	767	906
Net carrying amount	8	561	569

16. Intangible assets

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2010 Total
Acquisition cost at Jan 1, 2010	68,261	58,469	-	1,170	127,900
Other increases	-	1,435	-	-53	1,382
Other decreases	-	-637	-	-	-637
Other changes / transfer to held for sale assets	-342	-1,332	-	-	-1,674
Exchange rate differences	467	2,119	-	48	2,634
Cost at Dec 31, 2010	68,386	60,054	-	1,165	129,605
Accumulated amortization and impairment losses at Jan 1, 2010	-	-25,926	-	-	-25,926
Accumulated amortization relating to decreases and transfers	-	513	-	-	513
Amortization during the financial year	-	-5,195	-	-	-5,195
Other changes / transfer to held for sale assets	-	387	-	-	387
Exchange rate differences	-	-453	-	-	-453
Accumulated amortization and impairment losses at Dec 31, 2010	-	-30,674	-	-	-30,674
Net carrying amount at Jan 1, 2010	68,261	32,543	-	1,170	101,974
Net carrying amount at Dec 31, 2010	68,386	29,379	-	1,165	98,930

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2009 Total
Acquisition cost at Jan 1, 2009	68,076	55,879	-	597	124,552
Acquisition of subsidiaries	404	1,998	-	-	2,402
Other increases	-	1,015	-	554	1,569
Other decreases	-	-9	-	-	-9
Exchange rate differences	-219	-414	-	19	-614
Cost at Dec 31, 2009	68,261	58,469	-	1,170	127,900
Accumulated amortization and impairment losses at Jan 1, 2009	-	-21,174	-	-	-21,174
Accumulated amortization relating to decreases and transfers	-	5	-	-	5
Amortization during the financial year	-	-4,614	-	-	-4,614
Exchange rate differences	-	-143	-	-	-143
Accumulated amortization and impairment losses at Dec 31, 2009	-	-25,926	-	-	-25,926
Net carrying amount at Jan 1, 2009	68,076	34,705	-	597	103,378
Net carrying amount at Dec 31, 2009	68,261	32,543	-	1,170	101,974

The carrying amounts of investments in associates in 2010 or 2009 do not include goodwill. The Group did not have intangible assets with indefinite useful lives.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 19.1 million (2009: EUR 21.3 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 3.3 million (2009: EUR 4.2 million). Other intangible assets include also carrying amount of Enterprise Resource Planning -program (M3) total of EUR 3.2 million (2009: EUR 4.2 million).

17. Impairment test

Goodwill is tested for impairment annually and always when there is an indication that goodwill or any other asset may be impaired. Impairment tests are performed by comparing the carrying amounts of those cash generating units that include goodwill with their expected recoverable amounts. An impairment loss is recognized if the recoverable amount of the asset is less than its carrying amount. The recoverable amount is measured at value in use by discounting the estimated future cash flows using the Discounted Cash Flow (DCF) method.

In the impairment testing Tikkurila's operating segments (see Note 3) also form the cash-generating units. Operating segments in Tikkurila are also referred as Strategic Business Units (SBUs). Goodwill has been allocated to the following cash generating units: Scandinavia, East and Central Eastern Europe.

The carrying amounts of the tested units and goodwill are presented below:

Cash-generating units:	2010		2009	
(EUR thousand)	Carrying amount	of which Goodwill	Carrying amount	of which Goodwill
Finland	33,120	-	35,951	-
Scandinavia	107,406	61,719	91,877	61,621
East	94,315	6,217	61,260	6,193
Central Eastern Europe	47,688	450	24,807	447

Annually, close the end of the summer season, during the strategic analysis, Tikkurila Management Board and members of Board of Directors define the objectives for the next three years. The strategic analysis takes into account information from external sources that relates to the future and past development of the macroeconomic conditions, demand of paints, clients and competitors in the geographical areas. These objectives are later on approved by Tikkurila's Board of Directors. The Strategic Business unit cash flow forecasts over a three year period are a result of this process. These cash flows are used in impairment tests. Capital expenditure for expansion investments have not been taken into account in these estimates. The terminal value is the net present value of the third year's estimate that has been extrapolated by using zero growth.

The discount rate used varies between 8.6%–16.8% depending on the cash-generating unit in 2010. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking the specific risks involving the assets into consideration.

The cash flows and discount rates are determined before taxes.

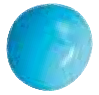
Significant assumptions and sensitivity analysis of the impairment tests

The forecasted cash flows reflect the Tikkurila management's perception of the development in sales and costs during the three year's forecast period. The significant assumptions used in the impairment tests relate thus to the development of sales and profitability that are change in revenue and change in the EBITDA. The significant assumptions relating to the discount rate are risk-free interest, capital structure and beta coefficient.

In 2010 impairment test, the pace of the growth of revenue is expected to stabilize during the forecasting period from 2011 to 2013, compared to the previous years development. The greatest growth is further expected in the SBU CEE. The raw material prices are expected to increase at the same pace as during the previous years. The raw material price fluctuations, however, are expected to be much stronger as in history. The cut down of fixed costs is expected to improve profitability.

In 2009 impairment test, revenue during forecasting period from 2010 to 2012 was expected to be on lower level compared to the historical development for segments Finland and Scandinavia. This was due to Tikkurila's strong market position there. In segments East and CEE revenue was expected to grow due to good business area forecasts especially in the SBU East. The profitability was expected to increase from the previous years, mainly because of the measures taken to improve efficiency.

The main assumptions relating to the discount rates are based on the same principles each year, but the values of the key assumptions are defined separately for each SBU and for each testing period in order to reflect the corresponding market information. The discount rates have been changed mainly due to the changes in the main assumptions underlying them, which are risk free rate, capital structure and Beta coefficient. The decrease in the interest rate in SBU East from 2008 to 2009 is mainly caused by the decrease in the risk-free interest rate and cost of debt. The increase in the interest rate in SBU Central Eastern Europe from 2009 to 2010 is mainly caused by the increase in the risk-free interest rate and Beta coefficient. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure.



The chart below shows the estimated parameters used in testing during the three-year forecasting period and for the terminal period in 2009 and 2010.

	Scandinavia		East		Central Eastern Europe	
	2010	2009	**2010**	2009	**2010**	2009
Estimate parameters used						
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	**14.1**	15.5	**15.3**	10.3	**12.6**	7.8
Discount rate, pre-tax, %	**8.8**	11.4	**16.8**	16.5	**13.0**	18.6
Growth post forecast period, %	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0
The amount at which the present value of the cash flow exceeds the carrying amount, EUR thousands	**94,446**	114,721	**52,511**	67,907	**45,424**	12,969

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

	Scandinavia		East		Central Eastern Europe	
	2010	2009	**2010**	2009	**2010**	2009
Change in key assumptions						
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	**-4.5**	-8.0	**-3.8**	-4.5	**-4.1**	-1.5
Change in pre-tax discount rate, % -units	**5.9**	10.0	**7.3**	11.9	**10.1**	6.2
Change in growth post forecast period, % -units	**-9.0**	-14.6	**-14.2**	-24.1	**-21.7**	-12.5

The chart above presents those changes in the key assumptions that would cause the net present value of the cash generating unit to be equal to its carrying amount – assuming no changes in the other assumptions. For example, when a change in the discount rate (per percentage unit) would incur the recoverable amount of the assets to be equal to its carrying amount, assuming that other components remain unchanged. Respectively, for example, it also presents when a change in a single percentage unit relating the operating profit before depreciation, amortization and impairment or the growth post forecast period would incur the recoverable amount to be equal to the carrying amount.

18. Investments in associates

(EUR thousand)	2010	2009
Carrying amount at Jan 1	774	667
Share of profit or loss of associates	-87	75
Additions	81	-
Disposals	-4	-
Transfers	-186	-
Exchange rate differences and other changes	90	32
Net carrying amount at Dec 31	668	774

During the first quarter of year 2010, the Group sold part of its holding in associate PPHU Polifarb sp.z.o.o. As the ownership decreased below 20 percent, the remaining shares were transferred to available-for-sale financial assets. The Group does not have the significant influence over the company.

Associates and summarized financial information of associates:

(EUR thousand)	Domicile	Assets	Liabilities	Revenue	Net loss for the period	Group holding (%)
2010						
Happy Homes i Sverige AB*)	Sweden	12,884	11,113	68,397	-194	45.1

*) Former BNH Nya Hembutikerna AB

(EUR thousand)	Domicile	Assets	Liabilities	Revenue	Net profit for the period	Group holding (%)
2009						(%)
BNH Nya Hembutikerna AB	Sweden	10,400	8,934	54,248	278	45.1
PPHU Polifarb sp.z.o.o.	Poland	3,424	2,175	7,844	20	20.4

Intra-group balances and transactions with associates are disclosed in Note 38 Related parties.

19. Joint ventures

In year 2010, there were no changes in ownership of joint ventures, Alcro-Parti AB was the only joint venture owned by the Group.

During the year 2009, Tikkurila Oyj acquired the rest 50% of Tikkurila JUB Romania s.r.l. shares. The acquired company was earlier a joint venture company with a Slovenian JUB paint company. After the acquisition Tikkurila JUB s.r.l. is Tikkurila Oyj's 100% owned subsidiary.

Tikkurila's share of assets, liabilities, income and expenses of joint ventures:

(EUR thousand)	2010	2009
Current assets	1,035	923
Total assets	**1,035**	923
Non-current liabilities	147	121
Current liabilities	225	269
Total liabilities	**372**	390
Revenue	3,304	3,172
Expenses	-3,020	-3,125
Depreciation and amortization	-	-8
Income taxes	-76	-27
Net profit for the period	**208**	12
Personnel during the period, average	**6**	6

Intra-group balances and transactions with joint ventures are disclosed in Note 38 Related parties.

20. Inventories

(EUR thousand)	2010	2009
Materials and supplies	22,535	21,160
Work in progress	1,570	1,060
Finished goods	52,410	50,915
Prepayments	299	364
Total	**76,814**	73,499

Inventory write-downs amounting to EUR 2.4 million (EUR 1.9 million) were recognized during the financial period. Write-down of inventory is recognized as expense if carrying amount exceeds net realizable value. The amount of write-downs of inventories to net realizable value and all losses in inventories are recognized as an expense in the consolidated statement of comprehensive income under "Materials and services" and "Change in inventories of finished goods and work in progress". During the financial year 2010 reversals of inventory write-down amounting to EUR 0.1 million were recognized (EUR 0.0 million). The amount of cost recognized as expense was EUR 289.2 million (EUR 258.6 million) and it is presented in the consolidated statement of comprehensive income, line-items "Materials and services" and "Change in inventories of finished goods and work in progress".

Carrying amount of inventories carried at fair value less costs to sell in year 2010 was EUR 674 thousand.

21. Available-for-sale financial assets

(EUR thousand)	2010	2009
Carrying amount at Jan 1	929	913
Additions	3	10
Disposals	-9	-
Change in valuation	1,825	-
Transfers	-66	-
Exchange rate differences	12	6
Carrying amount at Dec 31	**2,694**	929

Available-for-sale financial assets include mainly unquoted shares that are measured at amortized cost. These shares are of business supportive nature, such as personnel's recreational activities and environment maintenance related long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably as the change range for reasonable measurements is significant and the probabilities of various measurements cannot be reasonably estimated. In year 2010, Group has changed the valuation basis for shares of Ekokem Oy. These shares are quoted in OTC-list. This information is used to determine their fair value. Shares have been transferred in fair value hierarchy of financial assets from level 3 to level 2. Unrealized fair value changes are recognized in other comprehensive income, net of tax and these are included in fair value reserve in equity. (Note 33)

In year 2010, the land area located in Poland was transferred from available-for-sale financial assets to property, plant and equipment. According the judgement of the Group's management the sale of land area is not likely to take place. Land has been measured at amortized cost and it is presented at the statement of the financial position in property, plant and equipment.

During the first quarter of the year 2010, the Group sold part of the investment in associate, PPHU Polifarb sp.z.o.o. As the result the Group's ownership decreased, and was less than 20%. Remaining shares were transferred to available-for-sale financial assets. Shares are measured at amortized cost. Company's shares are unquoted.

No impairment losses were recognized for available-for-sale financial assets during the years 2010 or 2009.

Gain on sale of available-for-sale financial assets amounted EUR 42 (0) thousand. Gains or losses on the sales of these assets are included in other operating income or expense.

22. Non-current receivables

(EUR thousand)	2010	2009
Loan receivables	2,395	724
Prepayments	2,696	2,577
Accrued income and deferred expenses	155	205
Other receivables	1,856	2,296
Finance lease receivables	-	58
Total non-current assets	**7,102**	5,860
Prepayments		
Pre-rent of the logistic centre area in Moscow	2,610	2,539
Other prepayments	86	38
Total prepayments	**2,696**	2,577
Other receivables		
Trade receivables and hire-purchases	1,331	1,714
Non-current interest-bearing receivables	525	574
Other non-current non-interest-bearing receivables	-	8
Total other receivables	**1,856**	2,296

(EUR thousand)	2010	2009
Finance lease receivables - maturity		
Within one year	58	201
After one year and not later than five years	-	64
Later than five years	-	-
Total	58	265
Finance lease receivables - present value of the minimum lease payments		
Within one year	51	181
After one year and not later than five years	-	58
Later than five years	-	-
Total	51	239
Unearned finance income	7	26
Total finance lease receivables	58	265

23. Current interest-bearing receivables

(EUR thousand)	2010	2009
Finance lease receivables	51	181
Loan receivables	126	101
Other receivables	7	6
Total interest-bearing receivables	184	288

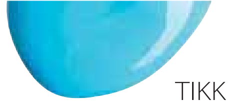
Non-current portion and maturities of the finance lease receivables are disclosed in Note 22 Non-current receivables.

24. Trade and other non-interest-bearing receivables

(EUR thousand)	2010	2009
Trade receivables	68,794	62,880
Accrued income and deferred expenses	9,207	8,619
Other receivables	3,522	4,396
Total current non-interest-bearing receivables	81,523	75,895

Tikkurila Group sells certain trade receivables to a financing company. The credit risks and contractual rights relating these financial assets are transferred to the financing company at the time of the sale. Arrangement fees are recognized as other financial expenses.

Other receivables include VAT receivables amounting to EUR 3.1 million (EUR 3.6 million) and prepayments of EUR 65 thousand (EUR 217 thousand).



(EUR thousand)	2010	2009
Accrued income and deferred expenses		
Items related to net revenue and purchases	2,437	1,195
Employee benefit expenses	474	701
Insurances	216	415
Leases	2,467	2,425
Interests	17	205
Derivatives	1,544	-
Other	2,207	3,883
Total	9,362	8,824

25. Cash and cash equivalents

(EUR thousand)	2010	2009
Cash	35,417	8,270
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	33,955	16,273
Total cash and cash equivalents	69,372	24,543
Cash and cash equivalents according to cash flow:		
Cash	35,417	8,270
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	33,955	16,273
Bank overdrafts	-44	-342
Total cash and cash equivalents	69,328	24,201

In year 2010, cash equivalents consist of bank deposits and money market investments. Investment activities are centralized to Tikkurila Oyj.

In year 2009, Tikkurila Group did not have any independent treasury function as that was taken care of by Kemira Group. Cash and cash equivalents were invested through Kemira Plc or its subsidiaries in year 2009 and amounted to EUR 15.2 million.

26. Deferred tax assets and liabilities

(EUR thousand)	Jan 1, 2010	Recognized in profit or loss	Recognized in other compre-hensive income	Subsidiaries acquired / disposed of	Transfer to held for sale	**Dec 31, 2010**
2010						
Deferred tax assets						
Internal margin of inventories	17	902	-	-	-	**919**
Provisions and accruals	390	1,791	-	-	-	**2,181**
Tax losses carried forward	1,643	-1,623	-	-	-	**20**
Defined benefit plans	36	302	-	-	-	**338**
Other	282	-25	-	-	-	**257**
Deferred tax assets in the statement of financial position	**2,368**	**1,347**	-	-	-	**3,715**
Deferred tax liabilities						
Cumulative depreciation difference	-5,580	-493	-	-	-	**-6,073**
Available-for-sale financial assets	-	-	-475	-	-	**-475**
Fair value measurement of PPE* and intangible assets in business combinations	-5,094	995	-	-	238	**-3,861**
Defined benefit plans	27	-79	-	-	-	**-52**
Other	1,040	-1,888	-	-	-	**-848**
Deferred tax liabilities in the statement of financial position	**-9,607**	**-1,465**	**-475**	-	**238**	**-11,309**

(EUR thousand)	Jan 1, 2009	Recognized in profit or loss	Recognized in other comprehensive income	Subsidiaries acquired / disposed of	Transfer to held for sale	Dec 31, 2009
2009						
Deferred tax assets						
Internal margin of inventories	23	-6	-	-	-	17
Provisions and accruals	828	-438	-	-	-	390
Tax losses carried forward	1,029	580	-	34	-	1,643
Defined benefit plans	70	-34	-	-	-	36
Other	260	22	-	-	-	282
Deferred tax assets in the statement of financial position	2,210	124	-	34	-	2,368
Deferred tax liabilities						
Cumulative depreciation difference	-4,608	-972	-	-	-	-5,580
Fair value measurement of PPE* and intangible assets in business combinations	-6,055	1,360	-	-399	-	-5,094
Defined benefit plans	-261	288	-	-	-	27
Other	1,130	-90	-	-	-	1,040
Deferred tax liabilities in the statement of financial position	-9,794	586	-	-399	-	-9,607

* Property, plant and equipment

The Group subsidiaries had tax losses carried forward of EUR 5.8 million at December 31, 2010 (EUR 0.4 million) for which no deferred tax asset was recognized. Unlimited right to carry forward the tax losses concerns 33 percent of the tax losses. Tax losses with the limited right expires in 2011–2019. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. In the consolidated financial statements 2010 the deferred tax assets related to tax losses, which were recognized in earlier reporting periods, have been partly reversed.

No deferred tax liability has been recognized for undistributed earnings of foreign subsidiaries as the majority of such earnings can be transferred to the owner without any tax consequences.

27. Capital and reserves

Tikkurila Oyj has one class of shares. The maximum number of shares is 100,000,000 and the maximum share capital is EUR 140 million as per the articles of association of Tikkurila Oyj. The share has no nominal value. The share capital was EUR 35 million at December 31, 2010 (EUR 35 million) and it is fully paid. The number of shares was 1,025,000 at the beginning of the reporting period 2010 and 44,108,252 at the end of year 2010. The number of shares of Tikkurila Oyj was changed in February 2010 by share issue without payment to Kemira Plc.

In year 2009, the number of shares was 1,025,000 both at the beginning and at the end of year and all the shares were owned by Kemira Plc.

Earnings per share are presented in context of the consolidated statement of comprehensive income and in Note 14 Earnings per share. Dilutive effects existed in neither 2010 nor 2009.

Fair value reserve

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

Reserve for invested unrestricted equity

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

Other reserves

Other reserves include the funded portion of retained earnings.

Translation reserve

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

Dividends

No dividends were distributed in year 2010 or in 2009. The Board of Directors' proposal to AMG is that a dividend of EUR 0.70 per share will be distributed of the year 2010.

(EUR thousand)	Fair value reserve	Translation differences	Total	Non-controlling interest	Total
Other comprehensive income 2010					
Total exchange differences on translating foreign operations	-	8,333	8,333	-	8,333
Income taxes on cash flow hedges	-	-32	-32	-	-32
Available-for-sale financial assets, fair value changes	1,825	-	1,825	-	1,825
Deferred taxes on fair value changes of available-for-sale financial assets	-475	-	-475	-	-475
Other comprehensive income 2010	1,350	8,301	9,651	-	9,651

(EUR thousand)	Fair value reserve	Translation differences	Total	Non-controlling interest	Total
Other comprehensive income 2009					
Total exchange differences on translating foreign operations	-	-1,679	-1,679	-95	-1,774
Other comprehensive income 2009	-	-1,679	-1,679	-95	-1,774

28. Non-current interest-bearing liabilities

(EUR thousand)	2010	2009
Loans from financial institutions	99,135	2
Loans from pension institutions	40,000	-
Other liabilities	-	114,796
Finance lease liabilities	147	287
Total non-current interest-bearing liabilities	139,282	115,085

Other liabilities in year 2009 include borrowings from Kemira Plc and Kemira International Finance BV in total of EUR 114.8 million.
The maturity analysis and currency risk of non-current borrowings are disclosed in Note 35 Financial risk management.

(EUR thousand)	2010	2009
Finance lease liabilities - total minimum lease payments		
Within one year	293	277
After one year and not later than five years	152	329
Later than five years	-	-
Total	445	606
Finance lease liabilities - present value of the minimum lease payments		
Within one year	272	240
After one year and not later than five years	147	287
Later than five years	-	-
Total	419	527
Future finance charges	26	79
Total finance lease liabilities	445	606

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

29. Current interest-bearing liabilities

(EUR thousand)	2010	2009
Loans from financial institutions	2,040	1,526
Finance lease liabilities	272	240
Other interest-bearing current liabilities	6,385	37,230
Total interest-bearing current liabilities	8,697	38,996

Other interest-bearing current liabilities include loans from Kemira Plc in total of EUR 0.0 million (EUR 30.9 million) and deposit made in personnel services office in total of EUR 6.3 million (EUR 6.0 million).
Specification of finance lease liabilities is disclosed in Note 28 Non-current interest-bearing liabilities.

Average interest rate and currency distribution of interest-bearing liabilities

Average interest rate for current and non-current loans at December 31, 2010 was 5.2% (6.9%).

Interest-bearing liabilities by currency (in euro):

(EUR thousand)	2010	2009
EUR	145,862	112,072
RUB	17	18,286
DKK	-	3,413
SEK	-	9,266
USD	-	5,692
Other	2,100	5,352
Total	147,979	154,081

30. Trade and other non-interest-bearing payables

(EUR thousand)	2010	2009
Trade payables	38,445	38,512
Other non-interest-bearing payables	3,937	4,619
Prepayments	313	445
Accrued expenses and deferred income	45,711	32,803
Total current non-interest-bearing payables	88,406	76,379

Trade payables in year 2009 include payables to Kemira Plc and other Kemira Group's subsidiaries in total of EUR 126 thousand.

(EUR thousand)	2010	2009
Accrued expenses and deferred income		
Employee benefit expenses	18,361	14,120
Items related to revenue and purchases	18,670	11,846
Interests	1,592	1,305
Derivatives	2,214	-
Other	4,874	5,532
Total	45,711	32,803
Net liabilities		
Interest-bearing non-current liabilities	139,282	115,085
Interest-bearing current liabilities	8,697	38,996
Cash and cash equivalents		
Cash	-35,417	-8,270
Cash equivalents (bank deposits, money market investments, maturity less than 3 months)	-33,955	-16,273
Total	78,607	129,538

31. Pension obligations

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

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

In defined benefit pension plans the amount of pension is determined based on certain factors such as salary and working years. The corridor method is applied in recognizing the actuarial gains and losses.

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

In addition, the Group has also a pension plans under its own responsibility in Poland and in the Netherlands. Also these are accounted for as defined contribution plans. Tikkurila Coatings B.V is under liquidation process.

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

(EUR thousand)	2010	2009
Items recognized in the statement of financial position:		
Present value of funded obligations	1,903	1,598
Present value of unfunded obligations	18,799	16,268
Fair value of plan assets	-1,555	-1,343
Present value of pension obligation	19,147	16,523
Unrecognized actuarial gains (+) / losses (-)	-3,548	-2,890
Net liability (+)	15,599	13,633
In the statement of financial position		
Liability arising from the defined benefit plans	16,012	14,072
Receivable arising from defined benefit plans	-413	-439
Net liability	15,599	13,633
Liability arising from the defined contribution plans	547	495
Total pension obligations in the statement of financial position (net)	16,146	14,128
Recognized in the statement of comprehensive income:		
Current service costs	321	868
Interest costs	777	1,040
Expected return on plan assets	-79	-296
Actuarial gains (-) / losses (+) for the period	37	1,553
Curtailment gains	-	-1,770
Other changes	35	-
Total defined benefit plans	1,091	1,395
Defined contribution plan expenses	52	44
Total pension obligations in the statement of comprehensive income	1,143	1,439
Movements in the present value of the defined benefit obligation		
Defined benefit obligations at Jan 1	17,866	21,145
Current service costs	321	868

(EUR thousand)	2010	2009
Interest costs	777	1,040
Actuarial gains (-) / losses (+)	282	1,020
Exchange rate differences on foreign plan	2,291	1,111
Benefits paid by the plan	-835	-734
Curtailments	-	-6,584
Defined benefit obligations at Dec 31	20,702	17,866
Movement in the present value of plan assets		
Fair value of plan assets at Jan 1	1,343	5,702
Expected return on plan assets	79	296
Contributions paid into the plan	959	859
Actuarial gains (-) / losses (+)	-70	-183
Exchange rate differences on foreign plan	89	205
The effect of business combinations during the period	0	26
Benefits paid by the plan	-831	-713
Other changes	-14	-
Effect of curtailment or settlement	-	-4,849
Fair value of plan assets at Dec 31	1,555	1,343
Realized return on pension plan	9	113
Realized return on plan assets	9	113
Actuarial presumptions		
Discount rate	4.0–4.54%	4.0–5.0%
Expected return on plan assets	5.4%	3.0–5.7%
Inflation	2.0%	2.0%
Forthcoming increases in wages and salaries	3.0–4.0%	2.5–4.5%
Forthcoming increases in pensions	1.3–2.0%	0.5–2.0%
Plan assets include		
Assets in insurance companies *	1,555	1,343
Total	1,555	1,343

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

The Group expects to pay EUR 1.1 million of contributions into the defined benefit plans during the year 2011.

(EUR thousand)

At Dec 31	2010	2009	2008	2007	2006
Liability arising from the defined contribution plans	547	495	451	405	278
Present value of defined benefit plans	20,702	17,866	21,146	22,260	19,929
Fair value of plan assets	1,555	1,343	5,702	4,621	4,059
Settlement of the obligation	-	-	112	-	-
Actuarial gains (-) / losses (+)	-3,548	-2,890	-3,159	-2,937	-541
Deficit / surplus	16,146	14,128	12,848	15,107	15,607
Experience adjustments - plan liabilities	-	-1	-459	-1,614	998
Experience adjustments - plan assets	-	-1	-69	-235	-600

32. Provisions

(EUR thousand)	Restructuring	Site restoration	Other expenses	2010 Total
2010				
Non-current provisions				
Balance at Jan 1, 2010	182	229	-	411
Exchange rate differences at Jan 1, 2010	-	8	-	8
Reclassifications	-	-220	-	-220
Non-current provisions at Dec 31, 2010	182	17	-	199
Current provisions				
Balance at Jan 1, 2010	97	302	-	399
Exchange rate differences at Jan 1, 2010	10	10	-	20
Provisions made during the period	-	23	-	23
Provisions used during the period	-101	-253	-	-354
Provisions reversed during the period	-6	-	-	-6
Reclassifications	-	220	-	220
Current provisions at Dec 31, 2010	-	302	-	302

(EUR thousand)	Restructuring	Site restoration	Other expenses	2009 Total
2009				
Non-current provisions				
Balance at Jan 1, 2009	-	385	-	385
Exchange rate differences at Jan 1, 2009	-	5	-	5
Provisions made during the period	-	34	-	34
Reclassifications	182	-195	-	-13
Non-current provisions at Dec 31, 2009	182	229	-	411
Current provisions				
Balance at Jan 1, 2009	-	335	-	335
Exchange rate differences at Jan 1, 2009	-	3	-	3
Provisions made during the period	2,348	-	-	2,348
Provisions used during the period	-2,045	-231	-	-2,276
Provisions reversed during the period	-24	-	-	-24
Reclassifications	-182	195	-	13
Current provisions at Dec 31, 2009	97	302	-	399

Restructuring provisions

Tikkurila Group launched a savings program in 2009 in order to attain annual savings of EUR 25 million. Due to this objective, Tikkurila Group has recognized a restructuring provision arising from the reductions of personnel in its both Finnish and Swedish offices. Majority of this provision realized during the year 2009 and 182 EUR thousands is expected to realize after 2011.

Site restoration provisions

Site restoration provision arises from the restoration obligation concerning contamination of the soil and groundwater of Group's Polish production plant. The contamination was caused by the actions of the previous owner of the production plant. The non-current portion of the provision is expected to be used by 2012.

Other provisions

There were no other provisions in year 2010 or 2009.

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

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available -for-sale financial assets	Other financial liabilities	**Total carrying amounts**	**Total fair values**
2010							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	2,694	-	**2,694**	**2,694**
Non-current receivables	22	-	4,251	-	-	**4,251**	**4,251**
Current financial assets							
Interest-bearing receivables	23	-	184	-	-	**184**	**184**
Derivatives	24,34	1,544				**1,544**	**1,544**
Cash equivalents	25	33,955	35,417	-	-	**69,372**	**69,372**
Trade and other non-interest-bearing receivables	24	-	68,794	-	-	**68,794**	**68,794**
Total		**35,499**	**108,646**	**2,694**	-	**146,839**	**146,839**
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	139,282	**139,282**	**139,130**
Current financial liabilities							
Current interest-bearing liabilities	29	-			8,697	**8,697**	**8,697**
Derivatives	30,34	2,214	-	-	-	**2,214**	**2,214**
Trade payables	30	-	-	-	38,445	**38,445**	**38,445**
Total		**2,214**	**-**	**-**	**186,424**	**188,638**	**188,486**

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available -for-sale financial assets	Other financial liabilities	Total carrying amounts	Total fair values
2009							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	929	-	929	929
Non-current receivables	22	-	3,070	-	-	3,070	3,070
Current financial assets							
Interest-bearing receivables	23	-	288	-	-	288	288
Cash equivalents	25	-	16,273	-	-	16,273	16,273
Trade and other non-interest-bearing receivables	24	-	62,880	-	-	62,880	62,880
Total		-	82,511	929	-	83,440	83,440
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	115,085	115,085	115,540
Current financial liabilities			-				
Current interest-bearing liabilities	29	-	-	-	38,997	38,997	38,997
Trade payables	30	-	-	-	38,512	38,512	38,512
Total		-	-	-	192,594	192,594	193,049

Fair values for non-current liabilities are based on discounted contractual cash flows. Interest rates used for discounting are the interest rates the Group would have to pay for similar loans at the end of reporting period. The interest rate is based on a risk free interest rate and a company specific credit risk premium. The range of discount rates used is 3.23%–4.45%.

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

Available-for-sale financial assets are mostly investments in shares with no quoted market price in an active market. The fair values cannot be reliably measured and therefore they are measured at cost. In addition, available-for-sale financial assets include shares that are quoted in OTC-list. These shares are measured at fair value in each reporting period. The fair value changes are recognized in other comprehensive income net of tax, and they are included in fair value reserve in equity until the assets are disposed, at which time the cumulative gain or loss is reclassified from equity in profit or loss as a reclassification item.

Fair value hierarchy

(EUR thousand)

2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	1,926	768	**2,694**
Money market investments	-	33,955	-	**33,955**
Derivatives (in assets)	-	1,544	-	**1,544**
	-	**37,425**	**768**	**38,193**
Derivatives (in liabilities)	-	**2,214**	-	**2,214**

2009	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	-	929	929
	-	-	929	929

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Reconciliation of Level 3 available-for-sale financial assets

(EUR thousand)

	2010	2009
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	929	913
Translation differences in other comprehensive income	12	6
Acquisitions	3	10
Disposals	-9	-
Reclassifications to Level 3	186	-
Reclassifications from Level 3	-353	-
Carrying amount at Dec 31	768	929

In year 2010, gain on sales of these available-for-sale financial assets were recognized EUR 42 (0) thousands. Gains on sales of these assets are included in other operating income.

Shares of Ekokem Oy have been reclassified from the hierarchy level 3 to level 2 during the first quarter of the year 2010. These shares are OTC listed and this is used as basis for measurement for fair value. Shares are valued in every reporting period to fair value and the change is reported in other comprehensive income, net of tax.

In year 2010, the land area in Poland was transferred from available-for-sale financial assets to property, plant and equipment. According the judgement of the Group's management the sale of land is not likely to take place. Land has been measured at amortized cost and it is presented at the statement of the financial position in property, plant and equipment.

In year 2010, the Group has sold part of the shares in associate, PPHU Polifarb sp.z.o.o. As the Group's ownership decreased below 20%, the remaining shares were reclassified to available-for-sale financial assets. Shares are measured at amortized costs as their fair value cannot be measured reliably.

34. Derivative instruments

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

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

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

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

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

Fair values and nominal values of derivative instruments

	2010			
(EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	885	-1,590	-706	119,834
Interest rate derivatives				
Interest rate swaps	36	-	36	20,000

	2009			
(EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	-	-	-	-
Interest rate derivatives				
Interest rate swaps	-	-	-	-

In year 2009, Tikkurila was part of the Kemira Group. During that time the treasury function was in Kemira Oyj and there were no derivative instruments outstanding in Tikkurila companies.

(EUR thousand)

Derivative instruments in the comprehensive income	2010	2009
Financial income	5,331	-
Financial expenses	-6,474	-

(EUR thousand)

Derivative instruments in the statement of financial position	2010	2009
Accrued income and deferred expenses	1,544	-
Accrued expenses and deferred income	2,214	-

35. Financial risk management

Tikkurila Group's business from the financial risk point of view

International business

Tikkurila operates in a geographically wide area selling products in about 40 countries. Due to special features of each geographical area, the business is exposed to various financial risks and, up to a certain extent, restrictions set by local legislation. Because most of the revenues are generated outside euro area, currency risks have a significant impact on Tikkurila's revenue, result and statement of financial position.

Seasonality

The sale of paints correlates typically with GDP, therefore changes in general economic development has an impact on Tikkurila's business.

Tikkurila's sales are exposed to annual seasonality: usually, the second and third quarter have the biggest influence on sales volume and profitability. In addition, seasonality has a strong impact on cash flow generation. The peak period of outdoor painting during summer months causes this seasonality in the Nordic countries, where weather conditions prevent outdoor painting during winter.

In addition to annual seasonality, construction with related services, which is one of the essential customer segments for Tikkurila, is by nature very sensitive to economic conditions. This business fluctuation is softened to a certain extent by the fact that Tikkurila's revenue is coming partly from new construction production and partly from renovation. In addition, furnishing is not as sensitive to economic conditions although general economic development and customer confidence on economic development have an impact on it.

Due to seasonality, the year-end statement of financial position is not comparable to an average statement of financial position, among others regarding net working capital and cash, which have to be taken into account when analyzing financial risks. In addition, the year 2009 was not an average business year because the worldwide financial crisis began in the end of 2008, which has to be noted when comparing years 2009 and 2010.

Listing to the stock exchange during 2010

Tikkurila's financing and financial risks were managed at Kemira's treasury until March 2010. After Tikkurila listed on stock exchange in March 2010, all financial arrangements with Kemira were dissolved, and at the same time Tikkurila's treasury operations were organized so that Tikkurila Oyj as a parent company of the Group is responsible for financing and financial risk management of Tikkurila Group. Because of this change, the years 2009 and 2010 are not totally comparable from the financial risk and financial position point of view. Tikkurila's treasury has acted as an internal bank for Group companies from the March 2010 offering, both short- and long-term funding, taking deposits and managing Group cash. The treasury is responsible for executing external financial transactions and subsidiaries are conducting their financial operations with treasury unless local law or other constraints prohibit.

The objective and principles of financial risk management

The objective of financial risk management is to hedge according to defined principles Group's cash flow, statement of financial position and net profit from the adverse impact and fluctuation of financial risks. The aim is to keep the creditworthiness of Tikkurila Oyj on a good level. Tikkurila's financing and financial risk management is controlled by policies accepted by the Board of Directors. The operative organization manages financial risks based on these authorizations and policies. During the year 2010, treasury department has started regular internal reporting of the most important financial risks to the Tikkurila Management Board and to the Board of Directors of the parent company.

Financial instruments and their significance and treatment

The most significant items in Tikkurila's statement of financial position December 31, 2010 are different components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness of counterparties and using of several counterparties are key elements for managing the risk. During the year 2010, Tikkurila refinanced interest-bearing debt in its entirety and the counterparties set up covenants and other conditions for loan arrangement. Currency forwards and interest rate swaps are used to hedge currency and interest rate risk since March 2010. The aim is to hedge partly the net risk position based on hedging policy defined by the Board of Directors. Tikkurila has not adopted hedge accounting. The treatment of financial instruments is described in more detail in "Accounting policies for the consolidated financial statements". The Group has not used any commodity derivatives during 2009 or 2010.

Currency risks

The fluctuation of currency rates impact the Tikkurila Group from different angels:

- Currency denominated cash flows; and
- Converting subsidiaries currency denominated financial statements into euros at Group reporting, which impacts both income statement and statement of financial position; and
- The value of non-euro investments.

The methods used for managing currency risk:

- Matching of certain currency outgoing and incoming cash flows on Group level; and
- Diversification, i.e. using different currencies as different currencies do not correlate perfectly with each other; and
- Currency clauses in both purchase and sales contracts; and
- Use of derivative instruments.

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

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

Transaction risk

About 80% of Tikkurila's revenue is generated outside the euro area, so currency changes have a significant impact on Tikkurila's revenue. On net profit level, the currency risk is reduced by expenses which are mostly in the same currency as sales. Currency risk mainly has an impact on cash flows and statement of financial position items which are denominated in other currencies than the functional currency of a subsidiary. The most important internal transactions that create currency risk are business transactions between Group companies and loans and deposits between Group companies and Tikkurila Oyj. Currency risk management is centralized at Tikkurila Oyj's treasury. Transaction risk is followed and managed mainly at 12-month periods because the reliability of longer forecasts is weak. Group companies report their 12-month currency exposures monthly, and the parent company's treasury consolidates Group's net currency exposure.

Transaction risk is hedged in the first place by matching currency denominated income and expenses and after that by commercial agreements (currency clauses). The remaining estimated 12-month net risk position is hedged by currency derivatives. According to principles approved by Tikkurila Board of Directors, the hedge ratio of net exposure (excluding loans and deposits) has to be between 30% and 80%. At the end of year 2010, the hedge ratio was about 65%.

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

(EUR thousand)

Transaction risk position	USD	SEK	NOK	DKK	PLN	HUF	RUB	BYR	UAH	Other
Dec 31, 2010										
Bank accounts	31	0	9	8	7	0	2	0	0	
Loans and deposits	0	-12,519	-1,693	2,469	-2,336	1,331	12,419	2,400	6,137	
Trade receivables and payables	-218	1,967	1,051	1,044	902	95	-1,098	346	4,625	
Estimated currency flow	-11,160	32,212	7,553	5,673	11,693	3,041	42,718	4,174	2,666	
Currency forwards	7,110	-14,500	-3,821	0	-1,208	-3,130	-11,269	0	0	
Position after treasury's hedges	-4,237	7,159	3,101	9,193	9,058	1,338	42,771	6,920	13,428	
SBU sales clauses*							-55,162			
Open position	-4,237	7,159	3,101	9,193	9,058	1,338	-12,391	6,920	13,428	

(EUR thousand)

	USD	SEK	NOK	DKK	PLN	HUF	RUB	Other
Dec 31, 2009								
Currency position	-18,917	32,278	8,036	6,654	11,760	2,819	4,745	8,473
Impact of 10% weakening of currencies	1,720	-2,934	-731	-605	-1,069	-256	-431	-770

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

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

The impact of currency rate changes to profit before tax based on items in statement of financial position December 31, 2010:

(EUR thousand)	
Impact of 10% weakening of euro	1,084
Impact of 10% strengthening of euro	-1,325

Translation risk

In addition, to translation risk affecting income statements when the currency denominated income statements are converted into euros, Tikkurila's equity is exposed to currency risk arising from net investments made to subsidiaries outside euro area. Tikkurila has not hedged translation risk December 31, 2010. Translation differences coming from converting subsidiaries' equity are recognized in equity in translation differences.

Net investments made in foreign currencies

(EUR thousand)	RUB	SEK	PLN	Other
Dec 31, 2010				
Equity	50,966	40,331	25,806	9,483
Impact of 10% strengthening of currencies on equity	5,663	4,481	2,867	1,054
Impact of 10% weakening of currencies on equity	-4,633	-3,667	-2,346	-862
	RUB	SEK	PLN	Other
Dec 31, 2009				
Equity	39,297	22,781	32,620	7,794
Impact of 10% weakening of currencies on equity	-3,572	-2,071	-2,965	-709

Interest rate risk

Tikkurila Group has had following interest-bearing assets and liabilities during 2009 and 2010:

Interest-bearing assets:

- Cash
- Time deposits
- Investments in short-term interest-bearing securities of banks and corporates

Interest-bearing debt:

- Leasing and installment funding
- Committed overdraft facilities
- Revolving credit facility
- Long-term loan from pension institution
- Term loan

Tikkurila's interest-bearing net debt is exposed to cash flow risk. The business cycle of Tikkurila follows in principle the overall economic development; therefore the business cash flow is stronger when the economic cycle and also interest rates are higher. On the other hand, when the economic cycle weakens and interest rates are lower, the cash flow is also weaker. Therefore, the duration of interest-bearing liabilities is kept short so that the cash flow and interest rate change follow the same cycle. During 2010, Tikkurila has made interest rate swap agreements with nominal value of EUR 20 million in order to hedge loans which are linked to short interest rates from rising interests. According to principles approved by Tikkurila Oyj the duration of interest-bearing liabilities has to be between 6 and 24 months. At the end of 2010, the equity weighted duration was approximately 12 months.

The share of fixed and floating rate assets and liabilities can be seen from the table below. The financial instrument has been defined as a fixed when the interest rate is fixed for whole duration of the instrument regardless if the instrument is short- or long-term. The TyEL-loan, which is linked to 3 year rate, has been defined as a floating rate loan. The impact of interest rate derivatives has been taken into account when defining the fixed and floating rate assets and liabilities.

(EUR thousand)	Dec 31, 2010	Dec 31, 2009
Fixed rate		
Financial assets*	37,059	17,917
Financial liabilities	-20,000	-39,286
Net	17,059	21,369
Floating rate		
Financial assets	-	-
Financial liabilities	-127,979	-114,796
Net	-127,979	-114,796

* Cash is not included

Impact of change of interest rates

Based on EUR 79 million net debt position on December 31, 2010, the impact of 1%-point increase in interest rate to profit before tax is EUR -0.0 million (EUR -1.1 million). The sensitivity analysis is based on assumption that the interest rate change will happen at the beginning of the year and that the change is parallel over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of currency rates is zero. Current loans are assumed to be renewed at due date. Regarding non-current loans with floating interest rates, the effect of the rate change is taken into account from the date of rate fixing. Net debt includes cash and cash equivalents. Because of the seasonality of the business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year.

Credit risk

Credit risk is a risk that occurs when counterparty fails to meet its obligations, i.e. counterparty risk. At Tikkurila, the most significant items that are exposed to credit risk are trade receivables, current placements and cash.

The principles of managing credit risk of trade receivables are defined in the credit risk policy. The management of credit risk of trade receivables is decetralized to business units, but the parent company's treasury unit monitors the risk. Tikkurila's large and geographically divergent clientele reduces concentration of credit risk, although some big trade and retail paint chains have relatively big influence. Credit risk related to trade receivables is managed by customer credit limits that take the prior sales history and creditworthiness of a customer into account. New customers are credit-risk rated prior to selling.

Tikkurila uses also advance payments and credit insurances to some extent to reduce credit risk.

Advance payments are used in Russia where about 17% of revenue in 2010 took place using advance payments. Credit insurance is used in Poland where about 85% of trade receivable as of December 31, 2010 was insured. According to terms of the insurance Tikkurila is entitled to get 90% of the nominal amount if the customer is not able to pay the invoice.

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

Credit risk related to current placements and cash is controlled by principles defined by the Board of Directors. Tikkurila manages this counterparty risk by investing surplus liquidity in short-term interest-bearing tradeable securities and in bank deposits. Investment-related credit risk is mainly centralized to Tikkurila Oyj as subsidiaries deposit their surplus liquidity to the parent company.

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

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

(EUR thousand)	Note	**2010**	2009
Available-for-sale financial assets	21	**2,694**	929
Financial assets at fair value through profit or loss	24,34,25	**35,499**	-
Loans and other receivables	22, 23, 24, 25	**108,646**	82,511
Total		**146,839**	83,440

Loans and other receivables by currency at December 31, 2010:

(EUR thousand)	**2010**	2009
EUR	**38,693**	16,634
SEK	**22,279**	16,379
RUB	**14,539**	13,368
PLN	**11,851**	20,513
DKK	**3,967**	3,152
EEK	**3,592**	2,620
UAH	**4,306**	2,457
Other	**9,419**	7,388
Total	108,646	82,511

The ageing of loans and other receivables at December 31, 2010:

(EUR thousand)	**Carrying amount 2010**	Carrying amount 2010
Not past due	**101,035**	68,362
Past due 0–90 days	**4,841**	9,633
Past due 91–180 days	**1,636**	2,293
Past due 181–365 days	**476**	1,412
Past due over 365 days	**658**	811
Total	**108,646**	82,511

The Group recognizes impairment loss on receivables when there is objective evidence that a financial asset or group of financial assets is impaired. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence. Tikkurila recognized a credit loss of EUR 1.9 million on past due loans and other receivables during the financial year 2010 (EUR 3.0 million).

Liquidity risk

Tikkurila's business is characterized by annual seasonality which varies somewhat in different geographical areas and which is the strongest in the Nordic countries due to outdoor painting season in summer. Need for working capital increases typically until the end of summer, when most of the cash flows related to outdoor paints are received. This creates challenges to liquidity management.

Tikkurila manages liquidity risk mainly by loan arrangements and committed credit facilities and by selling part of the receivables to a financing company. The surplus liquidity is kept on bank accounts or invested to highly liquid current placements.

Tikkurila's main funding source is a EUR 180 million loan agreement which is divided to a EUR 100 million term loan and a EUR 80 million revolving credit facility. Three banks are participating with this loan arrangement. The loan has covenants which are linked to gearing and net debt to EBITDA- ratio. Gearing can be at maximum 1.20 until September 2011, and after that it has to be 1.00 and net debt to EBITDA ratio can be at maximum 2.75. When calculating these figures, the net debt is the average of the net debt from two preceding quarters, and EBITDA is the sum of the four preceding quarter EBITDA. If Tikkurila breaches these covenants, the loan will fall due immediately unless the lenders give a waiver. According to the arrangement, the consent from the borrowers is also needed for any significant investments and acquisitions.

In addition, as of December 31, 2010, Tikkurila has a EUR 40 million bilateral loan from a pension insurance company and EUR 11 million committed credit facilities. At the end of 2010, Tikkurila had unused a EUR 80 million revolving credit facility and EUR 8 million credit facilities. Bank accounts and current placements were EUR 69 million.

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

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

Below is a table showing contractual maturities of liabilities December 31, 2010:

(EUR thousand)

Dec 31, 2010	Carrying amount	Contractual cash flows	2011	2012	2013	2014	>2014
Loans from financial institutions	101,175	110,291	5,450	3,227	101,614	-	-
Loans from pension institutions	40,000	46,436	1,660	6,660	11,409	11,024	15,683
Other interest-bearing liabilities	6,341	6,341	6,341	-	-	-	-
Finance lease liabilities	419	445	293	128	22	2	0
Trade payables	38,445	38,445	38,445	-	-	-	-
Bank overdrafts	44	44	44	-	-	-	-
Guarantees	4,684	4,684	4,684	-	-	-	-
Total	**191,108**	**206,686**	**56,917**	**10,015**	**113,045**	**11,026**	**15,683**
Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	973	29,211	29,211	-	-	-	-
outflow	-1,679	-29,917	-29,917	-	-	-	-
Interest rate swaps	36	53	31	22	-	-	-
Total	**-670**	**-653**	**-675**	**22**	**-**	**-**	**-**

(EUR thousand)

Dec 31, 2009	Carrying amount	Contractual cash flows	2010	2011	2012	2013	>2013
Loans from financial institutions	1,528	1,611	1,609	-	2	-	-
Other interest-bearing liabilities	151,685	161,741	41,598	6,427	97,841	15,375	500
Finance lease liabilities	527	605	277	82	82	82	82
Trade payables	38,512	38,512	38,512	-	-	-	-
Bank overdrafts	342	342	342	-	-	-	-
Guarantees	4,608	4,608	4,608	-	-	-	-
Total	197,202	207,419	86,946	6,509	97,925	15,457	582

The figures are undiscounted.

Price risk of long-term investments

Tikkurila Oyj has shares of Ekokem Oy in its possession which are valued at fair value in the financial statements of year 2010. These shares are classified as available-for-sale so their unrealized fair value change, net of tax, is booked to other comprehensive income.

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

Capital management

The aim of capital management is to secure that Tikkurila has adequate capital for conducting its business both in the short-term and long-term, taking in the consideration the risk factors in the operational environment, e.g. risk related to availability and price of funding. In addition, the capital management is linked to growth targets, possible changes of new businesses and geographical split and maintaining the sensitivity to react to the changes in competitive environment. When analyzing the need for and management of capital demands from external interest groups are taken into account, such as owners' requirements for profit distribution and demands from authorities or restrictions related to equity ratio of Group companies.

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

At the end of 2009, the Board of Directors of Tikkurila Oyj has set up medium-term targets for the Group's gearing and return for capital employed (ROCE-%): the gearing target is to keep the ratio below 100% and accordingly return for capital employed should improve continuously.

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

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

The Board of Directors of Tikkurila Oyj has given a guideline for dividend distribution at the end of 2009. The targeted dividend payout should be 40% of annual net profit excluding the impact of one-time items which sets up own demand for Group's capital structure. The Board of Directors proposes to the annual general meeting, which will be held March 31, 2011, that Tikkurila pays EUR 0.70 per share dividend, which is about 86% of Group's 2010 net profit, excluding one-time items, net of tax.

	Dec 31, 2010	Dec 31, 2009
Equity	190,038	143,863
Non-controlling interest	-	-
Total	190,038	143,863
Non-current interest-bearing liabilities	139,282	115,085
Current interest-bearing liabilities	8,697	38,996
Cash and cash equivalents	69,372	24,543
Net debt	78,607	129,538
Gearing, %	41.4%	90.0%
Equity ratio, %	41.1%	35.7%
EBITDA	81,418	66,495
Net debt/EBITDA	0.97	1.95
Capital employed		
Goodwill	68,386	68,261
Available-for-sale financial assets	668	774
Property, plant and equipment and intangible assets	145,280	148,576
Net working capital	73,048	76,108
Total	287,382	293,719

36. Operating leases

Group as lessee

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

Non-cancellable operating lease rentals are payable as follows:

(EUR thousand)	2010	2009
Within one year	10,314	7,692
After one year and not later than five years	23,573	24,560
Later than five years	7,017	10,658
Total	40,904	42,910

Group as lessor

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

Non-cancellable operating lease rentals are receivable as follows:

(EUR thousand)	2010	2009
Within one year	546	58
After one year and not later than five years	409	34
Later than five years	1,198	123
Total	2,153	215

37. Contingent assets and liabilities and contractual commitments

(EUR thousand)	2010	2009
Mortgages given as collateral for liabilities in the statement of financial position		
Loans from pension institutions	40,000	-
Mortgages given	53,000	-

(EUR thousand)	2010	2009
Other loans	-	100
Mortgages given	102	102
Total loans	40,000	100
Total mortgages given	53,102	102
Contingent liabilities	2010	2009
Assets pledged		
On behalf of own commitments	-	32
Guarantees		
On behalf of own commitments	1,710	2,123
On behalf of others	2,974	2,485
Rent obligations	40,904	42,910
Total contingent liabilities	45,588	47,550

Contractual commitments for the acquisition of property, plant and equipment:
Tikkurila Group had contractual commitments for purchase of property, plant and equipment total of EUR 0.8 million in 2010 (EUR 0.0 million in 2009).

38. Related parties

Parties are considered as each other's related parties if one party is able to control or has significant influence over financial and operating decision making of another party. Tikkurila Group has related party relationships with the parent company of the Group (Tikkurila Oyj), subsidiaries, associates and joint ventures. In addition, Tikkurila's former parent company Kemira Plc and other Kemira Group companies were considered as related parties until March 26, 2010.

Related parties include members of Board of Directors and the Group's Board of Management, including CEO.

The terms and conditions of related party transactions are determined on an arm's length basis. Related party companies are disclosed in Note 39 Group's ownership in shares and participations.

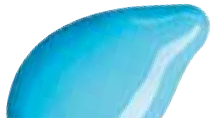
Related party transactions are presented below:

(EUR thousand)	Sales	Purchases	Receivables	Liabilities
2010				
Associates [1]	21,779	1,274	4,191	69
Joint ventures	2,049	-	111	15
Group companies of Kemira Plc [2]	74	1,603	-	-

(EUR thousand)	Sales	Purchases	Receivables	Liabilities
2009				
Associates	555	1,070	227	3
Joint ventures	1,870	-	143	16
Group companies of Kemira Plc [2]	-	6,204	15,224	147,152

1) Due the changes in invoicing procedures during the year 2010, sales to associates increased compared to previous year.
2) Group companies of Kemira Plc include both subsidiaries and associates of Kemira Group.

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



Loans, guarantees and other collaterals granted to related parties

No loans, guarantees or other collaterals have been granted to the management in 2010 nor 2009.

(EUR thousand)	2010	2009
Management employee benefits		
Wages, salaries and other short-term employee benefits	1,887	2,938
Post-employment benefits	85	326
Total	1,972	3,264

Executive remuneration

2010	(EUR thousand)
CEO	
Erkki Järvinen	
Fixed salary (fringe benefits included)	450
Bonuses	120
Total	570
Supplementary pension payments	53
Board members **)	
Harri Kerminen, Chairman of the Board (until February 8, 2010)	-
Jari Paasikivi, Chairman of the Board (from February 8, 2010) (Vice-chairman until February 8, 2010)	74
Petteri Walldén, Vice-chairman of the Board (from February 8, 2010)	49
Eeva Ahdekivi, member of the Board	45
Ove Mattsson, member of the Board	47
Pia Rudengren, member of the Board	51

**) In year 2010 part of the annual fee of the Board members was paid in company's shares. Total of EUR 72 thousand was paid in shares.
This is included in figures presented.

2009	(EUR thousand)
CEO	
Erkki Järvinen	
Fixed salary (fringe benefits included)	510
Bonuses	-
Total	510
Supplementary pension payments	50
Board members	
Harri Kerminen, Chairman of the Board	-
Jari Paasikivi, Vice-chairman of the Board	40
Petteri Walldén, member of the Board	35
Eeva Ahdekivi, member of the Board	35
Ove Mattsson, member of the Board	41
Pia Rudengren, member of the Board	38

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

The age of retirement for the CEO is 63 years. CEO has a supplementary pension insurance. The pension remuneration for the CEO is 65 percent of the pension salary.

Tikkurila Group has a management's incentive program according to which no payments have been made during the year 2010 nor 2009. Vesting period is 2009–2010 and total of 13 persons are included in incentive program.

Share holdings of Tikkurila Board of Directors and Management Board are stated in page 130, Shares and shareholders.

39. Group's ownership in shares and participations

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2010				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
Tikkurila Kft	Budapest	Hungary	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila Coatings Sp.z.o.o.	Debica	Poland	100	100
Tikkurila AB	Stockholm	Sweden	100	100
Tikkurila Coatings B.V. 1)	Rozenburg	The Netherlands	100	100
OOO Tikkurila Coatings	St. Petersburg	Russia	100	100
Tikkurila (Beijing) Paints Co. Ltd	Peking	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
OOO Tikkurila Powder Coatings 2)	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Alma-Ata	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	100
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila s.r.o.	Prague	Czech Republic	100	100
Tikkurila Slovakia s.r.o.	Martin	Slovakia	100	100
Alcro-Beckers AB	Stockholm	Sweden	100	100
Färgglädje Måleributiken i Alvik AB	Bromma	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-
Tikkurila Romania s.r.l.	Pantelimon City	Rumania	100	100

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2009				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
Tikkurila Kft	Budapest	Hungary	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila Coatings Sp.z.o.o.	Debica	Poland	100	100
Tikkurila Coatings AB 3)	Stockholm	Sweden	100	100
Tikkurila Coatings B.V.	Rozenburg	The Netherlands	100	100
Tikkurila Coatings (Ireland) Ltd	Cork	Ireland	100	100
OOO Tikkurila Coatings	St. Petersburg	Russia	100	100
Tikkurila (Beijing) Paints Co. Ltd	Peking	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
OOO Tikkurila Powder Coatings	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Alma-Ata	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	100
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
Tikkurila s.r.o.	Prague	Czech Republic	100	100
Tikkurila Slovakia s.r.o.	Martin	Slovakia	100	100
Alcro-Beckers AB	Stockholm	Sweden	100	100
Färgglädje Måleributiken i Alvik AB	Bromma	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-
Tikkurila Romania s.r.l.	Pantelimon City	Rumania	100	100

1) Company is in liquidation process.
2) Assets and liabilities of the company are classified as held for sale.
3) During the year 2010, name was changed to Tikkurila AB.

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2010				
Alcro Parti AB	Stockholm	Sweden	50.0	-
2009				
Alcro Parti AB	Stockholm	Sweden	50.0	-

Associates	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2010				
Happy Homes i Sverige AB*)	Stockholm	Sweden	45.1	-
2009				
BNH Nya Hembutikerna AB	Stockholm	Sweden	45.1	-
PPHU Polifarb sp.z.o.o.	Gliwice	Poland	20.4	-

*) Former BNH Nya Hembutikerna AB

40. Changes in Group structure

Changes in Group structure during 2010

No disposals or acquisitions of Group companies occured in 2010. Tikkurila Coatings (Ireland) Ltd was dissolved in September 2010.

Changes in company names:

Former name:	New name:
Tikkurila Coatings AB	Tikkurila AB
BNH Nya Hembutikerna AB	Happy Homes i Sverige AB*)

*) Associate

Changes in the Group structure during 2009

Acquisitions of Group companies and established new subsidiaries:

Establisher / acquirer		Established / acquired company	Domicile of established / acquired company	Date of establishment / acquisition	Tikkurila Group's ownership and voting shares % after acquisition	Parent company's ownership and voting shares % after acquisition
Tikkurila Oyj	Acquired	Tikkurila JUB s.r.l.	Rumania	September 2009	100	100
Tikkurila Oyj	Acquired	Dickursby Holding AB	Sweden	May 2009	100	100
Dickursby Holding AB	Acquired	OOO Tikkurila Powder Coatings	Russia	May 2009	100	-
Dickursby Holding AB	Acquired	OOO Gamma Industrial Coatings	Russia	May 2009	100	-

No disposals, liquidations or merging of Group companies occured in 2009.

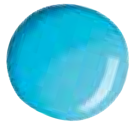
Changes in company names:

Former name:	New name:
AS Tikkurila-Vivacolor	AS Tikkurila
UAB Tikkurila-Vivacolor	UAB Tikkurila
SIA Tikkurila-Vivacolor	SIA Tikkurila
Tikkurila JUB s.r.l.	Tikkurila Romania s.r.l.

41. Events after the end of reporting period

Tikkurila Group sold all the shares in OOO Tikkurila Powder Coatings, a Russian subsidiary, to Teknos Group Oy in December 2010. Tikkurila divested its industrial powder coatings business, because it is not a part of Tikkurila's core business. After the transaction, Tikkurila has no powder coatings related operations. The revenue of OOO Tikkurila Powder Coatings was EUR 2.4 million in 2010, and the company employed some 50 people. The transaction was completed on January 26, 2011.

Tikkurila Oyj decided to make an additional prepayment of EUR 20.0 million of its long-term pension loan (TyEL-loan). This decision was made in January 2011.



Tikkurila Oyj Income statement (FAS)

(EUR thousand)	Note	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Revenue	2	204,790	198,299
Change in inventories of finished goods and work in progress	4	-194	-3,584
Other operating income	3	102	7
Materials and services	4	-97,971	-88,645
Personnel expenses	5	-46,903	-44,736
Depreciation, amortization and impairment losses	7	-6,546	-6,343
Other operating expenses	4,6	-32,622	-33,917
Operating profit		20,656	21,081
Financial income and expenses	8	4,196	-1,376
Profit before extraordinary items		24,851	19,705
Profit before appropriations and taxes		24,851	19,705
Appropriations	7,9	1,057	-650
Income tax	10	-4,796	-3,589
Net profit for the period		21,112	15,466

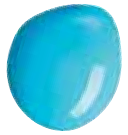
Tikkurila Oyj Balance sheet (FAS)

(EUR thousand)	Note	Dec 31, 2010	Dec 31, 2009
Assets			
Non-current assets	11		
Intangible assets		5,426	6,838
Tangible assets		26,399	29,385
Investments			
Holdings in Group companies		183,898	190,462
Other shares and holdings		642	642
Total investments		184,539	191,103
Total non-current assets		216,364	227,327
Current assets			
Inventories	12	25,706	26,312
Non-current receivables	13	12,291	1,338
Current receivables	13	48,413	27,934
Cash and cash equivalents		59,352	9
Total current assets		145,762	55,592
Total assets		362,126	282,919
Equity and liabilities			
Equity	14		
Share capital		35,000	35,000
Reserve for invested unrestricted equity		40,000	40,000
Retained earnings		49,967	34,501
Net profit for the period		21,112	15,466
Total equity		146,079	124,967
Appropriations	15	9,675	10,732
Provisions	16	182	182
Liabilities	17		
Non-current liabilities		140,000	105,240
Current liabilities		66,190	41,798
Total liabilities		206,190	147,038
Total equity and liabilities		362,126	282,919

Tikkurila Oyj Cash flow (FAS)

(EUR thousand)	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Cash flow from operating activities		
Profit before extraordinary items	24,851	19,705
Adjustments to operating result:		
Unrealized exchange gains and losses	801	-51
Depreciation, amortization and impairment losses	6,546	6,343
Interest income and other financial income	-3,358	-79
Interest expenses and other financial expenses	6,811	7,028
Dividend income	-17,142	-5,524
Other adjustments	72	402
Write-down of non-current assets	8,000	-
Other financial items	692	2
Total funds from operating activities before change in net working capital	27,274	27,825
Change in net working capital		
Change in inventories	606	5,335
Change in current receivables	3,091	2,929
Change in non-interest-bearing current liabilities	3,183	-2,242
Change in net working capital, total	6,880	6,023

(EUR thousand)	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Interest and other financial expenses paid	-5,335	-9,268
Interest and other financial income received	1,640	73
Income taxes paid	-8,625	164
Dividends received	17,082	5,464
Total cash flow from operating activities	38,916	30,280
Cash flow from investing activities		
Acquisition of tangible and intangible assets	-2,151	-2,070
Investments in Group companies	-1,456	-5,611
Acquisition of other shares	-	-10
Proceeds from sales of other shares	-	13
Change in non-current loan receivables increase (-), decrease (+)	-31,190	-926
Proceeds from sales of tangible and intangible assets	4	31
Dividends received	60	60
Net cash used in investing activities	-34,733	-8,513
Cash flow before financing	4,182	21,767
Cash flow from financing activities		
Acquisition of own shares	-72	-
Change in non-current loans increase (+), decrease (-)	34,760	-15,000
Change in current financing increase (+), decrease (-)	20,473	-1,173
Group contribution	-	-12,300
Net cash used in financing activities	55,161	-28,473
Net change in cash and cash equivalents	59,344	-6,706
Cash and cash equivalents at Dec 31	59,352	9
Cash and cash equivalents at Jan 1	9	6,715
Change in cash and cash equivalents	59,344	-6,706



1. Summary of significant accounting policies - Tikkurila oyj

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

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

Foreign currency transactions

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

Exchange differences arising from trade receivables are accounted for as adjustments to sales and those arising from trade payables to purchases. Exchange rate differences arising from financing transactions are accounted for in financial income and expenses.

Financial assets, financial liabilities and derivatives

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

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

Commercial papers are measured at fair value.

Revenue recognition

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

Income taxes

Tax expense in income statement comprises current tax of the company calculated on the taxable profit for the period determined in accordance with the local tax rules, final taxes from previous years and the change in deferred taxes.

Non-current assets and depreciation and amortization

Non-current asset are recognized in the balance sheet at historical cost less cumulative depreciation, amortization and impairments.

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

Depreciation periods:

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

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

Inventories

Tikkurila Oyj's inventories are stated at the lower of cost and net realizable value. Inventory cost is determined using the first-in, first-out (FIFO) method or the weighted average cost method. The FIFO method is applied to company produced products and it is presented in the Notes under "Finished goods". The cost of finished goods comprises direct costs, production costs and related appropriate production and supply overheads and production and supply related non-current assets' depreciations and amortizations according to plan and insurance expenses.

Research and development costs

Research and development costs have been expensed. Development expenses have not been capitalized because they do not fulfill the activating requirements. The future economical benefits of new or improved products can be realized only so late stage that amount to be activated would be immaterial and therefore no activating has been done.

Lease

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

2. Revenue

	2010	2009
Revenue by geographical segment, % of total revenue	%	%
Finland	52	54
Other EU countries	23	23
Other Europe	23	21
Other countries	2	2
Revenue by geographical segment, total	100	100

3. Other operating income

(EUR thousand)	2010	2009
Gains on sale of non-current assets	2	1
Other income from operations	100	6
Other operating income, total	102	7

4. Other operating expenses

(EUR thousand)	2010	2009
Change in inventories of finished goods and work in progress	-194	-3,584
Materials and services		
Materials and supplies		
Purchases during the financial year	-96,593	-86,033
Change in inventories of materials and supplies	-498	-1,751
External services	-880	-860
Total materials and services	-97,971	-88,645
Personnel expenses	-46,903	-44,736
Rents	-1,553	-1,649
Loss on sales of non-current assets	-2	-220
Other expenses	-31,067	-32,049
Total other operating expenses	-177,690	-170,883

5. Personnel expenses and number of personnel

(EUR thousand)	2010	2009
Wages and salaries	-37,074	-35,080
Pension expenses	-7,674	-6,883
Other personnel expenses	-2,155	-2,772
Total personnel expenses	-46,903	-44,736
Management remunerations and emoluments		
Members of the Board of Directors and CEO	-837	-700

Remuneration of CEO

(EUR thousand)	2010	2009
Fixed salary (fringe benefits included)	-450	-510
Bonuses	-120	-
Total	-570	-510
Supplementary pension payments	-53	-50

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

The age of retirement for the CEO is 63 years. CEO has a supplementary pension insurance. The pension remuneration for the CEO is 65 percent of the pension salary.

Remuneration of members of Board of Directors

(EUR thousand)	2010	2009
Jari Paasikivi	-74	-40
Petteri Walldén	-49	-35
Harri Kerminen, until February 8, 2010	-	-
Pia Rundengren	-51	-38
Eeva Ahdekivi	-45	-35
Ove Mattsson	-47	-41
Total	-266	-190

Loans to related parties

No related parties held loans from the Company in 2010 or in 2009.

Number of personnel	2010	2009
Average number of staff	423	445
Average number of employees	377	394
Personnel (average)	800	839

6. Auditor's fees

(EUR thousand)	2010	2009
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	-124	-63
Tax consultancy	-2	-19
Other fees	-308	-87
Auditing fees, total	-434	-169

7. Depreciation, amortization and impairment losses

(EUR thousand)	2010	2009
Depreciation and amortization according to plan		
Intangible asset		
Goodwill	-1,133	-995
Other capitalized expenditure	-975	-844
Tangible assets		
Buildings and structures	-1,765	-1,759
Machinery and equipment	-2,648	-2,719
Other tangible assets	-25	-25
Total depreciation and amortization	-6,546	-6,343
Change in depreciation difference		
Other capitalized expenditure	477	-445
Buildings and structures	813	827
Machinery and equipment	-258	-1,057
Other tangible assets	25	25
Total	1,057	-650

There were no impairments included in depreciations in year 2010, neither in year 2009.

8. Financial income and expenses

(EUR thousand)	2010	2009
Financial income		
Dividend income		
Dividend income from Group companies	17,082	5,464
Dividend income from others	60	60
Total dividend income	17,142	5,524
Interest income		
Interest income from non-current investments from others	8	10
Interest income from current investments from Group companies	2,514	66
Interest income from current investments from others	836	3
Total interest income	3,358	79
Other financial income		
Other financial income from Group companies	80	-
Total other financial income	80	-
Exchange gains		
Exchange gains from Group companies	2,207	49
Exchange gains from others	4,587	-
Total exchange gains	6,794	49
Total financial income	27,374	5,653
Write-down of non-current investments		
From holdings in Group companies	-8,000	-
Total write-down of non-current investments	-8,000	-
Financial expenses		
Interest expenses		
Interest expenses to Group companies	-795	-6,645
Interest expenses to others	-6,017	-383
Total interest expenses	-6,811	-7,028
Other financial expenses		
Other financial expenses to others	-1,098	-1
Other financial expenses, total	-1,098	-1
Exchange losses		
Exchange losses to Group companies	-1,738	-
Exchange losses to others	-5,532	-
Total exchange loss	-7,269	-
Total financial expenses	-15,178	-7,029
Total financial income and expenses	4,196	-1,376
Exchange gains and losses		
Realized	326	-2
Unrealized	-801	51
Total exchange gains and losses	-475	49

9. Change in appropriations

(EUR thousand)	2010	2009
Change in depreciation difference	1,057	650
Change in appropriations, total	1,057	650

10. Income taxes

(EUR thousand)	2010	2009
Income tax for current year	-4,538	-3,640
Income tax for previous year	-250	11
Change in deferred taxes	-8	40
Total income taxes	-4,796	-3,589

11. Non-current assets

Intangible assets

(EUR thousand)	2010	2009
Goodwill		
Acquisition cost at beginning of year	10,291	10,291
Acquisition cost at year end	10,291	10,291
Accumulated amortization at beginning of year	-7,271	-6,276
Amortization during the financial year	-1,133	-995
Accumulated amortization at year end	-8,404	-7,271
Carrying amount at year end	1,887	3,020
Other capitalized expenditure		
Acquisition cost at beginning of year	7,915	7,486
Increase	768	435
Decrease	-	-6
Acquisition cost at year end	8,683	7,915
Accumulated amortization at beginning of year	-4,427	-3,584
Accumulated amortization related to decrease	-	2
Amortization during the financial year	-975	-844
Accumulated amortization at year end	-5,401	-4,426
Carrying amount at year end	3,282	3,489
Advance payments and assets under construction		
Acquisition cost at beginning of year	329	597
Change during the year	-72	-268
Carrying amount at year end	257	329
Total intangible assets	5,426	6,838

Tangible assets

(EUR thousand)	2010	2009
Land and water		
Acquisition cost at beginning of year	2,020	2,020
Acquisition cost at year end	2,020	2,020
Buildings and constructions		
Acquisition cost at beginning of year	33,899	33,702
Increase	340	197
Decrease	-15	-
Acquisition cost at year end	34,225	33,899
Accumulated depreciation at beginning of year	-23,189	-21,429
Accumulated depreciation related to decrease	11	-
Depreciation during the financial year	-1,765	-1,759
Accumulated depreciation at year end	-24,942	-23,188
Carrying amount at year end	9,282	10,711
Machinery and equipment		
Acquisition cost at beginning of year	51,290	48,090
Increase	1,222	3,592
Decrease	-	-392
Acquisition cost at year end	52,511	51,290
Accumulated depreciation at beginning of year	-35,168	-32,595
Accumulated depreciation related to decrease	-	146
Depreciation during the financial year	-2,648	-2,719
Accumulated depreciation at year end	-37,816	-35,168
Carrying amount at year end	14,695	16,122

The carrying amount of production machinery and equipment was EUR 10,422 thousand (EUR 12,173 thousand).

Other tangible assets	2010	2009
Acquisition cost at beginning of year	1,094	1,094
Acquisition cost at year end	1,094	1,094
Accumulated depreciation at beginning of year	-833	-807
Depreciation during the financial year	-25	-25
Accumulated depreciation at year end	-858	-833
Carrying amount at year end	236	261
Advance payments and assets under construction		
Acquisition cost at beginning of year	271	2,158
Change during the year	-106	-1,886
Carrying amount at year end	165	271
Total tangible assets	26,399	29,385

Investments

(EUR thousand)	2010	2009
Holdings in Group companies		
Acquisition cost at beginning of year	190,462	184,664
Increase	1,456	5,611
Transfer from holdings in associates	-	200
Decrease	-8,020	-13
Carrying amount at year end	183,898	190,462
Holdings in associates		
Acquisition cost at beginning of year	-	200
Transfer to holdings in Group companies	-	-200
Carrying amount at year end	-	-
Other shares and holdings		
Acquisition cost at beginning of year	642	632
Increase	-	10
Carrying amount at year end	642	642
Total investments	184,539	191,103

12. Inventories

(EUR thousand)	2010	2009
Materials and supplies	9,653	10,151
Work in progress	607	364
Finished goods	15,360	15,797
Advance payments	86	-
Total inventories	25,706	26,312

13. Receivables

(EUR thousand)	2010	2009
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	10,558	-
Loan receivables from others	151	177
Total non-current interest-bearing receivables	10,709	177
Non-current interest-free receivables		
Loan receivables from Group companies	1,511	1,082
Total non-current interest-free receivables	1,511	1,082
Deferred tax assets	71	79
Total non-current receivables	12,291	1,338

(EUR thousand)	2010	2009
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	1,217	1,596
Current interest-bearing receivables from Group companies	20,338	910
Total current interest-bearing receivables	21,555	2,506
Current interest-free receivables		
Loan receivables from others	100	100
Other current receivables from others	12	13
Trade receivables		
Trade receivables from Group companies	10,386	11,372
Trade receivables from others	10,355	12,314
Total trade receivables	20,741	23,686
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	559	435
Deferred expenses from others	5,445	1,194
Total deferred expenses and accrued income	6,004	1,629
Total current interest-free receivables	26,858	25,428
Total current receivables	48,413	27,934
Total receivables	60,704	29,272

(EUR thousand)	2010	2009
Deferred expenses and accrued income		
Interest income	182	8
Derivatives	1,544	-
Income taxes	816	-
Insurances	234	242
Others	3,229	1,379
Total deferred expenses and accrued income	6,004	1,629

14. Equity

(EUR thousand)	2010	2009
Share capital at January 1	35,000	35,000
Share capital at December 31	35,000	35,000
Total restricted equity	35,000	35,000
Reserve for invested unrestricted equity at January 1*)	40,000	-
Increase	-	40,000
Reserve for invested unrestricted equity at December 31	40,000	40,000

(EUR thousand)	2010	2009
Retained earnings at January 1	49,967	34,501
Retained earnings at December 31	49,967	34,501
Net profit for the period	21,112	15,466
Retained earnings and net profit for the period at December 31	71,079	49,967
Total unrestricted equity	111,079	89,967
Total equity at December 31	146,079	124,967
Distributable funds at December 31		
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	49,967	34,501
Net profit for the financial year	21,112	15,466
Distributable funds	111,079	89,967

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

15. Appropriations

(EUR thousand)	2010	2009
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and structures	-1,041	-106
Machinery and equipment	8,328	7,947
Other tangible assets	119	144
Other capitalized expenditure	2,270	2,747
Total accumulated depreciation difference	9,675	10,732
Change in depreciation difference		
Depreciation difference at January 1	10,732	10,082
Change in depreciation difference in income statement	-1,057	650
Depreciation difference at December 31	9,675	10,732

16. Provisions

(EUR thousand)	2010	2009
Other provisions	182	182

17. Liabilities

(EUR thousand)	2010	2009
Non-current liabilities		
Loans from financial institutions	100,000	-
Loans from pension institutions	40,000	-
Other non-current liabilities to Group companies	-	105,240
Total non-current liabilities	140,000	105,240
Maturity of non-current liabilities		
Maturity		
2012 (2011)	5,000	93,054
2013 (2012)	110,000	12,186
2014 (2013)	10,000	-
2015 (2014)	10,000	-
2016 (2015)	5,000	-
Total non-current liabilities	140,000	105,240

The company has no debentures or other bond loans.

(EUR thousand)	2010	2009
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	21,223	1,126
Other interest-bearing liabilities to others	6,341	5,966
Total other interest-bearing liabilities	27,564	7,092
Total current interest-bearing liabilities	27,564	7,092
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	374	343
Trade payables to others	13,263	13,966
Total trade payables	13,637	14,309
Accrued expenses and deferred income		
to Group companies	111	77
to others	23,679	18,856
Total accrued expenses and deferred income	23,789	18,933
Other interest-free liabilities to others	1,199	1,464
Total interest-free liabilities	38,625	34,706
Total current liabilities	66,190	41,798

(EUR thousand)	2010	2009
Accrued expenses and deferred income		
Personnel expenses	9,163	7,637
Related to sales	6,498	5,111
Interest	1,593	34
Income taxes	262	3,282
Derivatives	2,213	-
Other	4,060	2,869
Total accrued expenses and deferred income	23,789	18,933

18. Contingent liabilities

(EUR thousand)	2010	2009
Lease liabilities		
Maturity within one year	1,040	1,096
Maturity later than one year	1,240	996
Total lease liabilities	2,280	2,092

(EUR thousand)	2010	2009
Loans secured with mortgages		
Loans from pension institutions	40,000	-
Mortgages given	53,000	-
Guarantees		
On behalf of Group companies	21,029	207,000 *)

*) Year 2009, include guarantee given on behalf of Tikkurila Group companies to former parent company Kemira Oyj, total EUR 200 million.

19. Derivative instruments

(EUR thousand)	2010		2009	
	Fair value	Nominal value	Fair value	Nominal value
Currency derivatives				
Currency forwards	119,834	-706	-	-
Interest rate derivatives				
Interest rate swaps	20,000	36	-	-

In year 2009, Tikkurila Oyj was part of Kemira Group. Treasury functions were in former parent company Kemira Oyj. Tikkurila Oyj had no derivative contracts in year 2009.

Shares and shareholders

Shares and share capital

The former parent company of Tikkurila, Kemira Oyj, distributed shares in Tikkurila Oyj to its shareholders as dividend in March 2010, and trading of Tikkurila Oyj's shares began on NASDAQ OMX Helsinki Ltd on March 26, 2010. At the end of 2010, Tikkurila's share capital was EUR 35.0 million, from a total of 44,108,252 registered shares. Tikkurila has one share series, and each share entitles its holder to one vote at the General Meeting and to an equal amount of dividend. Tikkurila's shares are registered in the Finnish book-entry system. At the end of 2010, Tikkurila held no treasury shares.

Board authorizations

Tikkurila's Annual General Meeting (AGM) was held on February 8, 2010, and Tikkurila Oyj's Extraordinary General Meeting (EGM) on March 4, 2010. The EGM authorized the Board to decide on the repurchase of a maximum of 4,410,825 treasury shares ("Repurchase authorization"). The repurchase authorization is valid until April 30, 2011.

Shares will be repurchased by using unrestricted equity, either through a direct offer with equal terms to all shareholders at a price determined by the Board of Directors, or otherwise than in proportion to the existing shareholdings of the company's shareholders in public trading on the Helsinki Stock Exchange at the market price quoted at the time of the repurchase. Shares will be acquired and paid for in accordance with the Rules of the Helsinki Stock Exchange and Euroclear Finland Ltd. The price paid for the shares repurchased through a tender offer under the authorization shall be based on the market price of the company's shares in public trading. The minimum price to be paid would be the lowest market price of the share quoted in public trading during the authorization period, and the maximum price would be the highest market price quoted during the authorization period.

Shares may be repurchased to be used in implementing or financing mergers and acquisitions, developing the company's capital structure, improving the liquidity of the company's shares or to be used for the payment of the annual fee payable to the members of the Board of Directors or implementing the Company's share-based incentive plans. In order to realize the aforementioned purposes, the shares acquired may be retained, transferred further or cancelled by the company.

The EGM authorized the Board to decide on the transfer of a maximum of 4,410,825 treasury shares ("Share issue authorization"). The share issue authorization is valid until April 30, 2011.

The company's own shares held by the company may be transferred either for consideration or without consideration.

The company's own shares held by the company may be transferred to the company's shareholders by not applying the shareholders' pre-emption 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 capital structure of the company, improving the liquidity of the company's shares or if this is justified for the payment of the annual fee payable to the members of the Board of Directors or implementing the company's share-based incentive plans. The directed share issue may be carried out without consideration only in connection with the payment of the annual fee payable to the members of the Board of Directors or implementation of the company's share-based incentive plan. The amount payable upon the transfer of treasury shares shall be recognized under reserve for invested unrestricted equity.

Tikkurila's Extraordinary General Meeting ("EGM"), held on March 4, 2010, authorized the Tikkurila Board of Directors to decide on the repurchase of a maximum of 4,410,825 treasury shares ("Repurchase authorization"). Based on this authorization, the Tikkurila Board of Directors decided on its meeting held on April 28, 2010, to acquire own shares and to grant those shares in order to effect the payment of Board members' fees. The annual fee of the Board is paid as a combination of the Company's shares and cash in such a manner that 40 percent of the annual fee is paid with the Company's shares purchased from the market, and 60 percent is paid in cash. Based on these decisions, the Company purchased 4,639 of its own shares from the market on May 10, 2010. The average price of the purchased shares was EUR 15.52 per share, and the total cost was EUR 71,983.77. The shares were transferred to the members of the Board by May 19, 2010.

On December 31, 2010, the amount of unused authorization was 4,406,186 shares.

Market capitalization and trading

At the end of 2010, the closing price for the Tikkurila share was EUR 16.51. The volume-weighted average share price for the review period (for the trading period Mar 26–Dec 31) was EUR 15.56, the highest price being EUR 16.95, and the lowest EUR 14.17. At the end of 2010, the market value of Tikkurila's shares, valued at the closing price, was EUR 728.2 million. During January–December 2010 (Mar 26–Dec 31), a total of close to 23.6 million Tikkurila shares, which is about 53.5 percent of the registered amount of shares, were traded on NASDAQ OMX Helsinki Ltd, and the value of the traded volume was EUR 367.5 million.

Holdings of Tikkurila's Board of Directors and Management Board

Tikkurila Board members and their interest parties held altogether 44,406 shares on December 31, 2010, which is 0.1 percent of the share capital and votes in Tikkurila. Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

The Tikkurila Management Board and their interest parties held altogether 4,899 shares on December 31, 2010, which is 0.01 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila public insiders is available on www.tikkurilagroup.com/fi/corporate_governance.

Dividend policy

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

The Board of Directors proposes to the Annual General Meeting to be held on March 31, 2011 that a dividend of EUR 0.70 per share will be distributed for the year ended on December 31, 2010. The proposed dividend corresponds to about 84 percent of the Group's 2010 earnings per share.

Shareholders

According to Euroclear Finland Oy's register, Tikkurila had a total of 25,806 shareholders on December 31, 2010, the largest single shareholder being Oras Invest Oy with 18.1 percent. A list of the largest shareholders is updated regularly on Tikkurila's website at www.tikkurilagroup.com.

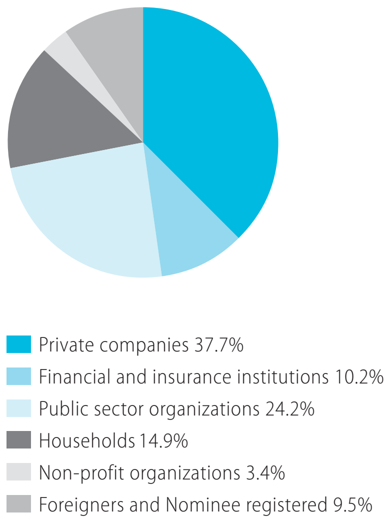
The most significant change in the ownership structure of Tikkurila took place in November 2010, when Solidium Oy sold its holding in Tikkurila (14.7% of the total amount of shares and votes in Tikkurila).

Flagging notifications for Tikkurila's shareholders in 2010

Oras Invest Oy announced on November 25, 2010 that its holding in Tikkurila shares exceeded the 3/20 (15%) threshold due to trades made on November 25, 2010. The holding amounted to 7,383,404 shares, which corresponded to 16.7 percent of the total amount of shares and votes in Tikkurila Oyj.

Solidium Oy announced on November 25, 2010 that its holding in Tikkurila shares fell below 1/10 (10%) and 1/20 (5%) threshold. The holding amounted to 0 shares, corresponding 0.0 percent of the total amount of shares and votes in Tikkurila Oyj.

Breakdown by shareholder category on December 31, 2010



Tikkurila's largest shareholders on December 31, 2010

		Number of shares and votes	% of share capital and voting rights
1	Oras Invest Oy	7,969,552	18.1
2	Kemira Oyj	6,175,155	14.0
3	Ilmarinen Mutual Pension Insurance Company	4,160,823	9.4
4	Varma Mutual Pension Insurance Company	3,796,459	8.6
5	Mandatum Life Insurance Company Ltd.	1,373,675	3.1
6	Tapiola Mutual Pension Insurance Company	1,273,906	2.9
7	Nordea Nordic Small Cap Fund	744,032	1.7
8	Alfred Berg Mutual Fund	484,516	1.1
9	The State Pension Fund	445,778	1.0
10	Kaleva Mutual Insurance Company	400,584	0.9
	10 largest registered shareholders total	**26,824,480**	**60.8**
	Nominee registered shares	3,803,349	8.6
	Other shares	13,480,423	30.6
	Total	**44,108,252**	**100.0**

Breakdown of share ownership on December 31, 2010

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	12,803	49.6	594,234	1.4
101–1,000	11,556	44.8	3,620,537	8.2
1,001–10,000	1,304	5.1	3,346,840	7.6
10,001–100,000	114	0.4	3,478,708	7.9
100,001–1,000,000	21	0.1	4,770,712	10.8
over 1,000,000	8	0.0	28,297,221	64.2
Total	**25,806**	**100.0**	**44,108,252**	**100.0**

Per share data	2010	2009	2008
Earnings per share, EUR [1]	0.83	0.63	0.83
Dividend per share, EUR [2]	0.70	-	0.45
Dividend payout ratio, % [2]	84.5	-	54.4
Dividend yield, % [2]	4.2	-	-
Equity attributable to owners of the parent per share, EUR [1]	4.31	3.26	1.96
Weighted average number of shares (1000)	44,108	44,108	44,108
Number of shares at the end of period (1000)	44,108	44,108	44,108
Equity attributable to owners of the parent	190,038	143,863	86,593
Price per earnings per share (P/E) ratio	19.9		
Share price, end of period, EUR	16.51		
Share price, year high, EUR	16.95		
Share price, year low, EUR	14.17		
Share price, volume-weighted year average, EUR	15.56		
Market capitalization at the end of period, EUR million	728.2		

[1] Due to comparability key ratios year 2009, 2008 are calculated as per the number of shares (44,108, 252) after the February 17, 2010 registered free share issue.

[2] The dividend 2010 is Board of Directors' proposal to Annual General Meeting on March 31, 2011

Formulas for calculation of share-related key figures are on page 63.

Board of Directors' proposal for the distribution of profits

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 111,079,370.42 of which EUR 21,112,404.46 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.70 per share be distributed as dividend from the net profit for the year and from retained earnings. The total dividend would amount to EUR 30,875,776.40. EUR 80,203,594.02 would be left in distributable funds.

The financial position of the company has not materially changed after the end of the financial year, and it is the Board of Directors' opinion, that the proposed distribution of funds does not compromise the company's liquidity.

Vantaa, February 10, 2011

Jari Paasikivi
Chairman of the Board

Petteri Walldén
Vice Chairman of the Board

Ove Mattsson
Member of the Board

Eeva Ahdekivi
Member of the Board

Pia Rudengren
Member of the Board

Erkki Järvinen
CEO

Auditors' Report

To the Annual General Meeting of Tikkurila Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tikkurila Oyj for the year ended December 31, 2010. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

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

Auditor's Responsibility

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

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

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

Opinion on the consolidated financial statements

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

Opinion on the company's financial statements and the report of the Board of Directors

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

Vantaa, February 10, 2011
KPMG OY AB
Pekka Pajamo
Authorized Public Accountant

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Permission to touch

Tikkurila's ambiguous Touching exhibition was created for the Helsinki Design Week together with the design company Pentagon Design. The idea was to present interesting surfaces and activate people to touch them. In most art exhibitions, people are told not to touch the art, so Tikkurila wanted to offer the exhibit visitors a chance to touch and feel painted or otherwise treated surfaces. In order for this to feel natural, life-size animals were chosen as the exhibition objects.

The popular installation has also been exhibited, for instance, at the New York Design Week, Habitare and Heureka. The exhibit's absolute favorite is the little calf, Taika, that has been painted with Taika Gold paint. One little exhibit visitor did all she could to take Taika home with her.

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