Tikkurila Annual Review 2019

Contents


TIKKURILA
LUJA 40
KESTÄVÄ PINTAMAALI / PUOLIKIILTÄVÄ
Slitstark täckfärg / Halvblank
Extra durable finish / Semi-gloss

Sustainable Nordicness

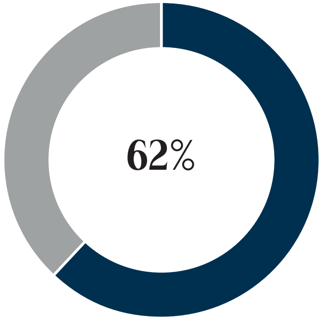
Tikkurila is a leading Nordic paint company with expertise that spans decades. We develop premium products and services that provide our customers with quality that will stand the test of time and weather. The company is listed on Nasdaq Helsinki. Nordic quality from start to finish since 1862.

Facts about Tikkurila

- Established in 1862
- Listed on Nasdaq Helsinki
- Around 2,700 dedicated professionals in 11 countries
- 8 production facilities in 6 countries
- Products available in more than 40 countries
- Largest markets: Russia, Sweden, Finland, Poland and the Baltic countries
- Revenue in 2019: EUR 564 million
- Adjusted operating profit 2019: EUR 46 million

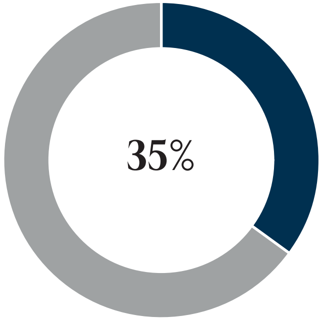
Tikkurila is a market leader in North Eastern Europe

FINLAND



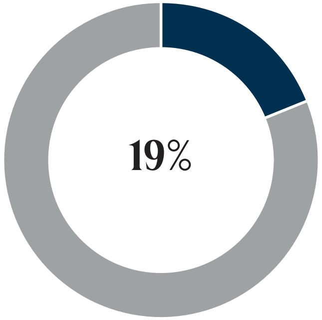
MARKET POSITION: 1.

SWEDEN



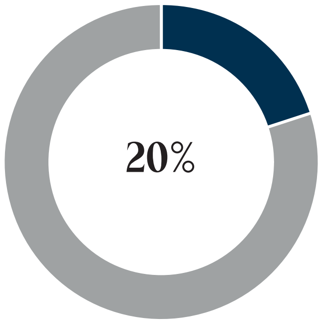
MARKET POSITION: 1.

RUSSIA



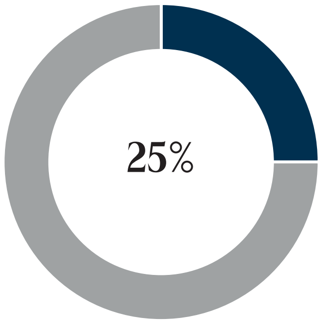
MARKET POSITION: 1.

POLAND



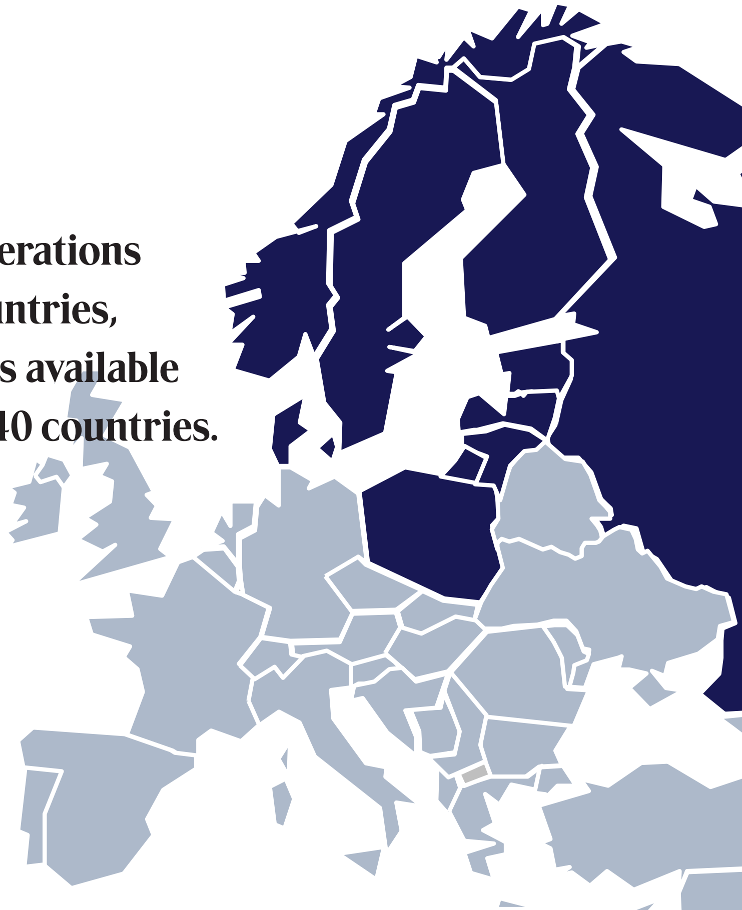
MARKET POSITION: 4.

BALTICS



MARKET POSITION: 1.

* Markets shares in value in decorative paints for 2019 (Finland, Sweden) and for 2018 (Russia, Poland, Baltics).



Own operations in 11 countries, products available in over 40 countries.

Three premium brands – most well-known in the markets

TIKKURILA Beckers ALCRO

As the market leader we serve all customer segments

As a paint industry player, we are positioned between raw material and packaging material suppliers and retail in our value chain. We sell decorative paints and painting related merchandising and services primarily to paint wholesalers or retailers and directly to construction supply stores. In addition, we have our own stores for professional customers in Scandinavia. We sell industrial coatings either directly to customers or through our Tikkurila Industrial Paint Service retailer network.

83% decorative paints

CONSUMERS

- Renovators
- Decorators
- Gardeners
- Home and garden builders

PROFESSIONALS

- Contractors
- Designers and Architects
- Investors
- Other influencers

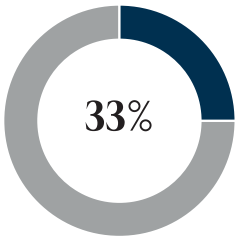
17% industry paints

INDUSTRY

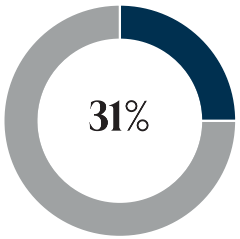
- Wood industry
- OEM
- Protective coatings
- Other pre-treated surfaces

Key distribution channels*

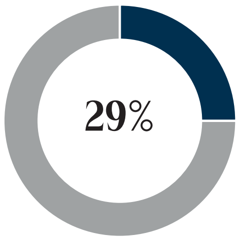
BIG BOXES
(E.g. K-Rauta, Bauhaus, Leroy Merlin)



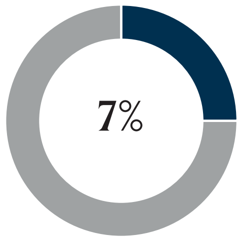
DISTRIBUTORS



SPECIALIZED PAINT STORES
(E.g. RTV, Happy Homes, Colorama)



OWN STORES*
Tikkurila's own pro shops



*share of revenue in 2018

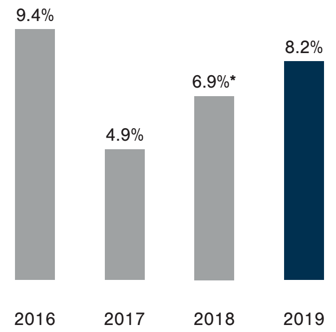
* Tikkurila has own retail stores in Sweden (10), Norway (6), Denmark (7).

In 2019 Tikkurila continued its successful turnaround

Tikkurila is on track with the extensive transformation program initiated in 2017 to boost profitability and efficiency. Tikkurila focuses on value and profitability over volume. For this purpose, Tikkurila focuses on the company's key premium brands and products, as well as the increased sustainability and functionality of its offering.

ADJUSTED OPERATING PROFIT MARGIN

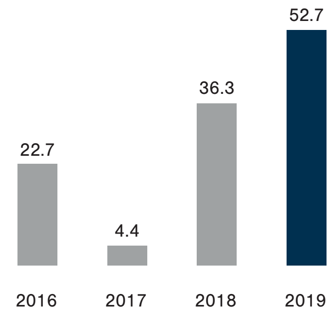
(%)



* Including EUR 6 million of insurance compensation

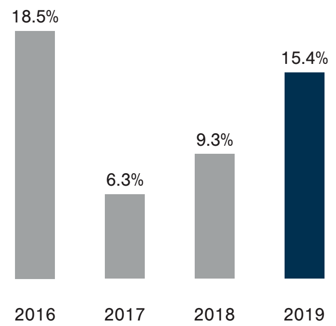
CASH FLOW AFTER CAPITAL EXPENDITURE

EUR million



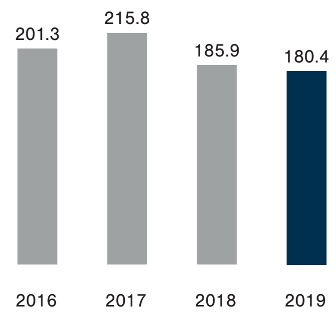
RETURN OF CAPITAL EMPLOYED

(%)



FIXED COSTS

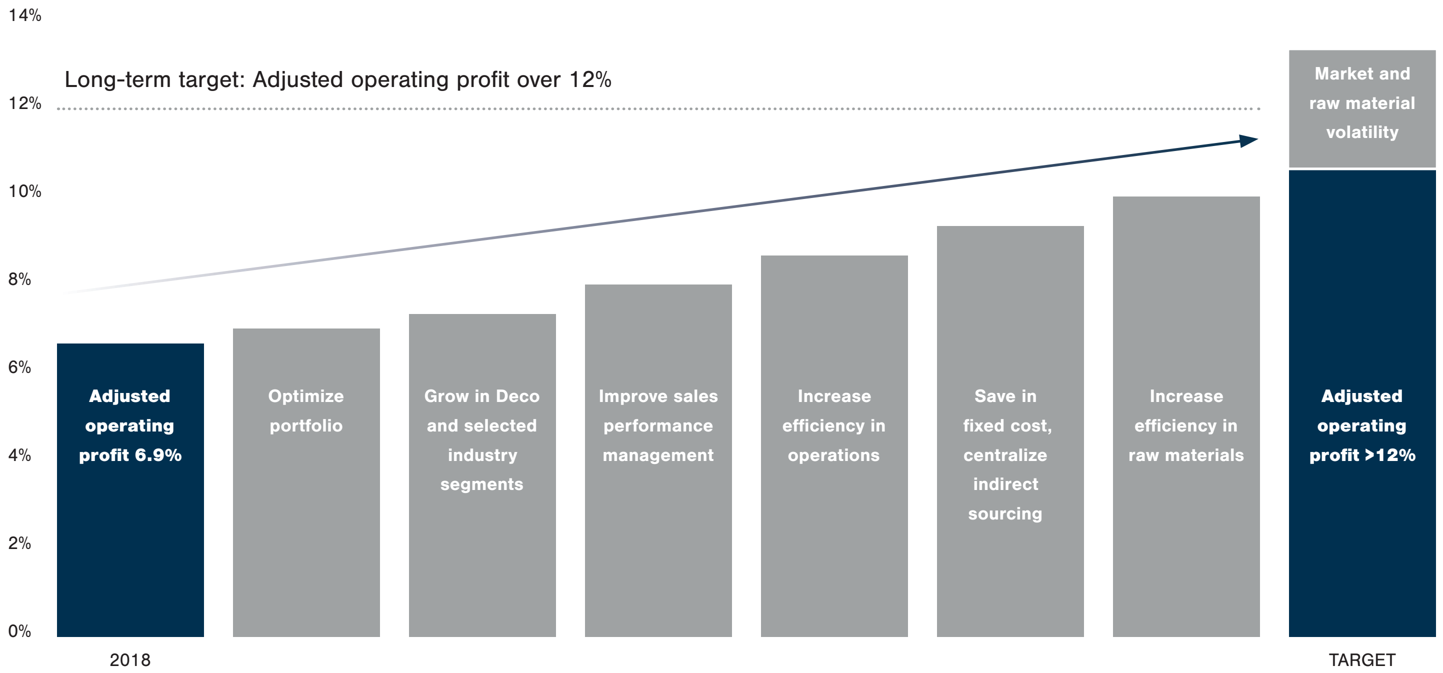
EUR million



"Tikkurila is committed to creating value by improving efficiency and accelerating organic growth."

Elisa Markula
CEO

We have a clear action plan to continue to improve Tikkurila's performance



"We continue to systematically execute our strategic action plan."

Markus Melkko
CFO

Key achievements in 2019

Portfolio

- Less complexity: less formulas, less raw materials, less sales articles (10,000 => 5,000)

Growth

- New products for consumers, professionals and industry customers
- Tikkurila brand's new visual identity rolled out in finland
- R&D focus on sustainability, functionality & services

Sales

- Continued price increases to match raw material inflation
- Centralization of core marketing teams finalized
- Sales leadership strengthened

Operations

- Continued to work on the future Supply Chain Footprint
- Further optimized S&OP

Fixed costs

- Fixed expenses down by EUR 35.4 million from 2017
- Strict cost discipline continued

Raw materials

- A large number of cost reduction actions identified
- Commercial negotiations with major suppliers as planned

Tikkurila is committed to creating sustainable value for all our stakeholders

INPUT

FINANCIAL CAPITAL
- Assets EUR 437.1 million (2018: 400.0)
- Interest-bearing net debt EUR 78.4 million (2018: 85.5)
- Equity EUR 171.9 million (2018: 150.1)

INFRASTRUCTURE
- 8 production units in 6 countries
- 11 training centers in 9 countries
- R&D centers in 5 countries
- Approx. 500 raw material and packaging material suppliers

INTELLECTUAL CAPITAL
- Strong brands
- Comprehensive surface treatment knowhow
- High-class product development
- Professional and versatile services
- Extensive distribution network

HUMAN CAPITAL
- 2,713 employees in 11 countries (average during 2019)
- Investments in occupational safety and well-being

COMMUNITY AND RELATIONSHIP
- Long-term customer relationships
- Active in industry associations
- Cooperation in the near-by community

NATURAL RESOURCES
- Energy and water
- Purchased raw materials and packaging materials

BUSINESS

CUSTOMERS
- Consumers and professionals 83%
- Industrial customers 17%

KEY FUNCTIONS
- raw material and packaging material purchase
- research and development
- production and distribution
- sales and marketing

COMMITTED PERSONNEL AND KNOW-HOW

STRATEGY
We create sustainable Nordic quality surfaces that make a difference. By having the happiest customers, we aim to grow in decorative pains as well as selected industry segments, while at the same time continuously improving our efficiency and profitability. Our long-term target is to achieve an adjusted operating profit above 12%.

A sustainable way to act and promote the well-being of our customers as well as the environment is a key part of the strategy.

OUTPUT

SURFACE TREATMENT SOLUTIONS
- Extensive selection of interior paints, lacquers and effect products; exterior products for wood, masonry, and metal surfaces.
- Paints and coatings for metal and wood industries.

SERVICES
- Color ideas, planning and tinting services.
- Painting guidance, expert and training services, technical consultation.
- Ideas and instructions for painting, choosing the right product and color, search services.

LEADING MARKET POSITION *
Tikkurila is the market leader in Finland, Sweden, Russia and the Baltics. In Poland we are one of the four large producers.

WASTE AND EMISSIONS
- Waste (own operations) 6,753 tn (2018: 6,948)
- Direct CO_2 emissions 4,596 tn CO_2 (2018: 4,782)

MORE WATER-BORN PAINTS
- 74% of all paints are water-borne **
- 83% of all decorative paints are water-borne **

*Decorative paints
**Share of value

IMPACT

VALUE FOR CUSTOMERS AND THOSE INFLUENCING THE PURCHASE DECISION
- Successful and durable end-results, high-quality surfaces
- Customer satisfaction

VALUE FOR OWNERS AND INVESTORS
Dividend proposal EUR 0.50 (2018: 0.33) per share*
*The Board's proposal to the AGM.

IMPACT IN THE COMMUNITY
- Employment: wages and benefits EUR 99.3 million (104.1)
- Gross taxes EUR 12.4 million (7.1)
- Community projects and donations

IMPACT ON THE ENVIRONMENT
- Protecting the environment, enhancing the sustainability of building stock and infrastructure.
- Making spaces more beautiful, thus having a positive impact on the living environment and people's well-being.
- Own operations: more efficient use of energy and water, decreased amount of emissions and waste, increased amount of recyclable waste.

Profitability and cashflow improved

In 2019, Tikkurila's profitability continued to improve, and cash flow was strong compared to the previous year. Our financial turnaround has been driven by the increased sales of our premium brands, continued price increases to offset high raw material costs and the strict cost control. The full impact of the restructuring measures executed in 2018 was now also visible in our fixed costs. We expect profitability to continue to improve this year. In the long term, our long-term target is to achieve an adjusted operating profit margin above 12 percent.

FOCUS ON PROFITABILITY, REVENUE INCREASED SLIGHTLY

Since 2017, Tikkurila has increased its adjusted operating profit by almost twenty million euros, and we have tripled our earnings per share. While we have cut our fixed costs by over 35 million euros, our financial turnaround has also been driven by the increasing sales of premium brands, continued price increases to offset high raw material inflation, and strict cost control.

We focused on profitability, and our revenue remained stable despite a challenging year in the paint market. Comparable revenue increased slightly, but regionally performance was mixed. In Russia and Poland, strong performance continued in growing markets. In Finland and Sweden, revenue declined in a soft market driven by lower levels of pre-season sales of exterior paints.

Tikkurila is the market leader for decorative paints in Russia, Sweden, Finland and the Baltics. In Poland, we are rapidly approaching third place in a market where four leading players compete fairly evenly for market leadership. Going forward, our key priority is to improve sales performance in the two mature markets.

THE RENEWED STRATEGY WAS A JOINT EFFORT

During last year, we renewed Tikkurila's strategy, and over a hundred Tikkurila employees took part in the process. The focus areas of Tikkurila's strategy are profitable growth, efficiency improving cost competitiveness and a value-based corporate culture. Tikkurila's target is to grow faster than the market in its market areas.

Tikkurila's vision and mission have been united into one purpose: "We create sustainable Nordic quality surfaces that make a difference". A sustainable way to act and promote the well-being of the environment is the key part of our strategy. Further, in line with our sustainability promises we will accelerate the shift towards water-borne paint products and enhance their use. In 2019, over 74 percent of all the paints we sold were water-borne.

We have defined six strategic focus areas, with special emphasis on developing sales performance management, increasing efficiency in operations and boosting growth.

WE FOCUS ON OUR PREMIUM BRANDS

Decorative paints currently generate over 80 percent of our revenue. We have decided to focus on three core premium brands: Tikkurila, Beckers and Alcro. Marketing investments are now concentrated on these premium brands, accounting for 80 percent of our total sales. Overall, increasing demand for premium brands continues to be a key driver for growth, especially in Russia and Poland. By implementing group-wide marketing campaigns we are further improving efficiency in sales. In 2019, we also started the roll-out of Tikkurila brand's new visual identity. in Finland, and other countries will follow this year. We inspired our customers by announcing Flamingo as the Color of the Year for 2019 and revealed that the Color of the Year for 2020 is Lemonade.

LAUNCHING NEW PRODUCTS AND DIGITAL SERVICES – AND IMPROVING SALES EFFICIENCY

We launched dozens of new products, especially for wooden surfaces. Thanks to the new products such as fire-retardant solutions and successful new customer acquisition, our wood industry business grew. Metal industry business was negatively impacted

"Tikkurila's vision and purpose inspire us into responsible actions" by the softening general market demand, especially in Sweden and Finland. To accelerate growth, we launched new products also to the metal industry customers.

We continued to strengthen sales leadership during the year, and the new Executive Vice President for Sales started in May. Later in the year, we appointed a new director to be responsible for international key accounts, as well as a new country sales director for Sweden. Overall, we continued to tighten cooperation between sales, marketing and operations to improve the customer experience and product availability. In practice, this means better demand forecasting and offering planning.

I'm particularly proud that we have been able to launch new digital services for our customers. Good examples of these are using chatbots for customer service, a new building information modelling solution for architects and designers as well as e-learning trainings for B2B customers. Annually we train around 30,000 customers. Internally, we also implemented new digital tools to improve sales efficiency. Continued digitalization efforts will remain vital also in the coming years.

MORE EFFICIENT OPERATIONS AND SOURCING

During the past two years, we have optimized our production and logistics. Unprofitable businesses have been divested, and smaller production sites closed. We have also started planning for the relocation of the production facilities in Vantaa, Finland, in the coming years.

Our headquarters moved to a new rental office last spring, but we remain close to our factories and product development. As part of the strategy work, we re-evaluated the planned new greenfield factory project in Russia in terms of market outlook and profitability. As the estimated return on the planned investment did not meet our targets, we decided to explore alternative options to support business growth in Russia. We will put special emphasis on increasing sales of water-borne solutions.

Sourcing has already identified a significant number of cost savings opportunities, some of which were already implemented during the fourth quarter. Commercial negotiations with major suppliers progressed as planned, with full impact expected in 2020. Close monitoring of costs will continue this year, and we will pay special attention on indirect sourcing.

Tikkurila has a lot of potential, and the full impact of our strategic actions will only be seen in the longer run.

SUSTAINABILITY IS PART OF OUR PURPOSE AND DAILY BUSINESS DECISIONS

In almost 160 years, Tikkurila has accumulated an enormous amount of expertise in surface treatment. This enables us to provide our customers with high-quality products, and we also want to be environmentally responsible. Our customers want more sustainable solutions, and we want to fulfill the demand.

> **"We create sustainable Nordic quality surfaces that make a difference."**

This year, we will once again take significant steps to further integrate sustainability into Tikkurila's business. Last year we appointed a new director for sustainability, and I expect him to coach and challenge our functions to strengthen the integration of sustainability into our management. We are not building a separate sustainability function, but instead sustainability and its development are part of every employee's job description.

In product sustainability we are focused on improving the safety and sustainability of our offering. Our goal is to replace oil-based raw materials with bio-based or recycled alternatives. We are also focused on improving indoor and outdoor air quality, without compromising product durability and effective surface protection. In Tikkurila's own operations we focus on eco-efficiency and eliminating waste. We audit raw material and packaging suppliers from an environmental and social responsibility (ESG) perspective and develop more environmentally friendly packaging solutions. During this year, we expect to finalize targets for sustainable energy sourcing.

First and foremost, sustainability is about concrete actions. Our everyday business conduct, our factories as well as the entire supplier chain all play a vital role in this important work. But it is also important to remember that environmental impacts are not the whole picture: by beautifying and coloring surfaces we can also improve a person's well-being!

VALUES GUIDE OUR ACTIONS

We have renewed the definition of our values, together with our employees. Over 900 of our employees took part in value workshops. Values guide all our actions, also when working with our external stakeholders. Our goal is to create a shared, value based corporate culture. A culture so strong that no competitor can copy it from us.

Tikkurila's operations are now centralized and we have created a function-based organization. Sales and local marketing are run by business unit, often on a country level. We have created new shared ways of working, and we continued to strengthen the way they are applied. Continuous improvement is an important part of our corporate culture.

Our strong value-based culture is also visible in the results of the recent employee survey, conducted by an external research company. 89 percent of our employees took part in the survey, and we received a "Good AA" rating. The survey will allow us to track progress as we repeat the same survey this year.

SURFACES THAT MAKE A DIFFERENCE

Tikkurila's purpose "surfaces that make a difference" drives us to create solutions with a maximal customer experience. We aim to be the most sustainable producer in the markets where we operate. We believe that sustainability is not only the right thing to do, it also makes good business sense. Increasing demand for sustainable solutions increases our topline, while resource efficiency is good for the bottom line. A responsible employer also attracts committed employees. We create surfaces that make a difference.

I want to thank our skillful and committed employees, our shareholders, our customers and all our stakeholders for good cooperation during the year. We can only succeed if we work together, continue to challenge ourselves and act responsibly. Our shared mission is to do our part in ensuring sustainable development of the planet for future generations.

Elisa Markula
CEO

Content

Board of Directors' Report 2019

In 2019, Tikkurila continued the systematic execution of the strategy action plan to improve efficiency, improve profitability and support growth. In sales, we prioritized value and profitability, focusing on the company's premium brands and products. In product development, the focus was on increasing the sustainability and functionality of Tikkurila's offering.

Tikkurila's adjusted operating result increased by 19.5 percent from the previous year, and cash flow was strong, driven by good development in profitability. Despite the challenging market situation, total revenue remained stable, but regionally performance was mixed. Strongest performance was seen in the growth markets of Russia and Poland, while in more mature markets in Finland and Sweden revenue declined. Improving sales performance in these two mature markets remains a key priority for Tikkurila.

FINANCIAL PERFORMANCE IN 2019

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

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

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

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

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

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

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

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

Effects of various factors on revenue for the Group	Full year (1-12)	
	EUR million	%
Revenue in 2018	561.5	
Volume	-13.8	-2.5%
Price/mix	+21.6	+3.8%
Currencies	-3.1	-0.5%
Divestments and closures	-2.3	-0.4%
Revenue in 2019	563.8	100.4%

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

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

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

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

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

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

SBU West

EUR million	**1–12/2019**	1–12/2018	Change %
Revenue	**370.0**	381.2	-2.9%
Excl. FX, divestments and closures			-0.8%
Adjusted operating result	**30.7**	34.5[1]	-11.1%
Adjusted operating result margin, %	**8.3%**	9.1%	-0.8% -p
Operating result (EBIT)	**30.4**	22.7	+33.9%
Operating result (EBIT) margin, %	**8.2%**	6.0%	+2.2%
Capital expenditure, excl. IFRS16	**7.8**	5.9	+31.3%

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

Revenue in key countries

EUR million	**1–12/2019**	1–12/2018	Change %
Sweden	**118.7**	127.6	-7.0%
Finland	**91.1**	94.4	-3.4%
Poland	**89.4**	84.6	+5.6%

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

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

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

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

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

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

Effects of various factors on revenue in SBU West	Full year (1-12)	
	EUR million	%
Revenue in 2018	381.2	
Volume	-9.3	-2.4%
Price/mix	+6.4	+1.7%
Currencies	-6.0	-1.6%
Divestments and closures	-2.2	-0.6%
Revenue in 2019	370.0	97.1%

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

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

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

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

SBU East

EUR million	**1-12/2019**	1-12/2018	Change %
Revenue	**193.8**	180.3	+7.5%
Excl. FX, divestments and closures			+5.9%
Adjusted operating result	**22.0**	9.9	+122.1%
Adjusted operating result margin, %	**11.4%**	5.5%	+5.9% -p
Operating result (EBIT)	**20.0**	9.4	+112.5%
Operating result (EBIT) margin, %	**10.3%**	5.2%	+5.1% -p
Capital expenditure, excl. IFRS16	**3.3**	4.5	-25.9%

Revenue in key countries

EUR million	**1–12/2019**	1–12/2018	Change %
Russia	**143.6**	134.4	+6.9%

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

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

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

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

Effects of various factors on revenue in SBU East	Full year (1-12)	
	EUR million	%
Revenue in 2018	180.3	
Volume	-4.5	-2.5%
Price/mix	+15.2	+8.5%
Currencies	+2.9	+1.6%
Divestments and closures	-0.1	0.0%
Revenue in 2019	193.8	107.5%

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

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

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

PROGRESS OF THE STRATEGY ACTION PLAN

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

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

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

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

Key improvements in 2019

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

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

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

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

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

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

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

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

CAPITAL EXPENDITURE

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

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

SALES AND MARKETING

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

In 2019, Tikkurila continued to focus on the company's three core premium brands: Tikkurila, Beckers and Alcro. During the year, the consolidation of the marketing organizations for the core brands was finalized, and marketing investments were concentrated on these brands, leading to increased premiumization. While the emphasis of Tikkurila's operations is on premium products, due to the demand structure of certain markets, it also supplies some medium- and economy-segment products. According to external surveys, the Tikkurila Group's strategic brands are either the best known or among the best-known paint brands in their respective market areas.

Tikkurila develops high-quality, user-friendly and environmentally sustainable solutions, and trains its stakeholders in the durable use of its products. The target is to offer the best user experience. Tikkurila invests in developing solutions that make the selecting, purchasing and selling of paints easier, and supports its customers through every stage of their painting to ensure successful and durable end results. Tikkurila's range of services include color design and tinting services, painting advice, as well as expert consultation and training services.

The skilled personnel guide the customers by providing them painting advice and help with product and color selection. Through ideas and instructions offered in stores and in digital channels, Tikkurila inspires people to paint, helping them choose the right products, and gives advice on the safe use of the products.

RESEARCH, DEVELOPMENT AND INNOVATION

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

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

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

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

SHARES AND SHAREHOLDERS

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

According to Euroclear Finland Oy's register, Tikkurila had 18,449 (19,732) shareholders on December 31, 2019, A list of the largest shareholders registered in the book-entry system is regularly updated on Tikkurila's website at https://www.tikkurilagroup.com/shareholders. Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the Chairman of the Board in Oras Invest Oy, which is the single largest shareholder in Tikkurila. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at https://www.tikkurilagroup.com/investorsgovernance/insiders.

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

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

Major shareholder notifications

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

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

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

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

Custodian
Bank of New York Mellon 854,758
JP Morgan 103,039
Northern Trust 960,779
State Street Bank & Trust Company, Boston 1,264,462
Total 3,183,038

SHARE-BASED INCENTIVE PLANS

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

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

More information about current share-based incentive plans is available in the Remuneration statement published on the Company's website.

CORPORATE GOVERNANCE

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

MEMBERS OF THE NOMINATION BOARD

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

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

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

TIKKURILA MANAGEMENT TEAM

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

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

In April, **Markus Melkko** (born 1975, M.Sc. (Tech.) B.Sc. (Econ.) started as the Chief Financial Officer and member of Tikkurila Management Team. The previous CFO Jukka Havia (member of the Tikkurila Management Team since 2010) resigned from Tikkurila to pursue his career outside the company.

In May, **Oskari Vidman** (born 1976, M.Sc.Econ.) started as Senior Vice President, Sales, and a member of Tikkurila Management Team. He is responsible for developing and driving Tikkurila sales to all customer segments: Consumers, Professionals and Industry. The country Sales functions and International Key Account Management report to Vidman.

DECISIONS OF THE ANNUAL GENERAL MEETING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANNUAL GENERAL MEETING 2020

The Annual General Meeting of Tikkurila Oyj is planned to be held at 10:00 a.m. on Tuesday, March 24, 2020 at the Finlandia Hall (address: Mannerheimintie 13, 00100 Helsinki). Tikkurila's Board of Directors will convene the meeting. The Board of Directors' Report and Financial Statements will be available on March 3, 2020, the latest, at www.tikkurilagroup.com

REPORTING ON NON-FINANCIAL INFORMATION

Tikkurila is a Nordic paint company whose products are manufactured of carefully chosen raw materials that meet the highest quality and safety standards. As a pioneer of durable and safe painting, surface treatment and use of colours, Tikkurila is committed to taking concrete measures to ensure that the solutions it produces and offers to its customers are increasingly sustainable.

More information on Tikkurila's sustainability approach can be found in a separate sustainability report that will be publicly available on the Group website on March 3, 2020, the latest at www.tikkurilagroup.com/sustainability. This report has been externally audited. Risks and risk management related to non-financial matters are included and described in the risk section in this Board of Directors' Report.

Business model and value creation

Tikkurila is a paint and coating manufacturer with paint raw material and packaging suppliers upstream and retail, industrial customers and consumers downstream in our value chain. We offer paint and coating products and systems for decorating interior as well as exteriors surfaces for consumers, professionals and industrial customers. Our range of products and services include color and tinting, painting advice as well as expert and training services. The core added value that Tikkurila contributes to the value chain of coated surfaces, is our ability to combine the right amount of the right substance and/or compound, mix and dissolve them in the right sequence in correct conditions for efficient delivery of safe, cost competitive high quality products for sales to customers and consumers.

In our business model, strong brands, generated through high-quality and long-term product development and considerable marketing investments, are emphasized. We sell decorative paints and painting related merchandising and services primarily to paint wholesalers or retailers and directly to construction supply stores. Tikkurila has eight paint manufacturing units in six countries and we employed 2,607 people at the end of 2019.

Material sustainability aspects

Sustainability for Tikkurila entails identifying and addressing social, ethical as well as environmental aspects and impacts without compromising the financial ambition and commitments defined and communicated. The universe of sustainability aspects is a moving target and requires continuous monitoring. When identifying, consolidating and crystallizing the sustainability aspects affecting our organization, Tikkurila is relying on established contacts and active dialogue with our stakeholders, review and assessment of the existing legal and regulatory framework including the development and changes in it, regional and local customer and market trends, consumer behavioral insight, competitor analyses and all the additional intelligence and insight collected by the organization, including specific studies. Specifically conducted interviews and workshops together with management and experts from Tikkurila functions and countries is also contributing to this continuous work.

The material (significant) sustainability topics have been defined relying on internal and external stakeholder input, the legal and regulatory development, market and customer intelligence and the aspects identified through our management systems, including the externally certified management systems. The weighting and prioritization of the identified sustainability aspects is affected by variables such as obligatory requirements, risk for non-compliance, business and eco-efficiency opportunity, customer need, concern or request, direct and indirect environmental impact, occupational health & safety risk, mid-term and long-term market trends and identified megatrends. The issues are clustered into sustainability value chain areas, in line with the sustainability governance model namely:

- Sourcing Sustainability, supplier ethical and social performance management assessment, packaging
- Operations Sustainability, occupational health and safety, resource efficient operations, responsible company and fair employer
- Product Sustainability, Product development and innovation, high quality and durable sustainable solutions

The sustainability aspects with corresponding actions have been integrated into the Group Strategy and strategy execution roadmap.

Policies and principles

Tikkurila always conducts its business in compliance with high ethical standards and legislation, and in accordance with the company's values and Code of Conduct. Regardless of the market area, we extensively comply with internationally recognized principles of social responsibility with regards to human rights, employment, the right of association, discrimination, working hours and conditions, occupational health and safety as well as environmental protection and ethical business operations. We also aim to ensure our business partners' compliance with these principles.

Tikkurila's vision and mission have been united into one purpose: "*We create sustainable Nordic quality surfaces that make a difference*". A sustainable way to act and promote the well-being of the environment is woven into that purpose.

Our values – trustworthy, innovative and professional – steer our operations and support sustainable activities. They come alive in decision-making situations every day, on both small and large scale.

Our code of conduct outlines the fundamental requirements for how we do business: our approach to professional business relations; conflicts of interest; the protection of company assets; fair competition; human rights and equality; health & safety and the environment, as well as trust and privacy. We expect every single Tikkurila employee and company representative as well as business partner to act in accordance with the requirements of the Tikkurila Code of Conduct.

In grievance cases, employees and other stakeholders can report anonymously misconduct of business practices, violations of the Code of Conduct as well as other illegal or unethical business practices. The objective of the system is to ensure that Tikkurila's daily operations appropriately comply with good governance and business principles and that any violations thereof and other illegalities are reported.

In addition to the Tikkurila Code of Conduct, our daily work and compliance of operations is steered by a variety of policies, principles, procedures and requirements complementing applicable legislation, such as:

- Corporate governance Code for listed Companies
- Authorization policy
- Anti-corruption policy
- Competition law compliance policy
- Privacy policy, along with the company GDPR processes
- Risk management policy
- Health, Safety and Environment guidelines
- Sourcing principles
- Disclosure policy
- Insider policy

Certified operations

Tikkurila relies on internationally recognized standardized management systems for creating a continual improvement and systematic management culture of environmental and occupational health & safety aspects. Management systems provide a structure for the environmental and occupational health & safety work and drive the continual improvement efforts. It enables better transparency of risks, improvement opportunities and support Tikkurila's ambition of eco-efficiency and high quality of occupational health & safety management.

The implemented management systems are ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety and ISO 9001 for quality management. The management systems implemented on Tikkurila sites are externally certified on our main sites and main stand-alone warehouses.

Environmental matters

The most significant sustainability aspects of Tikkurila, recognizing social and ethical aspects, are however environmental aspects related to our products and the manufacturing of them.

Environment and products

Looking at the life cycle of painted surfaces, the environmental aspects are typically to be derived from the raw materials we source, and the material we apply our products on. Manufacturing paints and coatings has, regardless of the environmental impact category studied, a relatively small environmental life cycle impact in the life cycle of a painted surface.

The environmental performance of our products is an important variable of our value proposition. In order to make informed decisions within the organization, facts and science-based information is vital. Relying on third party assured label schemes like the Nordic Swan is one of the tools used. We want to secure that the product development seeking environmental performance improvements delivers a net environmental contribution of our products in their life cycle compared to merely deliver a shift of the environmental impact within the life cycle or between environmental impact categories.

In 2019, Tikkurila did not record any product safety incidents or product non-compliance cases with regulators, nor did Tikkurila record any incidents of product non-compliance with regulators and / or voluntary codes concerning marketing communications, including advertising, promotion or sponsorship during the reporting period. Consequently, During the year, Tikkurila has not received any fines, penalties or warnings of non-compliance concerning our products or marketing communications of them.

Environment and operations

The main environmental aspects of paint manufacture (operations) relate to waste including wastewater, energy consumption, compounds evaporation and emissions. Within Tikkurila, Occupational Health & Safety is also defined as a significant sustainability aspect within operation.

In 2019, Tikkurila invested EUR 0.4 (0.3) million into environmental protection in its units, and environmental operational expenditures totaled EUR 2.1 (1.5) million. Tikkurila did not record any significant spills during the reporting period.

Tikkurila received environmental fines totaling EUR 1,868 during the reporting period. In Tallinn, the wastewater discharges exceeded the threshold values three times and in Russia late reporting of emission measurements at the Mytishi warehouse resulted in fines.

Additionally, in Lithuania Tikkurila has appealed to a local court regarding decision by local environmental authorities on environmental taxes.

Related to the closing of the German operations Tikkurila has participated in the cleaning of contamination found in its former warehouse area.

Sourcing and sustainability

Tikkurila has approximately 500 local and international raw material and packaging material suppliers. We source from large multinational organizations as well as smaller and local organizations. We only cooperate with suppliers that have been approved by our principles for supplier collaboration and make a Group-level agreement with our most significant suppliers.

Tikkurila monitors and assesses suppliers on a regular basis through evaluation and auditing processes. Tikkurila requires suppliers and partners to operate in accordance with Tikkurila Code of Conduct and fulfill the requirements on quality, safety, environmental and social responsibility: We either check that the supplier's Code of Conduct is in line with ours, or we agree that they adopt our Code of Conduct. Tikkurila conducts some 5 physical audits per year, with 51 physical audits conducted since 2013. The audits and evaluations assess the suppliers' order, delivery and production processes, quality control measures, as well as management of environmental, health & safety aspects and impacts.

	2019	2018	2017	2016
Group agreement, % of raw material and packaging material purchases	**46**	45	43	39
Supplier audits, number	**5**	11	2	4

By the end of 2019, 46 percent of raw material and packaging material spend was covered by a Group agreement.

Social and personnel matters
Corporate social responsibility is taken into account in all stages of our operations, from raw material selection and supplier management to production and the use and disposal of products. All this is done in cooperation with various stakeholders. The social impact of our operations has been determined, and the key effects have been identified as social issues relating to the supply chain, the occupational health & safety and job satisfaction of our employees, and other social issues relating to Tikkurila's operations.

Personnel
The personnel at the end of the reporting period was 2,607 (2,717) 98% (98%) being full time employees. 99% (99%) of the men and 97% (98%) of women are employed full time.

Women represent 36% (36%) of all employees, and out of these women employed, 79.4% (79.8%) are white collar workers. The corresponding relationship for men is 58.0 % (59.4%) More than 95 % of employees enjoy a permanent employment contract with the corresponding percentage for female employees being slightly lower reaching 93 % (89%), and for male 97% (94%).

Target setting and development discussions between employees and their supervisors are conducted at Tikkurila on an annual basis relying on a group-wide performance management model titled Tikkurila Drive. Tikkurila Drive cover all white-collar employees and experts in the countries in which Tikkurila operates.

Based on the employee survey, 87% of white-collar employees reported having had a target setting and performance management discussion with their manager and 81% reported having had development discussions.

Employee satisfaction and engagement
Tikkurila conducts an annual employee survey (Spirit). The survey is conducted with an external partner and it measures commitment, leadership and performance across the company. The results show our strengths and areas were development is needed. Based on the results action plans will be put together and carried out on team, functional and company levels.

Regarding blue-collar workers, Tikkurila follows country-level practices, which vary by country, for target setting, performance management and individual development.

In 2019, a new employee survey (Spirit) was launched in 2019. The survey's response rate was 89% and Tikkurila reached on overall AA rating ("Good"), the third highest score on the scale. The results will be assessed and communicated widely within the organization, and actions plans will be derived from the results.

Respect for human rights
Tikkurila recognizes its responsibility to respect human rights and requires its business partners to do the same. Tikkurila is committed to international frameworks related to human rights, such as the UN Guiding Principles on Business and Human Rights. Tikkurila recognizes the business benefits of having a diverse workforce and aims to provide equal opportunities for everyone.

Anti-corruption, anti-bribery and competition law compliance
Tikkurila has several policies in place which guide its and its partners' operations regarding corruption, bribery and competition compliance. Tikkurila arranges regular training on its Code of Conduct, anti-corruption principles and competition compliance guidelines to enforce the principles set in the policies. All Tikkurila's suppliers are required to commit to the principles set in the supplier code of conduct.

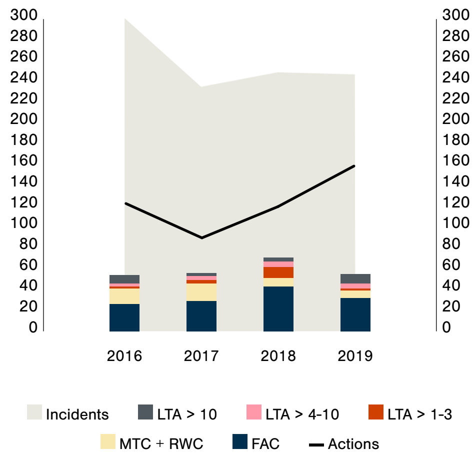
In Poland, the supreme court has returned a decision regarding a competition law fine from 2016 to a lower court to be reviewed.

Occupational safety
Safety first is a principle that applies in our operations. In addition to building a safety culture and safe ways of working, the safety work at Tikkurila focuses on preventive measures, such as risk assessments, safety training, safety talks and rounds, reporting of health and safety observations and communications, as well as internal and external audits. Preventive safety work affects the company's cost effectiveness and provides ways to improve efficiency and minimize sickness absence.

Tikkurila's Occupational Health & Safety (OHS) work follows the requirements defined in the OHSAS 18001 management system standard. Of all Tikkurila employees 63% are covered by a certified occupational health and safety management system.

In 2019, Tikkurila's accident frequency rate was 3.5 (3.9). Most of the accidents happened in Sweden. Each accident has been analyzed and corrective actions defined. The priority in safety work was to understand the human factor better. External training was arranged to all HSE specialists and local managers, and a questionnaire on the safety culture was carried out in two countries. It is of outmost importance to ensure and promote a safe workplace for every Tikkurila employee, contractor and business partner. Tikkurila has set common safety targets with the aim to reach zero accidents.

OCCUPATIONAL HEALTH & SAFETY PERFORMANCE



In 2019, Lost Time Accidents decreased by 20% from the previous year. The positive development (-23%) of all the recorded accident categories (LTA, MTC and RWC) is a result of the efforts taken during 2019, highlighted below by the high amount of recorded near miss reports and the increasing amount of corrective actions taken. Going forward, the focus in on furthering the improvement of the Lost Time Accident (LTA) performance. A particular focus will be given on the root cause and corrective actions analyses of the LTA's that are attached to the highest absence days.

TARGETS AND RESULTS

Topic	KPI	Target	**2019**	2018	2017	2016
Environment	Share of water-borne decorative paints, % Share of water-borne decorative paints is calculated from the sales volumes of decorative paints, industrial products are not included.	Increasing sales volumes	**86.8**	85.2	82.3	81.4
Environment	Waste (own operations), ton waste	Decreasing share of waste	**6,753**	6,948	7,242	6,209
Social responsibility and employees	Employee engagement (the rating of the Tikkurila Spirit employee survey)	Continuous improvement	**AA**	-	-	-
Social responsibility and employees	Lost time accidents (LTA) frequency	Decreasing trend No serious accidents	**3.5**	3.9	2.0	2.7
Respect for human rights	Human rights violations identified during 2018 (company's own operations and supplier chain)	No cases	**-**	-	-	-
Anti-corruption and bribery	Anti-corruption and anti-bribery cases identified during 2018 (company's own operations and supplychain)	No cases				

RISKS

The Group's business operations are divided into several geographical areas and into diverse product and customer segments and the amount, likelihood and impact of various risks thus varies 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 is subject to strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view the main risks are strategic and operational, but all categories present risks that may have a significant impact on Tikkurila's business.

Near-term risks and uncertainties

Tikkurila identifies and evaluates risks and responds to them as proactively as possible and mitigates their possible adverse effects. The Board of Directors considers the following risks to represent main near-term uncertainties on the date of publishing this Financial Statement Release:

Risks related to the industry

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

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

Raw material risks

Tikkurila is dependent on the ability of its suppliers to provide the raw materials needed to manufacture paints and coatings. The prices of many raw materials and packaging materials that are vital to Tikkurila's operations have significantly increased during recent years. It is still possible that Tikkurila cannot increase its sales prices to sufficiently or fast enough to offset this cost inflation. Furthermore, the availability of certain key raw materials is estimated to remain challenging, which may result in production challenges as well as the loss of sales or additional costs associated with it. Uncertainty relating to raw materials may have an effect on profitability, market share trends, product offering or competition in general. Additionally, the potential short-term implications of the recent developments in China surrounding the Corona virus on the regional industrial production, raw material sourcing, as well as Tikkurila's local business operations remain unknown.

Operational and restructuring risks

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

Customer credit risks

Even though Tikkurila has not encountered major credit losses, the potential realization of credit risks may hinder Tikkurila's business operations or cause losses. The growth of Tikkurila's business operations in China and, on the other hand, quite concentrated customer base in several markets have increased the risk of major credit losses. In order to mitigate this risk, Tikkurila has in certain cases collateral arrangements, and in Poland also credit insurance coverage, and, regardless of the fact, that some bad debt has already been recognized, it is possible that additional customer or financial losses can incur.

Exchange rate development

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

NON-FINANCIAL RISKS

Tikkurila's key risks affecting sustainability vary between the different value chain phases. Local management systems and the externally certified quality management systems provide a good fundament for systematic risk management. Risks are identified, assessed and mitigated during Group's enterprise risk management process.

Sourcing

The quality and safety requirements Tikkurila places on the materials sourced is high, and to a great extent stipulated by legislative requirements as defined, for example, by the REACH, the CLP Regulation, national laws and regulations and different label schemes standard requirements. Sourcing related risks are attached to the raw materials sourced for the products, source of the raw materials and the business practices applied by the organizations that manufacture and refine them.

Tikkurila monitors and assesses suppliers on a regular basis through evaluation and auditing processes. Tikkurila requires suppliers and partners to operate in accordance with Tikkurila's Supplier Code of Conduct and fulfill the requirements on quality, safety, environmental and social responsibility. Tikkurila conducts supplier audits on regular basis, and evaluates in particular the suppliers' order, delivery and production processes, quality control measures, as well as management of environmental and work related health and safety aspects.

Operations

Our manufacturing units' permit conditions define the outer framework for our operations. Properties and production facilities are operated and managed so that they do not cause safety or environmental risks or undue inconvenience to the local residents. In many of the production facilities, the production process is closed. Waste, wastewater, and emissions are properly treated in accordance with local legislation, practices, and permits. Externally certified management systems have been implemented to support the eco-efficiency work conducted in the manufacturing units, but also to systematize the compliance and continuous improvement work. Release or spill are risks that are well recognized and consequently monitored continuously both internally and externally and environmental damage risks are being mitigated by proactive efforts and having chemical, works and fire safety trainings and procedures in place.

Climate change impacts on operations would be the indirect implications related to climate change driven price increases on purchased primary and secondary energy. To mitigate this risk Tikkurila follows and assesses energy consumption regularly and initiates projects to reduce and optimize energy use.

None of our manufacturing units qualify for any of the currently existing obligatory emission trading schemes. Our manufacturing units have not been identified to be situated at particularly flood sensitive locations, areas with high water stress, nor in locations that would be exposed to other indirect climate change effects, e.g. landslides. The manufacturing phase related risks are occupational health & safety risks, risks for uncontained releases to soils and water and risks related to emissions from production.

Products

The financial implications and other risks and opportunities due to climate change mainly relate to our products. Climate change introduces changing weather patterns, with regionally more humid winters and hotter summers being one of the commonly recognized implications. The climate change derived weather pattern changes might introduce new performance requirements on the products we produce. Continuous product development not only prepares Tikkurila for these changes but also helps to identify opportunities.

The increasing restrictions on the formula components and the consequent direct and indirect implications further down the value chain contain risks that require robust management, including alert product safety processes and swift actions enabling procedures. As environmental and other labels are becoming more frequently referred to among our consumer and customer stakeholders, combined with the continuously stricter underlying environmental and safety label criteria, Tikkurila needs to continuously develop and further existing formulas without losing any of the established quality variables of our products.

Tikkurila's risk management principles can be viewed on Tikkurila's website at www.tikkurilagroup.com. More information on financial risks is provided in the Notes to the 2019 Consolidated Financial Statements (Note 33).

MARKET REVIEW

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

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

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

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

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

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

All the nominees have given their consent to the position.

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

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

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

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

The members of the Tikkurila Nomination Board are:

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

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's distributable equity totaled 154.2 million on December 31, 2019: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 114.2 million when including the 2019 net result.

The Board proposes to the Annual General Meeting that a dividend of EUR 0.50 per share will be distributed for the year ended on December 31, 2019, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 22.1 million, which corresponds to 66 percent of the Group's net result for 2019.

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

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

TIKKURILA'S LONG-TERM FINANCIAL TARGETS

Long-term financial targets

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

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

GUIDANCE FOR 2020

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

Vantaa, February 11, 2020

TIKKURILA OYJ
BOARD OF DIRECTORS

Group key figures

KEY PERFORMANCE INDICATORS

STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY	2019	2018	2017
Revenue, EUR thousand	**563,831**	561,470	582,392
Foreign operations, EUR thousand	**472,684**	467,114	489,616
Operating profit, EUR thousand	**43,923**	26,534	19,310
% of revenue	**7.8**	4.7	3.3
Share of profit or loss of equity-accounted investees, EUR thousand	**281**	293	231
Financial expenses (net), EUR thousand	**19**	5,780	2,921
% of revenue	**0.0**	1.0	0.5
Profit before tax, EUR thousand	**44,185**	21,047	16,621
% of revenue	**7.8**	3.7	2.9
Net profit for the period, EUR thousand	**33,241**	14,584	10,651
Return on investment (ROI), %	**18.0**	10.4	8.8
Return on equity (ROE), %	**20.6**	8.8	5.5
Return on capital employed (ROCE), %	**15.4**	9.3	6.3
Research and development expenses, EUR thousand	**9,603**	9,234	10,871
% of revenue	**1.7**	1.6	1.9

CASH FLOWS	2019	2018	2017
Cash flow from operations, EUR thousand	**61,387**	47,600	18,102
Disposals of businesses, PPE* and intangible assets, EUR thousand	**1,641**	552	1,299
Capital expenditure, EUR thousand	**11,076**	12,229	15,222
% of revenue	**2.0**	2.2	2.6
Cash flow after capital expenditure, EUR thousand	**52,742**	36,267	4,422
Cash flow return on investment (CFROI), %	**19.3**	15.2	5.7

STATEMENT OF FINANCIAL POSITION AND SOLVENCY	2019	2018	2017
Non-current assets, EUR thousand	**198,356**	179,824	196,575
Shareholders' equity (attributable to the owners of the parent), EUR thousand	**171,924**	150,132	179,520
Shareholders' equity including non-controlling interest, EUR thousand	**171,924**	150,132	179,520
Liabilities, EUR thousand	**265,137**	249,853	248,215
Total assets, EUR thousand	**437,061**	399,985	427,735
Interest-bearing financial liabilities, EUR thousand	**125,378**	121,004	107,049
Interest-bearing net liabilities, EUR thousand	**78,370**	85,518	90,090
Equity ratio, %	**39.3**	37.6	42.0
Gearing %	**45.6**	57.0	50.2
Interest-bearing financial liabilities (net) / EBITDA	**1.2**	1.8	2.3

PERSONNEL	2019	2018	2017
Personnel (average)	**2,713**	2,908	3,107
of whom in Finland	**548**	562	584

EXCHANGE RATES		2019	2018	2017
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	**69.9563**	79.7153	69.3920
Swedish Krona	EUR/SEK	**10.4468**	10.2548	9.8438
Polish Zloty	EUR/PLN	**4.2568**	4.3014	4.1770

*) Property, plant and equipment

As of January 1, 2019, Tikkurila applied IFRS 16 -standard. Comparison years financial data were not restated. Due to adoption of IFRS 16 other operating expenses decreased in financial year 2019 by EUR 8.3 million and thus improved EBITDA. The standard had a positive effect of EUR 0.1 million on operating profit. Due to adoption, net debt slightly increased. Gearing percentage without effect from lease liabilities was 32.4%.

SHARE PERFORMANCE INDICATORS	2019	2018	2017
Earnings per share, EUR, basic	**0.75**	0.33	0.24
Earnings per share, EUR, diluted	**0.75**	0.33	0.24
Dividend per share, EUR [1]	**0.50**	0.33	0.80
Dividend payout ratio, % [1]	**66.3**	99.8	331.3
Dividend yield, % [1]	**3.5**	2.7	4.5
Equity attributable to owners of the parent per share, EUR	**3.90**	3.40	4.07
Weighted average number of shares (1,000)	**44,106**	44,106	44,106
Number of shares at the end of period (1,000)	**44,106**	44,106	44,106
Weighted average number of shares, adjusted for dilutive effect (1,000)	**44,186**	44,121	44,111
Number of shares at the end of period, adjusted for dilutive effect (1,000)	**44,202**	44,131	44,112
Equity attributable to owners of the parent, EUR thousand	**171,924**	150,132	179,520
Price per earnings per share (P/E) ratio	**19.1**	36.4	73.8
Share price, end of period, EUR	**14.36**	12.02	17.81
Share price, year high, EUR	**15.58**	18.96	19.67
Share price, year low, EUR	**12.00**	11.70	15.32
Share price, volume-weighted year average, EUR	**13.86**	15.04	17.69
Market capitalization at the end of period, EUR million	**633.4**	530.2	785.5
Number of shares traded (1,000)	**5,401**	8,607	16,252
%, of weighted average number of shares	**12.2**	19.5	36.8

[1] The dividend 2019 is the Board of Directors’ proposal to Annual General Meeting to be held on March 24, 2020.

COMPONENTS FOR ALTERNATIVE KEY FIGURES

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

ADJUSTED OPERATING PROFIT

EUR thousand	2019	2018	2017
Operating profit	**43,923**	26,534	19,310
Items affecting comparability:			
Divestments and changes in group structure	**66**	2,013	5,601
Personnel related	**540**	6,884	2,474
Cost on withdrawn Russian factory investment	**1,757**	-	-
Insurance compensation for personnal injury	**-**	-	200
Impairment losses	**110**	3,409	1,197
Items affecting comparability total	**2,474**	12,306	9,473
Adjusted operating profit	**46,397**	38,840	28,783
% of revenue	**8.2%**	6.9%	4.9%

ADJUSTED EBITDA	2019	2018	2017
Operating profit	**43,923**	26,534	19,310
Depreciation, amortization and impairment losses	**24,206**	21,578	20,391
EBITDA	**68,129**	48,112	39,701
Items affecting comparability in EBITDA	**2,364**	8,897	8,275
Adjusted EBITDA	**70,493**	57,009	47,976
% of revenue	**12.5%**	10.2%	8.2%

ADJUSTED NET PROFIT	2019	2018	2017
Net profit for the period	**33,241**	14,584	10,651
Items affecting comparability	**2,474**	12,306	9,473
Related tax effect	**-104**	-2,609	-695
Adjusted net profit	**35,611**	24,281	19,429

NET DEBT

EUR thousand	2019	2018	2017
Interest-bearing non-current liabilities	**75,135**	49,998	50,083
Interest-bearing current liabilities	**50,243**	71,006	56,966
Interest-bearing liabilities, total	**125,378**	121,004	107,049
Cash and cash equivalents	**47,008**	35,486	16,959
Interest-bearing financial liabilities (net)	**78,370**	85,518	90,090

RETURN ON CAPITAL EMPLOYED (ROCE), %	2019	2018	2017
Operating result + share of profit or loss of equity-accounted investees [1]	**44,204**	26,827	19,542
Capital employed [2]	**287,346**	289,838	311,371
Return on capital employed (ROCE), %	**15.4%**	9.3%	6.3%

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

CAPITAL EMPLOYED 12 MONTHS, IN AVERAGE	2019	2018	2017
Net working capital, in average			
Inventories	**87,061**	91,699	89,856
Trade and other non-interest-bearing receivables	**140,576**	143,299	152,839
Non-current interest-free liabilities	**-44**	-40	-41
Current interest-free liabilities	**-119,046**	-113,081	-113,002
Net working capital, in average	**108,547**	121,878	129,653
Intangible assets ready for use	**89,109**	94,354	99,139
Property, plant and equipment ready for use	**66,382**	73,070	81,849
Right-of-use assets	**22,862**	-	-
Equity-accounted investees	**446**	536	731
Capital employed 12 months, in average	**287,346**	289,838	311,371

CAPITAL EMPLOYED AT END OF FINANCIAL PERIOD	2019	2018	2017
Net working capital			
Inventories	**85,478**	78,842	95,984
Trade and other non-interest-bearing receivables	**99,037**	97,842	99,283
Non-current interest-free liabilities	**-43**	-107	-142
Current interest-free liabilities	**-100,848**	-95,606	-105,422
Net working capital	**83,624**	80,970	89,702
Intangible assets ready for use	**87,524**	90,646	96,657
Property, plant and equipment ready for use	**65,544**	67,494	78,308
Right-of-use assets	**22,224**	-	-
Equity-accounted investees	**282**	393	491
Capital employed at end of financial period	**259,198**	239,503	265,158

Key indicators' formulas

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

ITEMS AFFECTING COMPARABILITY
Items affecting comparability are items related to items related to business reorganizations, the strategic based changes in organization structure, impairments of non-current assets and gains or losses on disposal of assets. In accordance with Tikkurila Board of Directors' judgement, significant insurance compensations, depending on their nature, may be included in items affecting comparability.

ADJUSTED OPERATING PROFIT
Operating profit (EBIT) +/- items affecting comparability

ADJUSTED NET PROFIT
Net profit for the period +/- items affecting comparability, net of tax

EBITDA
Operating profit + depreciation, amortization and impairment losses

ADJUSTED EBITDA
Operating profit + depreciation, amortization and impairment losses +/- items affecting comparability

INTEREST-BEARING NET LIABILITIES
Interest-bearing liabilities - cash and cash equivalents

OPERATING PROFIT (LOSS), %

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

GEARING, %

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

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

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

EQUITY RATIO, %

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

Advances received - see note 29

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON INVESTMENT (ROI), %

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

RETURN ON EQUITY (ROE), %

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

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

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

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

DIVIDEND YIELD

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

PRICE / EARNINGS RATIO (P/E)

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

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), BASIC

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

EARNINGS PER SHARE (EPS), DILUTED

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

DIVIDEND PAYOUT RATIO

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

SHARE PRICE, VOLUME-WEIGHTED YEAR AVERAGE

$$\frac{\text{EUR amount traded during the period}}{\text{Number of shares traded during the period}}$$

MARKET CAPITALIZATION AT THE END OF PERIOD
Number of shares at the end of period x share price, end of period

SHARE TURNOVER, %

$$\frac{\text{Number of shares traded during the period}}{\text{Weighted average number of shares}} \times 100$$

NUMBER OF SHARES AT THE END OF PERIOD
Number of shares issued - treasury shares

* 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, 2019**	Jan 1 - Dec 31, 2018
Revenue		**563,831**	561,470
Other operating income	6	**3,290**	9,996
Change in inventories of finished goods and work in progress		**5,893**	-14,459
Materials and services		**-297,759**	-292,225
Personnel expenses	7	**-99,349**	-104,100
Depreciation, amortization and impairment losses	8	**-24,206**	-21,578
Other operating expenses	9	**-107,777**	-112,570
Operating profit		**43,923**	26,534
Financial income	11	**6,920**	2,115
Financial expenses	11	**-6,939**	-7,895
Share of profit or loss of equity-accounted investees	18	**281**	293
Profit before tax		**44,185**	21,047
Income tax	12	**-10,944**	-6,463
Net profit for the period		**33,241**	14,584
Other comprehensive income	26		
Items that will not be reclassified to profit or loss			
Changes of equity investments at fair value through other comprehensive income		**-7**	72
Remeasurements on defined benefit plans		**-3,886**	-223
Income taxes relating to items that will not be reclassified to profit or loss		**831**	38
Total items that will not be reclassified to profit or loss		**-3,062**	-113
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		**5,455**	-6,631
Income taxes relating to items that may be reclassified subsequently to profit or loss		**-**	-
Total items that may be reclassified subsequently to profit or loss		**5,455**	-6,631
Total comprehensive income for the period		**35,634**	7,840
Net profit attributable to:			
Owners of the parent		**33,241**	14,584
Non-controlling interest		**-**	-
Net profit for the period		**33,241**	14,584
Total comprehensive income attributable to:			
Owners of the parent		**35,634**	7,840
Non-controlling interest		**-**	-
Total comprehensive income for the period		**35,634**	7,840
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	13	**0.75**	0.33
Diluted earnings per share (EUR)	13	**0.75**	0.33

Consolidated statement of financial position (IFRS)

ASSETS

EUR thousand	Note	**Dec 31, 2019**	Dec 31, 2018
Non-current assets			
Goodwill	16, 17	**70,188**	69,825
Other intangible assets	16	**18,244**	20,970
Property, plant and equipment	14	**69,293**	70,910
Right-of-use assets	15	**22,224**	-
Equity-accounted investees	18	**282**	393
Other investments	20	**734**	744
Non-current receivables	21, 23	**7,042**	8,870
Defined benefit pension and other long-term employee benefit assets	30	**83**	-
Deferred tax assets	25	**10,266**	8,112
Total non-current assets		**198,356**	179,824
Current assets			
Inventories	19	**85,478**	78,842
Interest-bearing current assets	22	**742**	983
Trade and other non-interest-bearing receivables	23	**96,655**	95,787
Current tax assets		**7,373**	7,504
Cash and cash equivalents	24	**47,008**	35,486
Non-current assets held for sale	5	**1,449**	1,559
Total current assets		**238,705**	220,161
Total assets		**437,061**	399,985

EQUITY AND LIABILITIES

	Note	**Dec 31, 2019**	Dec 31, 2018
Equity			
Share capital	26	**35,000**	35,000
Other reserves	26	**42**	42
Fair value reserve	26	**1**	1
Reserve for invested unrestricted equity	26	**40,000**	40,000
Treasury shares	26	**-42**	-42
Translation differences	26	**-40,514**	-45,969
Retained earnings		**137,437**	121,100
Equity attributable to owners of the parent		**171,924**	150,132
Non-controlling interest		**-**	-
Total equity		**171,924**	150,132
Non-current liabilities			
Interest-bearing non-current liabilities	27	**75,135**	49,998
Other non-current liabilities	29	**43**	107
Defined benefit pension and other long-term employee benefit liabilities	30	**28,728**	26,124
Provisions	31	**1,584**	608
Deferred tax liabilities	25	**3,645**	3,887
Total non-current liabilities		**109,135**	80,724
Current liabilities			
Interest-bearing current liabilities	28	**50,243**	71,006
Trade and other non-interest-bearing payables	29	**100,986**	95,685
Provisions	31	**1,528**	2,150
Current tax liabilities		**3,245**	288
Liabilities classified as held for sale	5	**-**	-
Total current liabilities		**156,002**	169,129
Total equity and liabilities		**437,061**	399,985

Consolidated statement of cash flows (IFRS)

CASH FLOW FROM OPERATING ACTIVITIES

EUR thousand	Note	**Jan 1 - Dec 31, 2019**	Jan 1 - Dec 31, 2018
Net profit for the period		**33,241**	14,584
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		**24,206**	21,578
Employee benefits		**876**	29
Change in provisions		**-1,372**	1,648
Gain on sale of PPE* and intangible assets		**-427**	-333
Loss on sale of PPE* and intangible assets		**54**	79
Other items		**5,990**	7,554
Dividend income		**-6**	-14
Interest expenses and other financial expenses		**2,554**	2,015
Interest income and other financial income		**-836**	-990
Share of profit or loss of equity-accounted investees		**-281**	-293
Exchange rate differences of financing		**-1,694**	4,769
Income tax for the period		**10,944**	6,463
Funds from operations before change in net working capital		**73,249**	57,089
Change in net working capital			
Change in inventories		**-7,973**	6,552
Change in trade and other receivables		**2,222**	-5,087
Change in trade and other payables		**3,261**	-5
Change in net working capital		**-2,490**	1,460
Interest and other financial expenses paid		**-2,742**	-5,973
Interest and other financial income received		**1,817**	648
Income tax paid		**-8,447**	-5,624
Total cash flow from operations		**61,387**	47,600
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**-9,336**	-12,023
Acquisition of intangible assets		**-1,740**	-206
Disposal of subsidiaries, net of cash disposed of	5	**1,246**	153
Proceeds from sale of other investments		**3**	77
Proceeds from sale of property, plant and equipment		**373**	357
Proceeds from sale of intangible assets		**22**	42
Repayments of loan receivables (+)		**426**	-
Loan receivables, increase (-)		**-**	-112
Dividends received		**360**	379
Net cash used in investing activities		**-8,646**	-11,333
Cash flow before financing		**52,742**	36,267
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from non-current borrowings (+)		**60,000**	-
Repayments of non-current borrowings (-)		**-50,000**	-
Current financing, increase (+)		**200,783**	259,454
Current financing, decrease (-)		**-228,740**	-245,259
Payment of lease liabilities / year 2018 payment of finance lease liabilities (-)		**-7,260**	-194
Dividends paid		**-14,555**	-35,285
Acquisition of own shares		**-**	-
Other		**-**	-
Net cash used in financing activities		**-39,772**	-21,284
Net change in cash and cash equivalents		**12,970**	14,983

* Property, plant and equipment

EUR thousand	Note	**Jan 1 - Dec 31, 2019**	Jan 1 - Dec 31, 2018
Cash and cash equivalents at Jan 1	24	**35,486**	16,872
Effect of exchange rate fluctuations on cash held		**1,448**	-2,341
Cash and cash equivalents transferred in assets held for sale	5	**-**	-1,290
Cash and cash equivalents at Dec 31	24	**47,008**	35,486
Net change in cash and cash equivalents		**12,970**	14,983

Reconciliation of cash and cash equivalents is disclosed in Note 24 Cash and cash equivalents.
Reconciliation of liabilities arising from financing activities is in Note 33.

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

EUR thousand	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Treasury shares	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Dec 31, 2017		35,000	42	1	40,000	-42	-39,338	143,857	179,520	-	179,520
Change in accounting principles, IFRS 9, IFRS 15, and IFRS 2		-	-	-	-	-	-	-2,083	-2,083	-	-2,083
Equity at Jan 1, 2018		35,000	42	1	40,000	-42	-39,338	141,774	177,437	-	177,437
Total comprehensive income for the period	26	-	-	-	-	-	-6,631	14,471	7,840	-	7,840
Share-based compensation		-	-	-	-	-	-	140	140	-	140
Dividends paid		-	-	-	-	-	-	-35,285	-35,285	-	-35,285
Equity at Dec 31, 2018		35,000	42	1	40,000	-42	-45,969	121,100	150,132	-	150,132

EUR thousand											
Equity at Dec 31, 2018		**35,000**	**42**	**1**	**40,000**	**-42**	**-45,969**	**121,100**	**150,132**	**-**	**150,132**
Change in accounting principles, IFRS 16		-	-	-	-	-	-	1	1	-	1
Equity at Jan 1, 2019		**35,000**	**42**	**1**	**40,000**	**-42**	**-45,969**	**121,101**	**150,133**	**-**	**150,133**
Total comprehensive income for the period	26	-	-	-	-	-	5,455	30,179	35,634	-	35,634
Share-based compensation		-	-	-	-	-	-	712	712	-	712
Dividends paid		-	-	-	-	-	-	-14,555	-14,555	-	-14,555
Equity at Dec 31, 2019		**35,000**	**42**	**1**	**40,000**	**-42**	**-40,514**	**137,437**	**171,924**	**-**	**171,924**

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

EUR thousand	**2019**	2018
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**85,757**	85,185
Net profit for the period	**28,411**	15,127
Total	**154,168**	140,312

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 Heidehofintie 2, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group. Tikkurila's share is listed on Nasdaq Helsinki since March 26, 2010.

Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Tikkurila is a strong regional company, whose aim is to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area and Russia. Tikkurila Group has organized its business operations into two strategic business units defined geographically: SBU West and SBU East. In the 2019 financial year, Tikkurila Group's revenue amounted to EUR 563.8 million and the average number of personnel was 2,713. The Group operates in 11 countries and has production facilities in 6 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 11, 2020. 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 consolidated financial statements is available from the company's headquarters at Heidehofintie 2, 01300 Vantaa and at www.tikkurilagroup.com.

BASIS OF PREPARATION

Tikkurila Oyj's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as with the related SIC and IFRIC Interpretations, in force as at December 31, 2019. 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, assets recognized at fair value through other comprehensive income 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 thousands, except when otherwise indicated. Due to rounding differences, the figures in the tables do not necessarily match the total of the table when added up. The financial year of the parent and subsidiaries is the calendar year ending December 31.

Tikkurila Group has applied the following new and revised standards and interpretations since January 1, 2019, which affect the reported data or data that will be reported in the future:

- IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019). The new standard requires the lessees to recognize a right-of-use asset and a lease liability at lease commencement for leases. There are two exceptions available, for short-term or low value items e.g. lease term is 12 months or less, or asset value is USD 5,000 or less. In these exceptions accounting treatment is similar to the current accounting for operating leases. The lessor accounting remains mostly similar to current IAS 17 accounting. A lessee can apply IFRS 16 either by a full retrospectively or a modified retrospectively approach. In latter approach it is not required to restate the comparative information, the cumulative effect of applying IFRS 16 is presented as an adjustment to opening retained earnings.

  Tikkurila applied, at the date of initial application, the simplified approach and comparative information was not restated. In measurement of a right-of-use asset the Group chose the option where the lease liability equals to the right-of-use asset. For some lease contracts, prepaid rent which was already paid at the time of initial application was included in the value of a right-of-use asset and therefore the lease liability recognized on such lease agreement was less than the value of the recognized right-of-use asset.

  Tikkurila has applied the recognition and measurement exemptions for short-term leases and leases for which underlying asset is of low value. At the time of initial application, Tikkurila's incremental borrowing rate was used as discount rate. Group's external funding has been centralized in parent company's finance department, which is acting as an internal bank for Group companies. Therefore, the incremental borrowing rate to be used for each subsidiary in their lease contracts has been centrally defined. Denominated currency of subsidiaries and lease term of the contracts are affecting the defined, used discount rates. For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs to Tikkurila, judgement is used in the estimation of the lease term. In such cases the maximum lease term used is Tikkurila's strategic period, 5 years. Similar judgement is used in the contracts in which lessor has termination option, without sanctions, but which have been continued for several years, are crucial to Tikkurila's business and would cause significant costs to Tikkurila. These contracts have been in force several years and thus the likelihood of termination without both parties' consent is considered low.

  The Tikkurila Group's most significant leases relate to business premises (offices and shops), cars and right-of-use of land area. Due to adoption of this standard EUR 24.0 million lease liabilities and EUR 24.8 million of right-of-use assets were recognized on the consolidated statement of financial position. Prepaid rents decreased the recognized value of the lease liability. Impacts on adoption of IFRS 16 standard and adjustments to Tikkurila Group opening balances at January 1, 2019 are disclosed in Note 40 to the consolidated financial statements.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for financial years beginning on or after January 1, 2019). These amendments enable companies to measure at amortized costs pre-payable financial assets with so-called negative compensation. This had no impact on Group's financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after January 1, 2019). The interpretations clarify accounting for income tax treatments when there is uncertainty over treatment and that have yet to be accepted by tax authorities. In such cases entities shall use assessment whether the tax authorities will accept the company's chosen tax treatment. In assessment, the assumption that tax authorities have full knowledge of all related information is applied. This interpretation had impact on Group's reported balances on financial year 2019.

- Amendments to IAS 19 - Plan amendment, Curtailment or Settlement (effective for financial years beginning on or after January 1, 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). These did not have impact on Group's financial statements.

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (effective for financial years beginning on or after January 1, 2019). The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interest in an associate or joint venture that form part of the net investment in the associate or joint venture. This had no impact on Group's financial statements.

- Annual Improvements to IFRSs 2015-2017 (effective for financial years beginning on or after January 1, 2019). The amendments relate to standards IFRS 3, IFRS 11, IAS 12 and IAS 23. These amendments had no impact on Group's financial statements.

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

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

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

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company, Tikkurila Oyj and all subsidiaries which are controlled by the Group. The goodwill of business combinations, that have taken place prior to 2003, corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2019, the Group consisted of 15 companies including the parent company and the Group had investment in one joint venture. The Group had not any ownership in associates in financial years 2019 or 2018.

Subsidiaries

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The power comprises the rights to direct the relevant activities. Companies acquired or established during the accounting period are fully consolidated from when the Group has gained control over the company until the date that such control ceases. The Group's subsidiaries are disclosed in Note 37.

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

The acquisition method is used to eliminate intra-Group shareholdings. The consideration transferred in business combination and the identifiable assets and liabilities of the acquired company are valued at fair value at the time of the acquisition. All acquisition related costs are immediately recognized as expense. If the costs related to the acquisition include costs from issuing debt instruments or equity securities these are treated in accordance with the requirements of IAS 32 and IFRS 9. 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.

Associates

Associates are companies over which the Group exercises significant influence but not control, generally accompanying a shareholding of between 20-50 percent of the voting rights. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and thereafter adjusted for the post-acquisition change in the Group's share of the company's net assets. The goodwill generated from the acquisition of associates is included in the carrying amount of the investments.

The Group's share of associates' profits or losses is recognized in proportion to the Group's holdings and is presented in the statement of comprehensive income in line "Share of profit or loss of equity-accounted investees", after operating profit and financial items. The Group's share of changes of associates' other comprehensive income items is recognized in Group's other comprehensive income. If the Group's share of losses in an associate would exceed its interest in the associate, the Group would not recognize further losses, unless it has committed to settle the obligations on behalf of the associate. Tikkurila did not have any investments in associates in financial year 2019 nor in year 2018.

Joint arrangements

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

Joint ventures

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

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.

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

Exchange rate differences on equity instruments that the Group has classified at fair value through other comprehensive income are included other comprehensive income.

Exchange rate differences resulting from transactions denominated in foreign currencies and from the translation of monetary items are recognized in profit or loss. Exchange rate differences arising from operation-related items are accounted for as adjustments to sales and purchases. Foreign exchange gains and losses arising from financial items are included in financial income and expenses. The Group does not carry out currency forward agreements to hedge financing transactions and the Group's overall foreign currency position nor the Group apply hedge accounting to manage risks related to financing transactions.

Translation of financial statements of foreign subsidiaries

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

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

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

REVENUE RECOGNITION

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

Revenue is recognized when the performance obligation is satisfied, and customer obtains control of that asset. Mainly, revenue is recognized on products, when they are delivered to the customer in compliance with the contract terms, and the point of time of transferring the control is identified in customer specific delivery terms in purchase orders and/or frame agreements.

The Group has as well consignment stock arrangements with some selected distributors in SBU East. In these cases, control of the goods is transferred from the Group and the revenue is recognized as goods are taken out of the stock, distributor sells goods to its customer.

Tikkurila's paint production and marketing are based on extensive utilization of tinting, and hence Tikkurila provides often to its retailers the tinting machines needed for this. These tinting machines and some other marketing supporting by-products have been considered as separate performance obligations, in which revenue is recognized at the time of delivery when a customer obtains control of the asset in compliance with the delivery terms.

Customer contracts of Tikkurila consist also maintenance services related to tinting machines. Tikkurila's own shops serving primarily professional customers are offering also tinting services. These performance obligations are fulfilled at a point in time and revenue is recognized as service is performed.

Customer contracts include several different types of afterwards granted discounts, credits tied to volume and/or value of the deliveries or sales volumes of specified product groups. The impact of these variable considerations on the transaction price requires estimation at the point in time of the revenue recognition. Tikkurila has several contracts with similar characteristics and the estimation of the variable consideration is updated at the end of every reporting period. In estimating the variable consideration, Tikkurila Group companies utilize their experience on the realization of different types of discounts on similar characteristics contracts combined with historical information on individual customer deliveries. The impact of the variable consideration, different types of rebates, customer bonuses, is significant on the amount of recognized revenue.

Customer contracts of Tikkurila include also penalty clauses related to on-time deliveries and supply chain reliability. In estimating on the transaction price, it is required to consider the impact on those clauses. In some deliveries, customers have a right to return the goods, and thus at the time of recognizing the revenue probability of reversal of revenue is assessed. Because of products and seasonality of Tikkurila's business, this assessment has more weight, is more crucial during the financial year than at the year-end.

Tikkurila's customer contracts on tinting machines and some other marketing supporting by-products include promises of discounts on future paint sales to customers. This option for additional goods with lower price gives a customer a material right, which the customer would not obtain without entering into the previously pointed contract. This right to a discount is a separate performance obligation and part of the transaction price of support products, machines is allocated based on relative stand-alone prices also to this option. The discount on future paint sales is recognized as revenue in the future financial years, when the customer is using this option or when the right to the discount expires.

In frame contracts and in shop-level contracts Tikkurila has granted certain commitments to its customers in relation to marketing and sales promotion actions. When sales promotion expenses that Tikkurila compensates to customers are not considered as a payment for distinct services purchased from a customer and no specified marketing actions have been defined, the consideration payable to the customer is recognized as an adjustment to revenue.

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

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

The rent income from leased tinting machines, which agreements have been classified as operating leases, is included in revenue and is recognized in a straight-line method for the leasing period. Other rent income is derived mostly from leased land area and lease premises. These are recognized in a straight-line method for the leasing period and recorded in other operating income.

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

PENSION OBLIGATIONS

The Group has various pension plans in accordance with the local conditions and practices of the countries in which it operates. Pension plans are 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 adequate assets to pay the employees the benefits in question. All other plans not meeting the above criteria are classified as defined benefit plans. Contributions made to defined contribution pension plans are recognized in profit or loss in the periods during which services are rendered by employees.

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

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

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

OTHER LONG-TERM EMPLOYEE BENEFITS

Group's obligation related to long-service benefit plan is defined annually by applying the same method as used in calculation of defined benefit pension obligations. The service cost, net interest on net defined benefit liability and remeasurements of the net defined benefit liability are recognized in personnel expenses in profit or loss.

SHARE-BASED PAYMENTS

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

The Group has share plans in which remuneration will be a combination of shares and cash, and the shares can be either acquired from the market or alternatively, the company can use any treasury shares it holds. The total amount of the remuneration is based on estimates of the future financial performance of the Group, and therefore, the estimated total remuneration will be updated always when the forecasts will change. The Company will pay withholding tax obligations arising from the reward to the participants in the connection with the reward payment. In these share-based payments plans that have a net settlement features, cash-settle portion is treated similarly to share-settled portion and recorded directly to equity, retained earnings. The rewards granted based on share-based performance plans are recognized in personnel expenses in profit or loss and in the equity. Expenses are accrued over the vesting period i.e. period over which all specified vesting conditions are to be satisfied.

When estimating the deferred taxes in relation to the share-based plan, the main principle has been to take the impact of the cash-settled portion into account immediately with applying the current Finnish corporate income tax rate, whereas the potential deferred tax impact of the share-settled portion has not been recognized at the initial stage.

The potential reward from the share plan 2018-2019 is settled in cash and is accrued in cash and obligation is accounted as liability in the consolidated statement of financial position.

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

More information about share-based incentive plans is disclosed in Note 35 to the consolidated financial statements.

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. The management evaluates positions taken in income tax filings and uncertainty in relation to situations in which applicable tax regulation is subject to interpretation. In such cases management uses its judgement and when appropriate will record provision on the bases of amounts expected to be paid to the tax authorities. For transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognized either in other comprehensive income or directly in equity, respectively. The current tax charge in separate countries is calculated on the grounds of the tax rate enacted at the reporting period.

Deferred tax assets and deferred tax liabilities are provided in the consolidated financial statements for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred taxes are neither accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting result nor taxable profit or loss. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. The tax rates in force on the date of the preparation of the financial statements or adopted by the statement of the financial position date for the following financial year (substantively enacted by the end of the reporting period), are used in calculating deferred tax assets and liabilities. Deferred taxes have been recognized for undistributed earnings of foreign subsidiaries only if such distribution is probable within foreseeable future causing tax implications.

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

INTANGIBLE ASSETS

Goodwill

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

Research and development costs

Tikkurila's research and development is considerably steered by environmental and safety aspects. Majority of research and development is related to replacing solvent-borne paints with water-borne or low-solvent products. In addition, research and development is directed at new possible raw materials in paint production and researching of new and existing product formulas and product recipes. Research costs are recognized through profit or loss. The Group's development costs fulfilling the capitalization criteria will be capitalized. There have not been such development costs during the financial year 2019 nor 2018. Development costs previously recognized as an expense are not capitalized in a subsequent period.

If the capitalization criteria are fulfilled, development costs are presented in other intangible assets and are to be amortized on a straight-line basis over their useful life of a maximum of eight years.

Other intangible assets

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

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

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

• Brands	10 - 20 years
• Customer relationships	4 - 10 years
• Marketing channels	5 years
• Software	5 - 8 years

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

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

Borrowing costs are capitalized at the acquisition cost of the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In financial year 2019 or 2018, the Group did not have these types of asset items.

PROPERTY, PLANT AND EQUIPMENT

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

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

• Buildings and constructions	10 - 40 years
• Machinery and equipment	3 - 15 years

The depreciating 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 year 2019 or 2018, Tikkurila did not have these types of asset items.

LEASES

The Group as lessee

From the beginning of financial year 2019, the lessee recognizes a lease liability and a right-of-use asset at the date at which the leased asset is available for use by the Group. Tikkurila applied, at the date of initial application, the simplified approach and comparative information of financial year 2018 was not restated. Right-of-use assets and corresponding lease liability are measured by discounting future lease payments.

Lease liabilities include fixed lease payments, less any lease incentive receivable, variable lease payments that are based on indexes or payments linked to benchmark interest, possible amounts expected to be paid under residual value guarantees and possible exercise price of purchase option, if it is reasonably certain that this shall be used by the Group. In addition, the payments of termination penalties shall be included in the liability if the lease term reflects that the Group shall use this termination option.

Lease payments are discounted by primarily using the interest rate implicit in the lease, if the interest rate can be easily determined. If that is not easily determined the incremental borrowing rate of the lessee will be used. The Group’s external funding has been centralized in parent company’s finance department, which is acting as an internal bank for Group companies. The incremental borrowing rate to be used for each subsidiary in their lease contracts has been centrally defined by the Group. Denominated currency of subsidiaries and lease term of the contracts are affecting the defined, used discount rates.

The lease liability is re-measured, if the cash flows in accordance with original terms of lease contracts change. Tikkurila's contracts, especially for business premises, include variable rents that are mainly tied to the changes of the consumer price index. The lease liability is re-measured when the change in the index in question causes a change in cash flow. The corresponding adjustment is recognized for the right-of-use asset value.

Right-of-use assets are measured at cost comprising the amount of the initial measured balance of lease liability, including prepaid rents before the commencement date less any lease incentives, as well as consisting possible restoration costs. Right-of-use assets are depreciated on a straight-line basis over a asset’s useful life or over the lease term depending on which one is shorter.

The lease term is a lease’s non-cancellable term, lease period. The lease extension options included in the leases are added to the lease term if it is reasonably certain that they will be used. For the time being lease contracts, in which lessor has no termination option without a consent of the lessee and in which termination would cause significant costs, the judgment is used in the estimation of the lease term. In such cases, the maximum lease term used is Tikkurila's strategic period. Similar judgment for a lease term is used in for the time being contracts in which lessor has termination option, without significant sanctions, but which contracts are essential to Tikkurila's business, the termination would result in significant costs for Tikkurila, and the contracts have continued for several years.

Lease contracts related to shop premises are essential to Tikkurila’s business and in relation to termination of those contracts Tikkurila can expose to significant payments, penalties. In the leased shop premises Tikkurila has usually done improvements, and those investments to improvements are counted into the amount of penalties the Group is exposed to in context of termination the contract. As a relevant factor in relation of shop premises is location, the replacing of an existing contract with the new one, is considered to result in significant payments in relation of termination of contract.

The most significant right-of-use assets in category land area, consist of lease contracts on production sites. There are perpetual usufructs included in land area contracts, in which enforceable lease period is defined based on the useful life left of the production building located on a site. Other such perpetual usufructs in contracts in relation to land, excluding the production facility related contracts, the estimation of lease term is based on Tikkurila’ strategic period.

Lease payments of short-term lease contracts, in which a lease term is 12 months or less, and of lease contracts on low value assets, acquisition cost of asset as new EUR 5,000 or lower, are recognized on a straight-line basis as an expense over a lease term.

Until December 31, 2018 leases of property, plant and equipment in which the Group had substantially all the risks and rewards of ownership were classified as finance leases. Assets acquired under finance leases were 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 were presented as part of the Group’s property, plant and equipment and related finance lease liabilities were included in the interest-bearing financial liabilities. The finance lease rent paid, was divided into finance charge and liability repayment over the lease period. The finance charge was allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability. The depreciation made on the leased assets and the finance charge related to the finance lease obligations were recognized in profit or loss. Depreciation was allocated over the shorter of the useful life of the asset and the lease term.

Leases in which the lessor retained the risks and rewards incidental to the ownership were accounted for as operating leases. Payments made under operating leases were 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 to reflect a constant periodic rate of return on the net investment outstanding.

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

IMPAIRMENT OF 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 for impairment exists, the recoverable amount of the asset or the cash-generating unit is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Annual impairment tests are always carried out for goodwill and intangible assets with indefinite useful lives, or intangible assets not yet available for use. Tikkurila has no intangible assets with indefinite useful lives.

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

If the recoverable amount cannot be determined for individual asset items, the impairment is tested at the cash-generating unit level that is mainly independent of other units and whose cash flows can be separated and are mainly independent from the cash flows of other similar units. When testing annually the goodwill, which Tikkurila carries out each year during the fourth quarter and on the closing date for possible acquisitions carried out after this, the test is carried out at operating area level disclosed in Note 17. Goodwill impairment is tested by comparing the unit's recoverable amount with the carrying amount. The recoverable amount is defined as its value in use, which consists of the discounted future cash flows to the unit. The discount rate used is defined as WACC (the weighted average cost of capital), determined before taxes.

Paint demand typically varies in line with gross domestic product development which means that general economic trends affect paint demand. The costs related to Tikkurila's production are caused by raw materials, packaging materials, energy and wages. Changes in raw material prices affect the Group's profitability and accumulated cash flow. Tikkurila competes with several 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 analyses their effects on the business operation and the value of assets. More detailed information on impairment testing in Note 17.

INVENTORIES

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Purchases and sales of financial assets and liabilities are recognized or derecognized using trade date accounting.

The Group classifies its financial assets and financial liabilities in the following measurement categories: items measured at amortized cost, items to be measured at fair value through other comprehensive income and liabilities measured at amortized cost. The classification of financial assets depends on business model and the contractual terms of the cash flows.

Financial liabilities are recognized initially at fair value, net of transaction costs incurred.

The Group derecognizes financial assets when it has lost its contractual right to receive the cash flows or when it has transferred substantially all the risks and rewards to an external party. 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. 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. 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.

FINANCIAL ASSETS

Financial assets measured at amortized cost

This category includes trade receivables, which consists of considerations from customers for goods and services sold in ordinary course of business. The objective of holding the asset is to collect the contractual cash flows. Trade receivables are recognized initially at the amount of consideration that is unconditional. The payment terms of Tikkurila Group customers vary depending on geographical location and customer-specific terms and conditions, but mainly these receivables are due for settlement within one year and thus are recognized as current assets. To a small extent, the Group has some trade receivables with maturity date greater than one year. These receivables are recognized initially at fair value. Items are discounted and the interest income of these is recognized in financial items as interest income based on the passage of time.

In addition, loan receivables are classified as financial assets measured at amortized cost. Tikkurila's objective is to collect contractual cash flows, payments of principal and interests, and Tikkurila intends to hold these assets until to maturity.

Trade receivables and loan receivables are measured subsequently at amortized costs using the effective interest method, taking into consideration the amount of expected credit losses.

Fair value through other comprehensive income
Tikkurila has classified into this category such equity instruments, which are not held for trading. These securities are strategic, long-term nature investments. Their fair value changes are recognized in other comprehensive income, possible impairment losses are not recognized in profit or loss nor gains of losses on disposals. On disposal of these equity investments, any related balance in fair value reserve is transferred to retained earnings.

These investments comprise the business supportive nature unlisted shares, for which fair values cannot be measured reliably and are thus measured at cost or at cost less impairment. These investments 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
Tikkurila Group applies IFRS 9 simplified approach to measure expected credit losses, in which the lifetime expected credit losses are recognized on all trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These loss rates are defined by grouping trade receivables based on their geographical location. Historical losses, customers' payment behaviour in geographical area in question and information on macroeconomic factors, especially GDP development, are impacting to the percentages defined. Credit losses on trade receivables and contract assets are presented in other operating expenses. If a payment is later received from the impaired receivable, the received amount is recognized in profit or loss as a deduction of other operating expenses.

In addition, further expected loss allowance has been calculated for specific individual customers, if there are indicators of insolvency of the debtor or a repayment plan is failed to implement. Trade receivables are written off when there is no reasonable expectation of recovery.

In relation to other financial assets the Group applies the general expected credit loss model in which estimated amount of loss allowance equals to 12-month expected credit loss, if there is no significant increase in credit risk since the initial recognition. In accordance with this model, on loan receivables, classified as financial assets measured at amortized cost, are recognized credit loss allowance. This is recorded on profit or loss in financial expenses.

Due to immateriality, the Group has not measured expected credit losses on cash and cash equivalents.

FINANCIAL LIABILITIES

Financial liabilities measured at amortized cost
This category includes e.g. the Group's non-current and current interest-bearing financial liabilities and trade payables. 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. In financial year 2019 and 2018, the Group has not had such acquired assets with capitalized borrowing costs. 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.

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 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
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's related parties include the parent company to the Group, Tikkurila Oyj, subsidiaries and joint ventures. Related parties include members of the Board of Directors and of Tikkurila Management Team, CEO, their family members and their controlled entities.

Tikkurila follows the same commercial terms in its business with joint ventures and other related parties as with third parties. The related party transactions are presented in the Note 36.

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

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

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

OPERATING PROFIT

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

ITEMS AFFECTING COMPARABILITY

Tikkurila Group states separately items affecting comparability in its consolidated statement of comprehensive income. In accordance with Group's definition such items are significant gains and losses on disposed non-current assets, impairments of non-current assets, items concerning business reorganizations such as items related to personnel dismissals or items related to the strategic based changes in organization structure. Based on the resolution of the Board of Directors, received significant insurance compensations or their adjustments, may be included in items affecting comparability based on their nature and according to Board of Directors' judgement.

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 Annual General Meeting is not recorded in the financial statements before the company's shareholders have confirmed it at the AGM.

ADOPTING NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS

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

New standards, amendments and interpretations approved in the EU

- Amendments to IAS 1 and IAS 8 - Definition of Material (effective for financial years beginning on or after January 1, 2020). The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The amendments aim also to ensure that the definition of material is consistent across all IFRS Standards. These amendments are not expected to have any material impact on Group's forthcoming financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (effective for financial years beginning on or after January 1, 2020). The amendments provide temporary reliefs to be applied hedge accounting, in such hedging relationships that are directly affected by interest rate benchmark reform and only if this reform rise uncertainties. These amendments are not expected to have any impact on Group's forthcoming financial statements.

- Revised Conceptual Framework for Financial Reporting (effective for financial years beginning on or after January 1, 2020). The framework includes some new concepts, revised definitions, for example on definitions for an asset and for a liability. This is not expected to have any material impact on the Group's forthcoming financial statements.

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

- IFRS 17 Insurance Contracts (effective for financial years beginning on or after January 1, 2021). This standard replaces IFRS 4-standard. Standard applies to insurance contracts and their measurement. This is not expected to have any impact on Group's financial statements.

- Amendments to IFRS 3 - Definition of a Business (effective for financial years beginning on or after January 1, 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The term outputs are focused on goods and services provided to customers, investment income or other income and it excludes returns in the form of lower costs and other economic benefits. This is not expected to have any material impacts on Group's financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be later determined by the IASB). The amendments present guidance for accounting when it is a sale of assets or contribution between a parent and its associate or joint venture. If a transaction involves a business according the definition of IFRS 3, the full gain or loss resulting from it is recognized. If a transaction involves assets that do not constitute a business, the gain or loss is recognized in the parent's profit or loss only to the extent of the unrelated investors' interest in that associate or joint venture.

2. Critical accounting estimates requiring management's judgment

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

The estimates made in context of the preparation of financial statements are based on management's best judgment at the end of the reporting period. These judgments are made on the grounds of prior experiences and the most probable future assumptions at the end of the reporting period. Assumptions have been made for example of the effects that the economic development concerning the Group's line of business has on sales and cost level. The realization of the estimates and assumptions is continuously monitored. The categories that have either the highest estimated impact or uncertainty are presented below.

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

IMPAIRMENT OF ASSETS AND ESTIMATES RELATED TO VALUATION OF ASSETS

The impairment test of goodwill and other assets involves determining future cash flows which, with regard to the most significant assumptions, are based on gross margin levels, discount rates and the forecast period, as well as the growth rate assumptions beyond the forecast 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 to the consolidated financial statements.

In financial year 2019, impairment losses recognized on property, plant and equipment related to a building of German production unit, classified as held for sale assets in year 2018, amounted to EUR 0.1 million. The costs on withdrawn Russian factory investment amounted to EUR 1.8 million and were recognized in profit or loss in 2019. In financial year 2018, impairment losses were recognized on property, plant and equipment related to the assets of the production units to be closed in Germany and Denmark. Impairment losses recognized on land area, buildings, machinery and equipment totaled EUR 1.8 million on these site closings. In addition, EUR 0.9 million impairment loss was accounted for office building in Tikkurila's site in Finland. Recognized impairment loss on goodwill is related to Tikkurila's operations in Denmark. The impairments have been presented in the Note 8. Depreciation, amortization and impairment losses.

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

Valuation of inventory requires some management assessment. Inventories are valued at the lower of cost or net realizable value. When determining the net realizable value, the estimated selling price less the estimated direct costs needed to complete the sale and estimated costs required to finish the product are defined. When the carrying amount of inventory exceeds the net realization value an impairment of inventory is recognized. Even though both the raw materials used in production and finished paint and coating products have a rather long preservability, unpredicted changes in demand or customer behaviour may expose Tikkurila to higher inventory obsolescence risks that needs to be estimated at the time of preparing financial statements.

The Group is applying simplified approach in accordance with IFRS 9 to measure the life-time expected credit losses on trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These expected loss rates are defined by grouping trade receivables based on their geographical location. In addition, further expected loss allowance is recorded for specific individual customer balances if the management estimates that the carrying amount of the receivable does not correspond with its fair value. In such cases indications of a possible further impairment of trade receivables include the debtor's considerable financial difficulties, delayed payments and neglected payments. At the end of 2019, the share of past due trade receivables of the total balance in the Group was higher than at the end of 2018. In addition, increased concentration of customers in several market areas has increased the credit risk.

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, such as was the case for the office building in Finland in 2018, the annual amortization/depreciation is adjusted, or an impairment is recorded. Major part of Group's tangible non-current assets is linked to the buildings, machinery and equipment of the paint factories. If Tikkurila would decide to close-down some of the production facilities, or alternatively to refocus its production operations, the depreciation plans will be revised and potentially also the assets have to be revalued. In context of the optimization of production network in year 2018, it was decided to close-down three production units: in Denmark, Germany and in Russia. In addition, this type of restructuring activities might lead to rehabilitation or other liabilities in the future.

Tikkurila has significant business and assets in Russia. Even though the macroeconomic situation has stabilized in Russia, there are still major geopolitical and economic risks in the region, including but not limited to international sanctions related restrictions. Moreover, it is often difficult to assess the counterparty risk in Russia. These aspects have an effect particularly on the valuation of assets. Tikkurila's Russian subsidiary has over the last years made preparations to build a new factory and warehouse facility, which has caused by December 31, 2018 altogether EUR 1.2 million of capitalized preparation costs recognized on the balance sheet. Group Board of Directors decided on April 24, 2019 to cease the project and therefore the project will not be carried out, all the capitalized expenses incurred until the date of the final decision (EUR 1.8 million) were recognized on profit or loss.

BUSINESS COMBINATIONS

In business combinations the net identifiable assets of the acquired companies are measured at fair value. When 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 during the current and previous financial year are disclosed in Note 4 Business combinations and disposals of businesses. In financial years 2019 and 2018 Tikkurila had no acquisitions.

When evaluating the possible contingent consideration of the business operations acquired the Tikkurila Group management has to use estimations and assumptions on the future financial performance of the business operations acquired. If the assumptions as per which the contingent consideration has been valued at fair value at the time of acquisition change, these changes are recognized in profit or loss at the time of review. The contingent consideration is discounted to the present value at time of review using the target company specific WACC (weighted average cost of capital). The components arising from the changes in discount rate factors are recognized in financing items.

If the Group plans to divest a business operation or sell some asset items, the management has to use consideration in determining the timing when the criteria according IFRS 5 are fulfilled and based on that asset, assets to be classified as non-current assets held for sale. In context of classification, the Group management uses its estimation in order to assess the amount of possible impairment loss to be recognized if the carrying amount is above the fair value less costs to sell. At the financial year-end 2018, the Group reclassified the land area and building of its German subsidiary as non-current assets held for sale. The carrying amounts of these assets exceeded the estimated sales price and therefore no impairment losses were recognized on them. At the end of financial year-end 2019 the real estate remains recognized as non-current asset held for sale. However, a negative price development in the local real estate market has taken place. That is why an impairment loss of EUR 0.1 million was recognized in the financial year 2019 on the assets held for sale.

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

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

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

Moreover, the Group has several share-based commitment and incentive plans including the CEO of Tikkurila Oyj, members of Tikkurila Management Team and in some plans also other individual key employees. The expenses of these plans are recognized according to the IFRS 2 standard. Both the fulfillment of the share-based plan's target criteria and the development of Tikkurila's share price, which are basis for determining the final rewards, if any, will only be known after each performance period has ended; therefore, estimates have to be used at the end of the reporting period to recognize expenses and other bookkeeping entries. Moreover, the final amount of share-based remuneration under the plans is always decided by the Tikkurila Oyj's Board of Directors based on its judgment, which may cause the final remuneration to deviate from the earlier estimate.

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, 2019, the provisions amounted to EUR 3.1 million. The corresponding figure in the 2018 financial statements was EUR 2.8 million. The amount of provisions increased by EUR 0.4 million compared to previous year-end. Provisions have been described in Note 31.

INCOME TAXES

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. In accordance with the interpretation of IFRIC 23, the Group has evaluated the uncertainty over income tax treatment. In according to Management's judgment some of items recorded as deductible expenses in taxation consist uncertainty of interpretation of tax authorities. In accordance with the management estimation, the provision of EUR 0.8 million was recorded at the end of financial year 2019. The Group has subsidiaries in several countries with different types of tax regulations, interpretation of which may change from time to time. 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 tax assets in the 2019 financial statements was EUR 10.3 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 0.1 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, inflation, wage increase assumptions and life expectations. Some of the estimates used in the calculation are based on information from external actuaries. The actual outcome may differ from the original estimates and assumptions and these remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income in the period in which they arise. In Note 30 the sensitivity analysis regarding the change in discount rate and its effect on the Group's defined benefit obligation is disclosed. In addition, sensitivity analysis regarding the change in life expectancy and inflation in relation to Swedish defined benefit pension plan, that is the Group's most significant defined benefit plan, is disclosed in the corresponding note. In practise, level of pensions is linked to inflation.

LEASES

The Group's most significant lease contracts are related to shop premises, land areas on production site as well as office premises. Lease contracts include extension options, which are added to the lease term if it is reasonably certain that they will be used. Thus, Tikkurila's management uses its' judgment at the commencement date of the contract, considering the circumstances, facts and Company's strategic guidelines, if the probability of exercising the extension option is more likely than the Group choosing not to use this.

For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs, the judgment is used in the estimation of the lease term. In such cases, the maximum lease term used is Tikkurila's strategic period. Similar judgment is used in the contracts in which lessor has termination option, without significant sanctions, but which contracts are essential to Tikkurila's business, the termination would result in significant costs for Tikkurila, and the contracts have continued for several years.

In perpetual usufructs of land area contracts, has Tikkurila's management based on its' estimation on enforceable period on the useful life of the production building located on this site.

All these assumptions, estimations and judgment used by Tikkurila's management on determining the lease term, have impact on the recorded balances on right-of-use asset and corresponding lease liability on the Group's consolidated statement of financial position. If there would be changes in circumstances and, or made business decisions, which would result assumptions to be significantly different from the assumptions used at the commencement date when estimating the lease term, these changes can impact on measurement of assets and liabilities.

3. Segment Information

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

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

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

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

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

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

REPORTABLE SEGMENTS 2019	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
EUR thousand					
External revenue	**370,046**	**193,793**	**-**	**-8**	**563,831**
Depreciation, amortization and impairment losses	**15,907**	**8,166**	**133**	**-**	**24,206**
Operating profit (loss)	**30,442**	**19,990**	**-6,509**	**0**	**43,923**
Items affecting comparable EBIT by segment	**-265**	**-2,010**	**-199**	**-**	**-2,474**
Adjusted operating profit (loss) by segment	**30,707**	**22,000**	**-6,310**	**0**	**46,397**
Non-allocated items					
Financial income					**6,920**
Financial expenses					**-6,939**
Share of profit or loss of equity-accounted investees					**281**
Profit before tax					**44,185**
Segment assets	**343,106**	**98,014**	**31,363**	**-35,422**	**437,061**
Investments in equity-accounted investees					**282**
Capital expenditure	**12,559**	**3,702**	**-**	**-**	**16,262**

REPORTABLE SEGMENTS 2018	SBU West	SBU East	Tikkurila common	Eliminations	Total
EUR thousand					
External revenue	381,164	180,310	-	-4	561,470
Depreciation, amortization and impairment losses	15,124	6,245	209	-	21,578
Operating profit (loss)	22,730	9,406	-5,603	0	26,534
Items affecting comparable EBIT by segment	-11,806	-500	-	-	-12,306
Adjusted operating profit (loss) by segment	34,536	9,906	-5,603	0	38,840
Non-allocated items					
Financial income					2,115
Financial expenses					-7,895
Share of profit or loss of equity-accounted investees					293
Profit before tax					21,047
Segment assets	298,277	67,578	49,993	-15,863	399,985
Investments in equity-accounted investees					393
Capital expenditure	5,939	4,509	-	-	10,448

SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Estonia, Latvia and Lithuania.

SBU East consists of Russia, Central Asian countries and China. Furthermore, SBU East is responsible for the exports to approximately 30 countries.

In 2018 Germany is presented in SBU West. In 2019, after closing the activities of Tikkurila's German subsidiary, Germany has belonged to export and is presented in SBU East.

REPORTABLE SEGMENTS 2019	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
EUR thousand					
Operating profit (loss) by segment	**30,442**	**19,990**	**-6,509**	**0**	**43,923**
Items affecting comparable EBIT by segment					
Divestments and changes in group structure	**-66**	**-**	**-**	**-**	**-66**
Personnel related	**-88**	**-253**	**-199**	**-**	**-540**
Costs on withdrawn Russian factory investment	**-**	**-1,757**	**-**	**-**	**-1,757**
Impairment losses	**-110**	**-**	**-**	**-**	**-110**
Total	**-265**	**-2,010**	**-199**	**-**	**-2,474**
Adjusted operating profit (loss) by segment	**30,707**	**22,000**	**-6,310**	**0**	**46,397**

REPORTABLE SEGMENTS 2018	SBU West	SBU East	Tikkurila common	Eliminations	Total
EUR thousand					
Operating profit (loss) by segment	22,730	9,406	-5,603	0	26,534
Items affecting comparable EBIT by segment					
Divestments and changes in group structure	-2,295	282	-	-	-2,013
Personnel related	-6,102	-782	-	-	-6,884
Impairment losses	-3,409	-	-	-	-3,409
Total	-11,806	-500	-	-	-12,306
Adjusted operating profit (loss) by segment	34,536	9,906	-5,603	0	38,840

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE	**2019**	2018
SBU West	**1,598**	1,668
SBU East	**1,100**	1,226
Tikkurila common	**15**	14
Total	**2,713**	2,908

REVENUE BY PRODUCT GROUP AND BY SEGMENT IN 2019	**Decorative paints**	**Industrial coatings**
SBU West	**304,791**	**65,255**
SBU East	**162,625**	**31,168**
Eliminations	**-8**	**-**
Total	**467,408**	**96,423**

REVENUE BY PRODUCT GROUP AND BY SEGMENT IN 2018	Decorative paints	Industrial coatings
SBU West	309,630	71,534
SBU East	153,030	27,280
Eliminations	-4	-
Total	462,656	98,814

The global paint market can be divided into two main categories, decorative paints and industrial coatings, based on the end-use of the products. Revenue from contracts with customers of Tikkurila reportable segments, SBU East and SBU West, is presented using this breakdown in the tables above. The relative share of industrial coatings from the revenue of SBU West is slightly higher than the corresponding share in SBU East. The revenue in the tables above, in years 2018 and 2019, includes a total of EUR 0.3 million revenue other than revenue from contracts with customers according IFRS 15. This amount is mostly included in the revenue of SBU West. This share of revenue consists of rent income recognized according IAS 17.

In both reportable segments, Tikkurila sells decorative paints and painting related merchandising and services to paint wholesalers, retailers and directly to construction supply stores. In addition, Tikkurila's own stores for professional customers serve as one distribution channel in the area of SBU West. Tikkurila sells industrial coatings either directly to customers or through Tikkurila Industrial Paint Service retailer network.

Tikkurila customer contracts include several types of retrospective discounts, rebates and refunds related to delivered volumes, value of deliveries and sales volumes of selected product groups. In assessing these, experience based on history is used. In decorative paints product group, this assessing has a relative greater significance.

ASSETS AND LIABILITIES BASED ON CUSTOMER CONTRACTS

A company of Tikkurila Group has a loyalty program, from which EUR 0.1 million included in liabilities at the beginning of the financial years 2018 and 2019 and EUR 0.1 million at the end of financial years 2018 and 2019. The promise given to a customer based on the loyalty program is a separate performance obligation. This material right is valid for the customer in a period of three years. The significance of loyalty program in the Group revenue is though immaterial.

The amount in account advances received from the customers at the beginning of the financial year 2018 totaled EUR 0.7 million, which has recognized in revenue during the financial year 2018. At the end of the financial year 2018 the advances received amounted to EUR 0.5 million, and at the end of the financial year 2019 EUR 0.1 million. Advances are used mainly in SBU East area.

In the Tikkurila customer contracts related to tinting machines and marketing supporting other merchandising, there is a promise to a customer on volume-based discounts related to future paint purchases. This promise creates to the customer a material right which the customer would not receive without entering into above mentioned contracts. The liability to the customer related to this material right is recognized in the consolidated statement of financial position line accrued expenses and deferred income and the liability totaled EUR 1.3 million at January 1, 2018. At the end of the financial year 2018 the customer contract liability recognized totaled EUR 1.3 million, and at the end of the financial year 2019 EUR 0.9 million.

Assets related to customer contracts which fall due over one year are recognized in consolidated statement of financial position in item non-current receivables (Note 21). Assets related to customer contracts falling due within one year are recognized in item trade and other non-current non-interest-bearing receivables (Note 23). Trade receivables for which the customer has a payment time over one year include a significant financing component and the correspondent consideration has been adjusted at the time of inception of the contract to recognize this component. The amount of discounted interest is recognized in interest income over time.

REVENUE BY DESTINATION

EUR thousand	**2019**	2018
Russia	**143,627**	134,360
Sweden	**118,723**	127,634
Finland	**91,147**	94,356
Poland	**89,359**	84,616
Other countries	**120,975**	120,504
Total	**563,831**	561,470

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

EUR thousand	**2019**	2018
Russia	**28,207**	24,242
Sweden	**83,668**	77,001
Finland	**29,609**	29,232
Poland	**19,915**	17,328
Other countries	**18,832**	14,294
Total	**180,231**	162,096

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

4. Business combinations and disposals of businesses

ACQUISITIONS 2019

There were no acquisitions during the financial year 2019.

ACQUISITIONS 2018

There were no acquisitions during the financial year 2018.

DISPOSALS 2019

There were no disposals during the financial year 2019.

DISPOSALS 2018

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

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

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

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

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

EUR thousand	**2019**	2018
Acquisition of businesses		
Total purchase consideration	-	-
Cash and cash equivalents at acquisition date	-	-
Returned share of consideration from the previous years' acquisitions	-	-
Cash outflow on acquisition net of cash acquired	**-**	-
Proceeds from the disposal		
Total proceeds	-	50
Cash inflow from the previous years' disposals	**1,246**	1,068
Recognized as receivable at the date of disposal	-	-
Cash and cash equivalents in disposed companies	-	-965
Net cash effect	**1,246**	153

Assets and liabilities disposed of	**2019**	2018
PPE** and intangible assets	-	2,660
Deferred tax assets	-	14
Interest-bearing receivables	-	-
Inventory	-	2,082
Trade receivables and other interest-free receivables	-	2,965
Non-current assets held for sale	-	39
Cash and cash equivalents	-	981
Total assets	**-**	8,741
Deferred tax liabilities	-	-
Interest-bearing liabilities	-	2,095
Trade and other payables	-	1,143
Total liabilities	**-**	3,238
Total net assets and liabilities of disposal	**-**	5,503
Loss on disposal in equity	-	-5,453
Total	**-**	50

At the table of assets and liabilities disposed of subsidiaries' balances are presented at the exchange rate of disposal date.

** Property, plant and equipment

5. Non-current assets held for sale

In financial year 2019, the Group recognized an impairment of EUR 110 thousand, on value of real estate located in Germany. Asset is measured on fair value less costs to sell at the year-end 2019 and recorded value was EUR 1,449 thousand in consolidated statement of financial position. Value is based on estimated sales price of a local real estate agency.

Land area and building owned by Tikkurila's German subsidiary, were classified as held for sale assets in financial year 2018. These assets were measured at carrying amounts in financial year 2018, as the estimation of sales price of a local real estate agency exceeded the carrying amounts. Value of the assets were EUR 1,559 thousand.

At the beginning of financial year 2018 assets and liabilities of subsidiaries in Serbia and Macedonia were disclosed as held for sale. These were included in balances of SBU East. The entire share capital of these subsidiaries in Serbia and Macedonia was sold to the local management of Tikkurila. The transaction was concluded in January 2018. Cash and cash equivalents transferred in assets held for sale in cash flow of financial year 2018 were related to these subsidiaries.

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

6. Other operating income

EUR thousand	**2019**	2018
Gains on sale of non-current assets	**428**	333
Insurance compensation	**202**	6,272
Rental income	**390**	380
Income on services provided to joint venture	**977**	958
Other income from operations	**1,293**	2,053
Total	**3,290**	9,996

In financial year 2019, majority of gains on sales of non-current assets concluded sale of machinery and equipment of closed-down production facility of OOO Tikkurila and Tikkurila Danmark A/S as well as gains on sold cars.

In comparison year, majority of gains on sales of non-current assets concluded sale of machinery and equipment of closed-down production facility of Tikkurila GmbH. In addition, gains mainly resulted sales of vehicles.

In comparison year, the insurance compensations comprised total of EUR 6 million compensation due to fire at the Venator's titanium dioxide plant in Pori, Finland in January 2017. The plant in Pori was an important raw material supplier for Tikkurila, and thus the fire caused significant damage and costs for the company.

7. Personnel expenses

EUR thousand	**2019**	2018
Wages and salaries	**-76,797**	-81,095
Share-based payments	**-765**	-222
Pension expenses for defined contribution plans	**-10,815**	-10,904
Pension expenses for defined benefit plans	**-999**	-953
Other personnel expenses	**-9,973**	-10,926
Total	**-99,349**	-104,100

Remuneration of Board of Directors and CEO of Tikkurila Oyj are disclosed in Note 36 Related parties.
Pension expenses for defined benefit plans are disclosed in Note 30 Pension obligations and other long-term employee benefits.

Personnel, average	**2019**	2018
Personnel in Finland, average	**548**	562
Personnel outside Finland, average	**2,165**	2,346
Total	**2,713**	2,908
Personnel at year-end	**2,607**	2,717

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

8. Depreciation, amortization and impairment losses

EUR thousand	**2019**	2018
Depreciation and amortization		
Intangible assets	**-4,224**	-4,867
Property, plant and equipment		
Buildings and constructions	**-2,428**	-2,850
Machinery and equipment	**-7,757**	-8,161
Other property, plant and equipment	**-1,501**	-1,394
Right-of-use assets		
Land areas	**-122**	-
Buildings and premises	**-6,351**	-
Machinery and equipment	**-48**	-
Vehicles	**-1,665**	-
Total	**-24,096**	-17,272
Impairment losses		
Intangible assets		
Other intangible assets	**-**	-1
Goodwill	**-**	-1,585
Property, plant and equipment		
Machinery and equipment	**-**	-803
Buildings and constructions	**-110**	-1,870
Land and water	**-**	-47
Total	**-110**	-4,306
Total depreciation, amortization and impairment losses	**-24,206**	-21,578

In financial year 2019 recognized impairment losses on property, plant and equipment relate to the value reassessment of a building located in Germany. The real estate owned by German subsidiary was classified as non-current assets held for sale in financial year 2018. Due to adoption of IFRS 16 -standard, the depreciations of right-of-use assets amounted to EUR 8.2 million in financial year 2019, see Note 15 and Note 40.

In financial year 2018 recognized impairment losses on intangible assets and property, plant and equipment mostly related to the Group production restructuring where operations in German company were decided to discontinue and to decision to close-down a production site in Denmark.

9. Other operating expenses

EUR thousand	**2019**	2018
Rents	**-2,897**	-11,584
Other voluntary personnel expenses	**-3,945**	-3,700
Sales and marketing	**-21,178**	-22,570
Repair and maintenance	**-8,965**	-8,385
IT and communication	**-4,833**	-4,504
Freights for goods sold	**-16,434**	-16,323
Professional fees	**-5,951**	-5,558
Transportation and travel	**-7,667**	-8,114
Energy, heating and water	**-4,707**	-4,770
Insurances excl. personnel insurances	**-984**	-957
Office expenses	**-1,317**	-1,695
Representation and membership fees	**-2,678**	-2,259
External services	**-19,462**	-17,502
Authority fees and environmental tax	**-1,079**	-1,158
Credit losses	**-881**	-470
Other expenses	**-4,799**	-3,021
Total	**-107,777**	-112,570
Audit fees: [1]		
EY	**-420**	-
KPMG	**-76**	-447
Other audit firms	**-17**	-36
Tax advisory, EY	**-3**	-
Other services, EY	**-**	-
Tax advisory, KPMG	**-**	-12
Other services, KPMG	**-6**	-6
Total	**-522**	-501

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

Other than audit fees invoiced by KPMG amounted to EUR 5 thousand in comparison year. In year 2019, fees paid to KPMG consist only the fees for services provided during the time when company acted as principal auditing company of Tikkurila Group.

ITEMS AFFECTING COMPARABILITY

EUR thousand	**2019**	2018
Expenses		
Wages and salaries	**-495**	-5,414
Other personnel expenses	**-18**	-662
Defined benefit and contribution pension expenses	**-99**	-710
Other	**-1,752**	-2,111
Impairment losses:		
Goodwill	**-**	-1,586
Other intangible assets	**-**	-1
Property, plant and equipment	**-110**	-1,822
Total	**-2,474**	-12,306

In financial year 2019, “Other” items affecting comparability comprise costs of withdrawn Russian factory investment.

In financial year 2018, “Other” items affecting comparability comprise costs of closing-down the production sites in Russia, Denmark and Germany.

10. Research and development expenses

EUR thousand	**2019**	2018
Research and development expenses total	**-9,603**	-9,234

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

11. Financial income and expenses

EUR thousand	**2019**	2018
Financial income		
Dividend income	**6**	14
Interest income from loans and other receivables	**828**	974
Other interest income	**5**	16
Exchange rate gains		
Exchange rate gains from loans and other receivables	**6,040**	1,101
Exchange rate gains from financial liabilities measured at amortized cost	**38**	10
Other financial income	**3**	-
Total	**6,920**	2,115

EUR thousand	**2019**	2018
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	**-903**	-1,305
Interest on lease liabilities (in previous financial year on finance leases)	**-1,086**	-7
Other interest expenses	**-4**	-42
Exchange rate losses		
Exchange rate losses from loans and other receivables	**-4,152**	-5,865
Exchange rate losses from financial liabilities measured at amortized cost	**-232**	-15
Other financial expenses	**-608**	-585
Change in loss allowance of financial assets measured at amortized cost	**46**	-76
Total	**-6,939**	-7,895
Total financial income and expenses	**-19**	-5,780

Dividends are received from equity instruments classified at fair value through other comprehensive income.

Change in loss allowance of financial assets measured at amortized cost is recognized on loan receivables, in which the Group has recorded 12-month expected credit losses. Credit risk on these assets has not significantly increased during the financial year 2019.

	2019	2018
Net financial expenses as a percentage of revenue	**0.0**	1.0
Net interests as a percentage of revenue	**0.2**	0.1

EUR thousand	**2019**	2018
Exchange rate gains and losses in financing items		
Realized	**2,073**	-2,112
Unrealized	**-379**	-2,657
Total	**1,694**	-4,769
Exchange rate gains and losses in operating profit		
Revenue	**-13**	10
Materials and services	**208**	-2,374
Total	**195**	-2,364

12. Income taxes

EUR thousand	2019	2018
Current income tax charge	-12,826	-7,168
Adjustments for prior years	434	20
Deferred taxes	1,448	685
Total	**-10,944**	-6,463

Income taxes recognized in other comprehensive income	2019	2018
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	831	38
Total tax items that will not be reclassified to profit or loss	831	38
Items that may be reclassified subsequently to profit or loss		
Deferred taxes		
Net investment in foreign operations	-	-
Total tax items that may be reclassified subsequently to profit or loss	-	-
Total income taxes recognized in other comprehensive income	**831**	38

RECONCILIATION OF TAXES CALCULATED ACCORDING TO THE ENACTED TAX RATE WITH TAXES IN THE STATEMENT OF COMPREHENSIVE INCOME:

EUR thousand	2019	2018
Tax at parent's tax rate	-8,837	-4,210
Effect of different tax rates in foreign subsidiaries	101	521
Tax-exempt income	37	209
Non-deductible expenditure	-1,597	-1,794
Effect of changes in tax rates	0	-46
Used tax losses, previously unrecognized	-	-
Current year losses for which no deferred tax asset was recognized	-133	-1,528
Taxes from previous financial years	434	20
Changes of deferred taxes related to previous years and current year temporary difference which no deferred taxes were recognized	-40	208
Effect of result of equity-accounted investees	60	64
Other items	-969	93
Total taxes in the statement of comprehensive income	**-10,944**	-6,463

The effective tax rate of the Group is 24.8% (30.7%).

The Norwegian corporate tax rate decreased from 23% to 22% as of January 2019. In financial statements 2018 the Norwegian deferred taxes were measured by using the enacted corporate tax rate for year 2019.

In accordance with the resolution of the Swedish parliament, the Swedish corporate tax rate decreased from 22% to 21.4% as of January 2019 and will be further decreased to 20.6% as of January 2021. In financial statements 2019 and 2018 the Swedish deferred taxes are measured by using the corporate tax rate (21.4%).

Corporate income tax reform, under which undistributed corporate profits are tax exempt, in Latvia was effective as of January 1, 2018. Company will pay corporate tax on profits when it distributes dividends or makes other payments with the aim of actual profit distribution. Corporate tax rate in Latvian increased from 15% to 20%.

13. 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.

Calculating the dilution effect is based on the estimated total level of new shares to be issued according the terms and conditions of the plans. The group has share-based incentive program for the Group key employees, that was launched at the beginning of financial year 2016. This program consists of three performance periods 2015-2017, 2016-2018 and 2017-2019. In addition, incentive plan consists a matching share plan 2016-2018.

In accordance with the decision of the Board of Directors, the group has also a matching share plan 2017-2019.

In June 2018, the Board of Directors of Tikkurila Oyj decided two new share-based incentive plans for Group key employees; share plan 2018-2022 and share plan 2018-2019. Share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. Share plan 2018-2019 includes one performance period, calendar years 2018-2019. Payment of the rewards is conditional to that a participant is employed at the time of the payment.

When calculating the dilution effect for the number of shares, it has been assumed that all the remuneration to be paid in shares would be issued as new shares, even though it is also possible that those shares might be acquired from the markets.

	2019	2018
Profit for the period attributable to the owners of the parent, EUR thousand	**33,241**	14,584
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Basic earnings per share (EUR / share)	**0.75**	0.33
Profit for the period attributable to the owners of the parent, EUR thousand	**33,241**	14,584
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Effect of share-based incentive plan (1,000)	**80**	15
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	**44,186**	44,121
Diluted earnings per share (EUR / share)	**0.75**	0.33

Tikkurila Oyj has one class of shares that has no nominal value. The number of registered shares was 44,108,252 at end of the financial year 2019, and at the end of previous year 44,108,252. The Group held 2,461 treasury shares on December 31, 2019. At the end of year 2018, the Group held 2,461 treasury shares.

14. 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	2019 Total
Acquisition cost at Jan 1, 2019	5,040	104,670	181,658	11,376	3,417	**306,160**
Other increases	-	705	4,408	737	3,545	**9,395**
Other decreases	-	-295	-579	-520	-	**-1,394**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	-	-	-	-	**-**
Other changes	-	-	-1,125	-	-1,887	**-3,012**
Reclassifications	-	197	1,172	869	-1,601	**637**
Exchange rate differences	64	2,174	1,830	943	276	**5,288**
Cost at Dec 31, 2019	**5,104**	**107,452**	**187,364**	**13,405**	**3,749**	**317,074**
Accumulated depreciation and impairment losses at Jan 1, 2019	-112	-74,127	-153,166	-7,847	-	**-235,251**
Accumulated depreciation relating to decreases and transfers	-	204	1,449	490	-	**2,143**
Depreciation during the financial year	-	-2,428	-7,757	-1,501	-	**-11,686**
Impairment losses	-	-110	-	-	-	**-110**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	110	-	-	-	**110**
Exchange rate differences	-10	-920	-1,340	-718	-	**-2,988**
Accumulated depreciation and impairment losses at Dec 31, 2019	**-122**	**-77,271**	**-160,813**	**-9,576**	**-**	**-247,781**
Net carrying amount at Jan 1, 2019	**4,928**	**30,543**	**28,492**	**3,530**	**3,417**	**70,910**
Net carrying amount at Dec 31, 2019	**4,982**	**30,181**	**26,551**	**3,830**	**3,749**	**69,293**

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2018 Total
Acquisition cost at Jan 1, 2018	5,779	109,173	183,350	11,064	2,926	**312,292**
Other increases	-	786	6,495	867	2,093	**10,241**
Other decreases	-	-8	-829	-435	-	**-1,272**
Disposal of businesses and subsidiaries	-	-	1	-	-1	**-**
Transfer to held for sale assets	-620	-2,090	-3,036	-204	-	**-5,950**
Other changes	-	-	-56	-2	-24	**-82**
Reclassifications	-	293	-23	1,077	-1,350	**-3**
Exchange rate differences	-119	-3,484	-4,244	-991	-228	**-9,066**
Cost at Dec 31, 2018	**5,040**	**104,670**	**181,658**	**11,376**	**3,417**	**306,160**
Accumulated depreciation and impairment losses at Jan 1, 2018	-75	-72,146	-151,064	-7,774	-	**-231,059**
Accumulated depreciation relating to decreases and transfers	-	8	753	408	-	**1,169**
Depreciation during the financial year	-	-2,850	-8,161	-1,394	-	**-12,405**
Impairment losses	-47	-1,870	-803	-	-	**-2,720**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	1,164	3,034	193	-	**4,391**
Exchange rate differences	11	1,568	3,075	721	-	**5,374**
Accumulated depreciation and impairment losses at Dec 31, 2018	**-112**	**-74,127**	**-153,166**	**-7,847**	**-**	**-235,251**
Net carrying amount at Jan 1, 2018	**5,703**	**37,027**	**32,286**	**3,290**	**2,926**	**81,233**
Net carrying amount at Dec 31, 2018	**4,928**	**30,543**	**28,492**	**3,530**	**3,417**	**70,910**

*Other property, plant and equipment include for example shelters, improvements on leasehold premises and pavements.

Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 34 Commitments and contingent liabilities.

In financial year 2019 majority of prepayments and non-current assets under construction were related to expansion of warehouses, maintenance and upgrading of production buildings and production technology in the Group's main production sites.

In financial year 2018 majority of prepayments and non-current assets under construction comprised a project of a production plant in Russia and projects related to installation of paint manufacturing department and store concept in Poland. The capitalized costs related to production plant in Russia amounted to EUR 1.2 million in prepayments and non-current assets under construction in financial statements 2018. As the planned factory investment was not carried out, capitalized expenses of the project were recognized in profit or loss in financial year 2019.

ASSETS LEASED UNDER FINANCE LEASES

Property, plant and equipment included in financial year 2018 assets leased under finance lease as follows:

EUR thousand	Machinery and equipment	Motor vehicles	**Total**
Dec 31, 2018			
Acquisition cost	1,125	-	1,125
Accumulated depreciation	932	-	932
Net carrying amount	**193**	**-**	**193**

15. Leases

GROUP AS LESSEE

The lease term is a lease's non-cancellable term, lease period. The lease extension options included in the leases are added to the lease term if it is reasonably certain that they will be used. For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs, the judgment is used in the estimation of the lease term. In such cases, the maximum lease term used is Tikkurila's strategic period, 5 years. Similar judgment is used in the contracts in which lessor has termination option, without significant sanctions, but which contracts are essential to Tikkurila's business, the termination would result in significant costs for Tikkurila, and the contracts have continued for several years.

Lease contracts related to shop premises are included on those contracts essential to Tikkurila's business and in relation to termination of those contracts Tikkurila can expose significant payments, penalties. Such penalty payments considered consist leasehold improvements involved in premises. As the relevant factor in relation of shop premises is location, the replacing existing contract with the new one, is considered to result significant payments in relation of termination of contract. Other lease contracts related to premises include warehouses and offices.

The most significant right-of-use assets in category land area, consist lease contracts on production site. There are perpetual usufructs included in land area contracts, in which enforceable period was defined based on the useful life of the production building located on this site. Other such perpetual usufructs contracts in relation of land, excluding the production facility related contracts, the estimation of lease term was based on Tikkurila' strategic period.

Major part of the lease contracts and right-of-use assets in asset category Vehicles consists on car lease contracts, in which there are typically 3-4 years fixed lease term.

RIGHT-OF-USE ASSETS

EUR thousand	Land area	Buildings and premises	Machinery and equipment	Vehicles	**2019 Total**
Acquisition cost at Jan 1, 2019 on adoption of IFRS 16	1,840	20,017	78	2,865	**24,800**
Increases	11	3,697	73	1,635	**5,416**
Other decreases	-17	-213	-42	-526	**-798**
Other changes	-	-	-	9	**9**
Exchange rate differences	21	496	1	24	**542**
Cost at Dec 31, 2019	1,856	23,997	110	4,006	**29,969**
Accumulated depreciation and impairment losses at Jan 1, 2019	-	-	-	-	**-**
Accumulated depreciation relating to decreases and transfers	17	169	6	340	**532**
Depreciation during the financial year	-122	-6,351	-48	-1,665	**-8,186**
Exchange rate differences	-1	-83	-1	-6	**-91**
Accumulated depreciation and impairment losses at Dec 31, 2019	**-106**	**-6,265**	**-43**	**-1,331**	**-7,745**
Net carrying amount at Jan 1, 2019 on adoption of IFRS 16	**1,840**	**20,017**	**78**	**2,865**	**24,800**
Net carrying amount at Dec 31, 2019	**1,750**	**17,732**	**67**	**2,675**	**22,224**

In financial year 2018, the lease assets and lease liabilities in relation to leases that were classified as finance leases under standard IAS 17 Leases were recognized in consolidated statement of financial position. The assets were presented in property, plant and equipment and the liabilities as part of the Group's interest-bearing liabilities, see Note 14. Impacts on adoption of IFRS 16 standard and adjustments to Tikkurila Group opening balances at January 1, 2019 are disclosed in Note 40.

Group's commitments related to leases that have not yet commenced are disclosed in Note 34 Commitments and contingent liabilities. Commitments in financial year 2018 for minimum lease payments in relation to non-cancellable operating leases are disclosed in Note 34 commitments and contingent liabilities.

LEASE LIABILITIES

Lease liabilities are included in the consolidated statement of financial position under interest-bearing non-current liabilities and interest-bearing current liabilities. Maturity analysis of lease liabilities is disclosed in Note 33 Financial risk management.

EUR thousand	**2019**	Jan 1, 2019
Non-current	**15,310**	17,788
Current	**7,315**	6,266

AMOUNTS RELATING TO LEASES RECOGNIZED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	**2019**	2018
Depreciations of right-of-use assets	**-8,186**	-
Interest expenses on lease liabilities, included in financial expenses	**-1,086**	-
Expenses relating to leases of short-term leases, included in other operating expenses	**-2,172**	-
Expenses relating to leases of low-value assets included in other operating expenses	**-369**	-

Total cash flows on leases amounted to EUR 8,270 thousand in year 2019.
In comparison year, rental expenses on operating lease agreements in accordance with IAS 17, are disclosed in Note 9 Other operating expenses.

GROUP AS LESSOR

Lease payments are mainly received from leased land area and re-leasing of own premises.
Non-cancellable operating lease rentals are receivable as follows:

EUR thousand	**2019**	2018
Within one year	**205**	244
Between 1 - 2 years	**122**	136
Between 2 - 3 years	**108**	122
Between 3 - 4 years	**92**	109
Between 4 - 5 years	**122**	136
Later than 5 years	**181**	320
Total	**800**	1,037

16. Intangible assets

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2019 Total**
Acquisition cost at Jan 1, 2019	72,157	71,703	149	**144,009**
Other increases	-	76	1,664	**1,740**
Other decreases	-	-487	-	**-487**
Other changes	-	-	-145	**-145**
Reclassifications	-	124	-761	**-637**
Exchange rate differences	358	768	1	**1,127**
Cost at Dec 31, 2019	**72,515**	**72,184**	**908**	**145,607**
Accumulated amortization and impairment losses at Jan 1, 2019	-2,332	-50,882	-	**-53,214**
Accumulated amortization relating to decreases and transfers	-	465	-	**465**
Amortization during the financial year	-	-4,224	-	**-4,224**
Impairment losses	-	-	-	**-**
Exchange rate differences	5	-207	-	**-202**
Accumulated amortization and impairment losses at Dec 31, 2019	**-2,327**	**-54,848**	**-**	**-57,175**
Net carrying amount at Jan 1, 2019	**69,825**	**20,821**	**149**	**90,795**
Net carrying amount at Dec 31, 2019	**70,188**	**17,336**	**908**	**88,432**

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2018 Total**
Acquisition cost at Jan 1, 2018	72,704	71,145	1,767	**145,616**
Other increases	-	35	171	**206**
Other decreases	-	-50	-	**-50**
Disposal of businesses and subsidiaries	-	-10	-	**-10**
Other changes	-	-34	-12	**-46**
Reclassifications	-	1,772	-1,771	**1**
Exchange rate differences	-547	-1,155	-6	**-1,708**
Cost at Dec 31, 2018	**72,157**	**71,703**	**149**	**144,009**
Accumulated amortization and impairment losses at Jan 1, 2018	-748	-46,445	-	**-47,193**
Accumulated amortization relating to decreases and transfers	-	7	-	**7**
Amortization during the financial year	-	-4,867	-	**-4,867**
Impairment losses	-1,585	-1	-	**-1,586**
Disposal of businesses and subsidiaries	-	-	-	**-**
Exchange rate differences	1	424	-	**425**
Accumulated amortization and impairment losses at Dec 31, 2018	**-2,332**	**-50,882**	**-**	**-53,214**
Net carrying amount at Jan 1, 2018	**71,956**	**24,700**	**1,767**	**98,424**
Net carrying amount at Dec 31, 2018	**69,825**	**20,821**	**149**	**90,795**

The carrying amounts of equity-accounted investee in 2019 or 2018 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2019 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 4.9 million (2018: EUR 5.2 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 0.2 million (2018: EUR 0.4 million). Other intangible assets include also carrying amount of software in total of EUR 12.2 million (2018: EUR 15.2 million).

There were no capitalized borrowing costs in 2019 or 2018.

In financial year 2019, prepayments and assets under construction included capitalized costs of softwares.

In financial year 2018, prepayments and assets under construction consist mostly of costs for e-commerce program platform.

17. Impairment test

Goodwill is tested for impairment at least annually and always when there is an indication that goodwill or any other asset may be impaired. In financial year 2019, an impairment loss on non-current asset held for sale in Germany was recognized. In financial year 2018, an impairment loss on property, plant and equipment was recognized in Denmark in consequence of a decision to close the production unit.

Impairment testing is performed by comparing the carrying amount of those cash-generating units (CGU) that include goodwill with their expected recoverable amount. To the carrying amount tested is included right-of-use assets recognized in non-current assets, in accordance with IFRS 16 Leases -standard. Right-of-use assets increase the carrying amount tested by around EUR 22 million in the Group which equals 8.5 percent of the total carrying amount tested. An impairment loss is recognized if the recoverable amount of the cash-generating unit is less than the carrying amount. The recoverable amount is measured at value in use by discounting the estimated future cash flows using the Discounted Cash Flow (DCF) method.

Tikkurila reports its business activities in two segments: SBU West and SBU East. In impairment testing the cash-generating units have been determined based on geographic area and operational logic within the segments so that there are altogether five cash-generating units. At the end of financial year, goodwill has been allocated to the following cash-generating units: Scandinavia and East.

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

Cash-generating units:	**2019**		2018	
EUR thousand	**Carrying amount**	**of which Goodwill**	Carrying amount	of which Goodwill
Finland	**39,082**	**-**	34,930	-
Scandinavia	**106,900**	**66,889**	101,171	66,930
East	**59,344**	**3,299**	54,281	2,895
Central Europe	**51,114**	**-**	42,987	-
South-East Europe	**4,663**	**-**	7,908	-

Annually, during the strategy process, Tikkurila Management Team and the Board of Directors define the objectives for the next years. In setting the objectives the management's judgment takes a central stage. The strategic analysis takes into account information from external sources that relates to the future and past development of the macroeconomic conditions, demand of paints, clients and competitors in the geographical areas. The cash flow forecasts over a three-year period for each cash-generating unit are compiled based on this process. In case of significant changes in any operating area after the annual strategic analysis, cash flows can be re-evaluated later on near the end of the financial year. Capital expenditures for expansion investments have not been taken into account in these estimates. Into testing estimates include capital expenditures for maintenance and replacement investments including investments for right-of-use assets in use in case of lease agreements ending or needing extension during the three-year forecasting period. The terminal value is the net present value of the third year's estimate of the forecast period, and it has been extrapolated by using one percent (zero percent in 2018) of nominal growth rate in year 2019.

The discount rate used in 2019 varied between 7.3% - 11.6% depending on the cash-generating unit. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking into consideration the specific risks related to the assets. Country risk premium has been added only to the calculation of cost of equity– from the calculation of cost of debt country risk premium has been excluded since the risk-free interest rate includes already geographical differences. Into the calculation of the total cost of equity has been included a size risk premium for the Group reflecting the company risk. Numeric data of the peer group of benchmark companies, from the same field of industry, is from the year 2019 so the effects of IFRS 16 Leases -standard include in the capital structure. In the 2019 calculation the same peer group of benchmark companies was used than in calculation of year 2018.

In the 2018 calculation of WACC was used the same peer group of benchmark companies operating in the same industry which was re-specified and expanded in 2017. The basis in the definition of the risk-free interest rate is the market interest rate level of the 30-year government bonds of each major country in that area. Since such interest rates are not available in the key countries of cash generating units Area East, Area CE and Area SEE, for these areas the risk-free interest rate is based on the 30-year German government bond interest rate added with the inflation differential between Germany and the country in question. The German government bond is used because Germany is an AAA-rated country.

The cash flows and discount rates are determined before taxes.

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS OF THE IMPAIRMENT TESTS

The forecasted cash flows used in impairment tests reflect the Tikkurila management's perception of the development in sales, costs and net working capital during the three-year forecast period. The significant assumptions used in the impairment tests relate thus to the development of sales and profitability, measured by EBITDA (operating profit before depreciations, amortizations and impairment losses). In the calculation has been used a mid-year -assumption to discount the cash flows as per which the cash flows accumulate evenly during the year. Earlier the discounting the cash flows was done at year-end. The significant assumptions relating to the discount rate are risk-free interest, capital structure and risk premiums which reflects the risk levels.

In year 2019 impairment test, for the forecasting period from 2020 to 2022, the revenue is expected to grow absolutely the highest in Area East. The revenue of Area East in year 2019 exceeded clearly the level of the estimated revenue for year 2019 in the previous three-year forecast for years from 2019 to 2021. The relative growth in the three-year period from 2020 to 2022 is estimated to be the highest in Area South-East Europe as it was also in the previous three-year forecasting period from 2019 to 2021. The pace of growth has been revised to be more moderate for all cash generating units towards to end of the forecasting period compared to the previous forecasting period, from year 2019 to 2021, reflecting the uncertainty of the world economy: in Europe Brexit and disagreement between USA and China in trade including the uncertainty in trade negotiations which all can have multiple effects for development of European economy. Locally anticipated slowing down economy growth and deteriorating activity of construction business, especially in operating area Scandinavia but also in operating area Finland can be detected in revenue forecasted. The revenue of operating areas SEE and CE in year 2019 amounted about at the level of the estimated revenue for year 2019 estimated in the previous three-year forecast for years from 2019 to 2021. The pace for price increases of raw and packaging materials slowed down clearly in year 2018 and continued to slow down to some extent in 2019. For year 2020 is forecasted that price increases further slow-down, and to some single products prices may remain flat or be even lower. In Russia, there is anticipated still some price increases for raw materials. In financial year 2018, some cost cutting actions were implemented like discontinuation of three production sites, shut down the operations of a subsidiary in Germany and dismiss of a significant number of personnel due to reorganizing operations by eliminating overlaps of operations. In addition, decision-making and responsibilities have been clarified. Other measures been in process were, for instance, optimizing the logistic network in the Group, harmonizing product portfolio and number of used raw materials. These have been estimated to boost profitability in the future. During the financial year 2019 have been concentrated to implement the actions into practices.

In 2018 impairment test, for the forecasting period from 2019 to 2021, the revenue was expected to grow absolutely the highest in Area Scandinavia. The relative growth in the same period was estimated to be the highest in Area South-East Europe. However, the estimated level of revenue in Area South-East Europe was on lower level in this forecasting period 2019-2021 due to the divestment realized. Also, the pace of revenue growth reviewed. Area CE revenue exceeded in 2018 clearly the expected level of revenue which was estimated for 2018 in previous three-year forecasting period, and because of that in the forecasting period 2019-2021 the pace of revenue growth was reviewed. From the end of 2016 raw material and packaging material prices increased significantly. Phase of inflation was expected to slow down, and prices to stabilize during 2019. Raw material and packaging materials prices were estimated most likely to be very volatile beyond 2018. In financial year 2018, some cost cutting actions were implemented which were expected to improve profitability in the future among others discontinuation of three production sites, shut down the operations of a subsidiary and elimination of overlaps of operations. In addition, decision-making and responsibilities have been clarified.

The values of the key assumptions related to discount rates are defined separately for each cash-generating unit and each testing period in order to reflect the corresponding market information. The discount rates have changed mainly due to the changes in the main assumptions of WACC, which are risk free interest rate, capital structure and risk premiums. The greatest decrease of discount rate from the year 2018 to year 2019 occurred in the operating area East. The decrease is mainly caused by the decrease of the risk premiums, risk free interest rate and inflation. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure. The ratio was restricted to be at the lowest zero i.e. negative ratios were calculated as zero.

The chart below shows the estimated parameters used in testing during the three-year forecasting period and for the terminal period by the cash generating units in the year:

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Estimate parameters used										
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	**13.1**	12.3	**17.7**	12.2	**12.7**	15.5	**13.6**	17.8	**18.0**	14.0
Discount rate, pre-tax, %	**7.3**	7.3	**11.6**	14.1	**8.4**	8.3	**9.2**	9.2	**7.7**	7.9
Growth post forecast period, %	**1.0**	0.0	**1.0**	0.0	**1.0**	0.0	**1.0**	0.0	**1.0**	0.0
The amount at which the recoverable amount exceeds the carrying amount, EUR thousands	**124,666**	176,046	**161,754**	47,882	**93,016**	169,326	**70,351**	90,790	**183,022**	112,596

At the end of 2019, there are two cash-generating units - East and Finland – where the recoverable amount increased compared to the end of 2018, which was affected by:

1) decrease in the discount rate in cash generating unit East, based on changes in interest rates and market risk premiums and
2) future estimated improvement in operating profit margin, which is based on the effects of the major structural changes and cost savings carried out during the last years, as well as on the assumed future sales structure.

On the other hand, the recoverable amount of the GGU Central Europe has decreased from the previous year-end due to relative decrease of net profit. Investments in marketing and advertising in operating area CE is emphasized to defend market position due to tightened competition and due to slowing down of general market growth.

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

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Change in key assumptions										
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	**-4.5**	-6.6	**-10.4**	-4.2	**-5.4**	-10.4	**-10.2**	-14.5	**-12.7**	-8.8
Change in pre-tax discount rate, % -units	**6.4**	9.5	**30.4**	10.5	**11.0**	26.8	**99.3**	55.5	**30.5**	18.8
Change in growth post forecast period, % -units	**-7.0**	-13.5	**-80.9**	-18.3	**-15.3**	-71.8	**n/a**	n/a	**-47.1**	-35.3

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

18. Equity-accounted investees

EUR thousand	**2019**	2018
Carrying amount at Jan 1	**393**	491
Share of profit or loss of equity-accounted investees	**281**	293
Dividends	**-359**	-366
Other comprehensive income	**-29**	-6
Exchange rate differences	**-4**	-20
Carrying amount at Dec 31	**282**	393

ASSOCIATES

During year 2019 or 2018 the Group did not have ownership in any associate company.

JOINT VENTURES

Alcro Parti AB is the only joint arrangement in which the Group participates. The Group has 50 percent of ownership interest and voting rights in Alcro Parti AB. In year 2019 or 2018, there were no changes in ownership in joint arrangements.

Alcro Parti AB exercises direct sales towards construction, industrial, cleaning and handicrafts companies as well as towards municipals in Sweden in Stockholm, Gothenburg and Malmö cities. The company has complete sets of merchandise for painting, protecting and cleaning. The strategic goal is to reach those earlier mentioned customer groups.

The Group's joint arrangement is an incorporated company, a separate vehicle, in which the Group has a joint control with another investor. The Group and the other investor have as per the concluded arrangement rights to Alcro Parti AB's net assets. Therefore, the company has been classified as a joint venture and is accounted for using the equity method. The summarized financial information of Alcro Parti AB is presented, as included in its own financial statements, adjusted for differences in accounting policies between the Group and the company.

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

SUMMARIZED FINANCIAL INFORMATION OF JOINT VENTURE:

EUR thousand	**2019**	2018
Non-current assets	**1,213**	1,205
Current assets excluding cash and cash equivalents	**713**	785
Cash and cash equivalents	**558**	646
Total assets	**2,484**	2,636
Other non-current liabilities	**921**	820
Current liabilities	**998**	1,030
Total liabilities	**1,919**	1,850

EUR thousand	**2019**	2018
Net assets	**565**	786
Group's share of net assets (50%)	**282**	393
Revenue	**8,201**	8,176
Depreciation and amortization	**-**	-
Interest income	**4**	2
Interest expenses	**0**	0
Income taxes	**-160**	-171
Profit for the period	**569**	586
Other comprehensive income	**-57**	-12
Total comprehensive income for the period	**512**	574
Group's share of total comprehensive income for the period	**256**	287
Dividends received by Group	**359**	366
Personnel during the period, average	**9**	9

EUR thousand	**2019**	2018
Group's share of net assets at Jan 1	**393**	491
Group share of net profit	**281**	293
Dividends received	**-359**	-366
Other comprehensive income	**-29**	-6
Translation differences	**-4**	-20
Carrying amount at Dec 31	**282**	393

Balances and transactions with joint venture are disclosed in Note 36 Related parties.

19. Inventories

EUR thousand	**2019**	2018
Materials and supplies	**26,364**	25,448
Work in progress	**2,268**	2,474
Finished goods	**56,845**	50,746
Prepayments	**1**	175
Total	**85,478**	78,842

Inventory write-downs amounting to EUR 5.4 million (EUR 9.4 million) were recognized during the financial period. Write-down of inventory is recognized as expense if carrying amount exceeds net realizable value. The valuation of inventories at end of each review period requires to some extent management estimates. Based on Group's internal instructions and on operative information, subsidiary and Group management use judgment when assessing the need and amount of write-down, since mostly there are no explicit methods in assessing the fair value of the inventories.

The amount of write-down 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 2019, also reversals of inventory write-down amounting to EUR 2.2 million were recognized (EUR 2.0 million). The amount of cost recognized as expense was EUR 297.8 million (EUR 292.2 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 inventory carried at net realizable value in year 2019 was EUR 1.5 million (EUR 3.0 million). In the Group the value of the right-to-return goods including in inventory value is EUR 0.1 (0.0) million.

20. Other investments

EUR thousand	**2019**	2018
Carrying amount at Jan 1	**744**	755
Disposals	**-11**	-5
Other changes / Transfers	**-**	-
Exchange rate differences	**1**	-6
Carrying amount at Dec 31	**734**	744

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

Tikkurila has classified these equity instruments as fair value through other comprehensive income. Received dividends on these investments are recognized in profit or loss but possible impairment losses will not be recognized in profit or loss nor will the gains or losses on disposals. In financial year 2019, EUR 7 (EUR 72 thousand gain) thousand loss on sale of these shares is recognized in other comprehensive income.

21. Non-current receivables

EUR thousand	**2019**	2018
Loan receivables	**4,289**	6,598
Prepayments	**210**	164
Accrued income and deferred expenses	**245**	121
Other receivables	**2,298**	1,987
Total non-current assets	**7,042**	8,870
Other receivables		
Trade receivables and hire-purchases	**998**	1,874
Other non-current non-interest-bearing receivables	**1,300**	113
Total other receivables	**2,298**	1,987

Other non-current receivables include sales price receivables on sold assets EUR 0.2 million. These receivables have been recognized initially at fair value. These are discounted and interest income is recognized in financial items as interest income based on the passage of time. These receivables consist also security account assets EUR 1.2 million.

22. Current interest-bearing receivables

EUR thousand	**2019**	2018
Loan receivables	**742**	983
Total interest-bearing receivables	**742**	983

23. Trade and other non-interest-bearing receivables

EUR thousand	**2019**	2018
Trade receivables	**88,272**	84,745
Accrued income and deferred expenses	**4,615**	5,714
Other receivables	**3,768**	5,328
Total current non-interest-bearing receivables	**96,655**	95,787

Trade receivables and loan receivables are classified as financial assets at amortized cost.
Other receivables include VAT receivables amounting to EUR 3.2 million (EUR 2.8 million).

EUR thousand	**2019**	2018
Accrued income and deferred expenses		
Items related to net revenue and purchases	**1,694**	1,782
Employee benefit expenses	**169**	536
Insurances	**187**	151
Leases	**760**	1,418
Interests	**78**	97
Other	**1,972**	1,851
Total	**4,860**	5,835

Non-current accrued income and deferred expenses presented in Note 21 are included in this disclosure as well.

24. Cash and cash equivalents

EUR thousand	**2019**	2018
Cash	**47,008**	35,486
Cash equivalents (bank deposits, maturity less than 3 months)	**-**	-
Total cash and cash equivalents	**47,008**	35,486

EUR thousand	**2019**	2018
Cash and cash equivalents according to cash flow:		
Cash	**47,008**	35,486
Cash equivalents (bank deposits, maturity less than 3 months)	**-**	-
Bank overdrafts	**-**	-
Total cash and cash equivalents	**47,008**	35,486

25. Deferred tax assets and liabilities

2019 EUR thousand	Net balance at Jan 1, 2019	Translation differences	Recognized in profit or loss	Recognized in OCI	Acquisitions / disposals	Transfer to held for sale	Other changes and transfers	**Balance at Dec 31, 2019** Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	227	5	-61	-	-	-	-	171	171	-
Defined benefit pension plans	2,186	-38	-81	823	-	-	-	2,890	2,890	-
Provisions	367	1	-74	-	-	-	-	294	294	-
Leases	0	4	197	-	-	-	-	201	201	0
Inventory profit	722	21	257	-	-	-	-	1,000	1,001	-
Cumulative depreciation difference	-1,685	-41	48	-	-	-	-	-1,678	518	-2,196
Fair value measurement of PPE* and intangible asset in business combinations	-1,167	-118	186	-	-	-	-	-1,099	-	-1,099
Other temporary differences	3,576	290	976	-	-	-	-1	4,841	5,191	-350
Net tax liabilities (assets)	**4,225**	**124**	**1,448**	**823**	**-**	**-**	**-1**	**6,619**	**10,266**	**-3,645**

2018 EUR thousand	Net balance at Jan 1, 2018	Translation differences	Recognized in profit or loss	Recognized in OCI	Acquisitions / disposals	Transfer to held for sale	Other changes and transfers	Balance at Dec 31, 2018 Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	217	-18	28	-	-	-	-	227	227	-
Defined benefit pension plans	2,397	-91	-156	36	-	-	-	2,186	2,186	-
Provisions	141	-3	229	-	-	-	-	367	367	-
Inventory profit	910	-36	-166	-	14	-	-	722	722	-
Cumulative depreciation difference	-2,538	95	758	-	-	-	-	-1,685	584	-2,269
Fair value measurement of PPE* and intangible asset in business combinations	-1,626	144	315	-	-	-	-	-1,167	-	-1,167
Other temporary differences	3,691	-323	-323	-	-	-	531	3,576	4,026	-451
Net tax liabilities (assets)	3,191	-232	685	36	14	-	531	4,225	8,112	-3,887

* Property, plant and equipment

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

The Group subsidiaries had tax losses carried forward of EUR 0.1 million at December 31, 2019 (EUR 0.1 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 11 (6) percent of the tax losses. Tax losses with the limited right expire in 2021–2025. 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 deferred tax assets can be utilized.

In financial statement 2018, the tax losses carried forward for which no deferred tax asset was recognized, EUR 8.3 million, included tax losses of German subsidiary. The above-mentioned comparison year information has been stated excluding taxable losses of this German subsidiary. The unlimited right to carry forward applies to these tax losses, however due to closing-down of business activities in Germany, the Group is not able to utilize losses with current Group structure.

Deferred tax liability has been recognized on undistributed earnings of the Group's subsidiaries up to that part of which tax effect the Group estimates to be probable within foreseeable future due earnings distribution.

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

26. Capital and reserves

	Number registered shares (1,000)	Treasury shares (1,000)	Number of shares outstanding (1,000)
Total at Jan 1, 2018	44,108	-2	44,106
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at Dec 31, 2018	**44,108**	**-2**	**44,106**
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at Dec 31, 2019	**44,108**	**-2**	**44,106**

Tikkurila Oyj has one class of shares, and each share entitles its holder to one vote at the General Meetings and to an equal amount of dividend. The share has no nominal value. The share capital was EUR 35 million at December 31, 2019 (EUR 35 million) and it is fully paid. On December 31, 2019, the number of shares was 44,108,252 including 2,461 treasury shares. At the end of year 2018, number of shares was 44,108,252 including 2,461 treasury shares.

Earnings per share are presented in context of the consolidated statement of comprehensive income and in Note 13 Earnings per share.

FAIR VALUE RESERVE

The Group classifies the equity investments as financial assets at fair value through other comprehensive income. The change in fair value of these investments is recognized in fair value reserve. On disposal any related balance within the fair value reserve is reclassified to retained earnings.

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.

TREASURY SHARES

The treasury share reserve comprises the cost of the Tikkurila Oyj's shares held by the Group.

During the financial years 2019 or 2018 TIkkurila did not purchase or disposed any treasury shares without any consideration.
At the year-end 2019, Tikkurila Oyj held 2,461 treasury shares, equaling a total cost of EUR 42 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.
At the year-end 2018, Tikkurila Oyj held 2,461 treasury shares, equaling a total cost of EUR 42 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.

OTHER RESERVES

Other reserves include the funded portion of retained earnings.

TRANSLATION RESERVE

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

DIVIDENDS

Dividend of EUR 0.33 per share, totaled EUR 14,555 thousand, was distributed in year 2019 in two equal installments, in April and in November. In year 2018, dividend of EUR 0.80 per share, totaled EUR 35,285 thousand was distributed. After the respective reporting date, The Board of Directors proposes that a dividend of EUR 0.50 per share, totaled EUR 22,053 thousand, will be distributed of the year 2019. Total amount informed here is calculated for number of shares outstanding as end of financial year 2019.

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	**Total**
Other comprehensive income 2019						
Items that will not be reclassified to profit or loss:						
Changes in equity investments - gain / loss on disposals	-	-	-7	-7	-	**-7**
Remeasurements on defined benefit plans	-	-	-3,850	-3,850	-	**-3,850**
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-37	-37	-	**-37**
Income taxes relating to items that will not be reclassified to profit or loss	-	-	823	823	-	**823**
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	8	8	-	**8**
Total items that will not be reclassified to profit and loss, net of tax	**-**	**-**	**-3,062**	**-3,062**	**-**	**-3,062**
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	5,463	-	5,463	-	**5,463**
Foreign currency translation differences for equity-accounted investees	-	-8	-	-8	-	**-8**
Total items that may be reclassified subsequently to profit or loss, net of tax	**-**	**5,455**	**-**	**5,455**	**-**	**5,455**
Other comprehensive income 2019, net of tax	**-**	**5,455**	**-3,062**	**2,393**	**-**	**2,393**

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Other comprehensive income 2018						
Items that will not be reclassified to profit or loss:						
Changes in equity investments - gain / loss on disposals	-	-	72	72	-	72
Remeasurements on defined benefit plans	-	-	-216	-216	-	-216
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-8	-8	-	-8
Income taxes relating to items that will not be reclassified to profit or loss	-	-	36	36	-	36
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	2	2	-	2
Total items that will not be reclassified to profit and loss, net of tax	**-**	**-**	**-113**	**-113**	**-**	**-113**
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	-6,614	-	-6,614	-	-6,614
Foreign currency translation differences for equity-accounted investees	-	-17	-	-17	-	-17
Total items that may be reclassified subsequently to profit or loss, net of tax	**-**	**-6,631**	**-**	**-6,631**	**-**	**-6,631**
Other comprehensive income 2018, net of tax	**-**	**-6,631**	**-113**	**-6,744**	**-**	**-6,744**

27. Non-current interest-bearing liabilities

EUR thousand	**2019**	2018
Loans from financial institutions	**59,825**	49,932
Lease liabilities (in year 2018 finance lease liabilities)	**15,310**	66
Total non-current interest-bearing liabilities	**75,135**	49,998
Liabilities that matures later than five years		
Lease liabilities	**1,917**	-

The maturity analysis and currency risk of non-current borrowings are disclosed in Note 33 Financial risk management.

EUR thousand	**2019**	2018
Finance lease liabilities - total minimum lease payments		
Within one year	**-**	127
After one year and not later than five years	**-**	68
Later than five years	**-**	-
Total	**-**	195
Finance lease liabilities - present value of the minimum lease payments		
Within one year	**-**	121
After one year and not later than five years	**-**	65
Later than five years	**-**	-
Total	**-**	186
Future finance charges	**-**	9
Total finance lease liabilities	**-**	195

In financial year 2018, the lease assets and lease liabilities in relation to leases that were classified as finance leases under standard IAS 17 Leases were recognized in consolidated statement of financial position. The Group leased mainly other machinery and equipment under finance leases.

28. Current interest-bearing liabilities

EUR thousand	**2019**	2018
Loans from financial institutions	**12**	20,009
Commercial paper program	**42,916**	50,876
Lease liabilities (in year 2018 finance lease liabilities)	**7,315**	120
Other interest-bearing current liabilities	**-**	-
Total interest-bearing current liabilities	**50,243**	71,006

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

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans in year 2019 was 1.4% (1.2%). *)

INTEREST-BEARING LIABILITIES BY CURRENCY (IN EURO):

EUR thousand	**2019**	2018
EUR	**105,493**	121,004
SEK	**7,737**	-
RUB	**3,867**	-
NOK	**2,691**	-
PLN	**2,193**	-
DKK	**2,070**	-
CNY	**1,327**	-
Total	**125,378**	121,004

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

29. Trade and other non-interest-bearing payables

EUR thousand	2019	2018
Non-current accrued expenses and deferred income	**43**	107
Other non-current interest-free liabilities	**-**	-
Total other non-current liabilities	**43**	107
Trade payables	**43,008**	46,342
Other non-interest-bearing payables	**7,829**	5,225
Advances received	**135**	503
Accrued expenses and deferred income	**50,015**	43,615
Total current non-interest-bearing payables	**100,986**	95,685
Accrued expenses and deferred income		
Share-based payments	**218**	107
Employee benefit expenses	**13,872**	12,639
Items related to revenue and purchases	**32,545**	28,889
Interests	**109**	78
Other	**3,314**	2,009
Total	**50,058**	43,722

At the end of finaincial year 2019, line ”Other” includes accruals of other expenses, like IT, marketing and property related expenses.

At the end of financial year 2018, line ”Other” includes accruals of other expenses, like IT expenses.

The line “Items related to revenue and purchases” includes liabilities from contracts with customers (contract liabilities): EUR 58 (58) thousand of an accrual on unredeemed customer loyalty points, EUR 89 (6) thousand of refund liability on sale with a right of return and EUR 25.1 (20.8) million of different types of discounts, rebates and refunds related to customer contracts. In addition, item consists EUR 0.9 (1.3) million promises of discounts on future purchase of paints as per customer contracts in relation to tinting machines and some other marketing supporting by-products.

Net liabilities	2019	2018
Interest-bearing non-current liabilities	**75,135**	49,998
Interest-bearing current liabilities	**50,243**	71,006
Cash and cash equivalents		
Cash	**-47,008**	-35,486
Cash equivalents (bank deposits, maturity less than 3 months)	**-**	-
Total	**78,370**	85,518

30. Pension obligations and other long-term employee benefits

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 and in Norway. The most significant plan in Tikkurila is the Swedish defined benefit pension plan. The benefits of the defined benefit pension plans vary by countries - mainly the benefits are related to the pension level. The above-mentioned plans, Norwegian pension plan, is closed for new members. In comparison year, defined benefit pension plans included the pension scheme of Tikkurila's German subsidiary. Pension commitments of Tikkurila GmbH pension plan were amended in December 2018 as following: higher yearly increase to pension payments were guaranteed to two beneficiaries, but on the other hand the benefits are only paid up to the age of 90 years instead of benefits being paid for the whole lifetime. This pension scheme has been closed for new participants. In financial year 2019, Tikkurila Oyj, the parent company of Tikkurila Group, has been taking over this pension obligation from its subsidiary in Germany. This obligation is recorded in consolidated statement of financial position as part of non-current and current provisions.

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

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

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

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

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

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

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

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

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

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

EUR thousand	**2019**	2018
Defined benefit pension obligations (net)	**27,658**	25,125
Other long-term employee benefits including social costs	**987**	999
Pension obligations and other long-term employee benefits	**28,645**	26,124

DEFINED BENEFIT PENSION OBLIGATIONS

Items recognized in the statement of financial position:	**2019**	2018
Present value of funded obligations	**2,048**	2,024
Present value of unfunded obligations including Swedish payroll tax liability	**27,742**	25,071
Fair value of plan assets	**-2,132**	-1,970
Net defined benefit liability	**27,658**	25,125

EUR thousand	Defined benefit obligation 2019	2018	Fair value of plan assets 2019	2018	Net defined benefit liability (asset) 2019	2018
Balance at Jan 1	**25,202**	25,927	**-1,970**	-1,960	**23,232**	23,967
Included in profit or loss: [1]						
Current service cost	**503**	590	**-**	-	**503**	590
Interest expense / (income)	**570**	613	**-48**	-44	**522**	569
Plan amendments	**-**	-172	**-**	-	**-**	-172
Administrative expenses	**-**	-	**-**	-	**-**	-
	1,073	1,031	**-48**	-44	**1,025**	987
Included in other comprehensive income: [2]						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from						
Experience adjustment	**120**	370	**-**	-	**120**	370
Demographic assumptions	**-**	-1,146	**-**	-	**-**	-1,146
Financial assumptions	**3,006**	945	**-**	-	**3,006**	945
Return on plan assets, excluding amounts included in interest expense/(income)	**-**	-	**-61**	39	**-61**	39
Effect of movements in exchange rates	**-389**	-938	**-17**	24	**-406**	-914
	2,737	-769	**-78**	63	**2,659**	-706
Other:						
Contributions paid by						
Employer	**-**	-	**-101**	-92	**-101**	-92
Payments from the plans:						
Benefits payments	**-885**	-974	**66**	63	**-819**	-911
Obligations transfers and other changes	**-956**	-13	**-**	-	**-956**	-13
Balance at Dec 31	**27,171**	25,202	**-2,132**	-1,970	**25,040**	23,232

[1] In addition, the Swedish payroll tax related defined benefit pension is included as expenses of defined benefit pensions EUR -26 thousand (EUR -33 thousand) in profit or loss.
[2] Loss of EUR 785 thousand (loss of EUR 8 thousand) on Swedish payroll tax is recognized in other comprehensive income.
In addition, actuarial loss of EUR 29 thousand (actuarial loss EUR 6 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

EUR thousand	2019	2018
Remeasurements on defined benefit plans in other comprehensive income		
Actuarial gains (-) / losses (+) on defined benefit pension obligations, including actuarial gains and losses on Swedish payroll tax	**3,910**	177
Return on plan assets, excluding amounts included in interest expense/(income)	**-61**	39
Change in income taxes related to remeasurements for defined benefit plans	**-823**	-36
Actuarial gains / losses recognized from equity-accounted investees, net of tax	**29**	6
Total	**3,055**	185
Plan assets include		
Assets in insurance companies *)	**2,132**	1,970
Total	**2,132**	1,970

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

The Group expects to pay EUR 1.0 million of contributions into the defined benefit plans during the year 2020.

The significant actuarial assumptions	2019	2018
Discount rate	**1.4-2.3%**	0.8-2.6%
Inflation	**1.8%**	2.0%
Forthcoming increases in wages and salaries	**2.3%**	2.5-2.8%
Forthcoming increases in pensions	**0.5%**	0.8-3.0%

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

The Group's major plan is the defined benefit pension plan in Sweden. The present value of this pension obligation at the end of financial year was EUR 25,121 thousand (EUR 22,236 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 2,618 thousand (EUR 1,894 thousand) at year-end 2019. The most significant actuarial assumptions regarding this plan were as following: discount rate 1.40% (2.35%), inflation 1.75% (2.00%), to which development the pension level has been in practice linked to, as well as life expectancy and forthcoming increases in salaries 2.3% (2.5%). The life expectancy for a 65-year-old woman is 24 years and for a 65-year-old man, 22 years.

At December 31, 2019, the weighted-average duration of the defined benefit pension obligation was 18.5 years (2018: 17.3 years).

SENSITIVITY ANALYSIS:

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

	Impact on defined benefit obligation			
Effect in EUR thousand	**Dec 31, 2019**		Dec 31, 2018	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-2,823**	**3,228**	-2,400	2,730

	Dec 31, 2019		Dec 31, 2018	
Sensitivity analyses on Group's most significant plan, Swedish defined benefit pension plan	**Increase**	**Decrease**	Increase	Decrease
One-year change in life expectancy	**1,405**	**-1,385**	1,168	-1,156
Inflation (0.5% movement)	**2,530**	**-2,263**	2,052	-1,846

OTHER LONG-TERM EMPLOYEE BENEFITS

The parent company of the Group, Tikkurila Oyj, has a long-service benefit plan according to which an employee has a right to a compensated absence or right to a gift given after certain years of service time. Terms of the plan are similar as in previous financial year 2018. In financial year 2018, due to restructuring of Finnish operations, number of participants decreased. This impact is disclosed as curtailment of the other long-service benefit plan in year 2018.

Benefits are determined by using the Projected Unit Credit Method according the actuarial calculations prepared annually by qualified actuaries. Possibly arising actuarial gains and losses are recognized in profit or loss, in personnel expenses.

EUR thousand	**2019**	2018
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	**790**	799
Social costs	**197**	200
Liability of long-service benefit plan including social costs	**987**	999
Balance		
Other long-service benefit obligation at Jan 1	**799**	916
Included in profit or loss:		
Current service cost	**61**	67
Interest cost	**8**	7
Actuarial losses (gains) arising from		
Experience adjustment	**-45**	-63
Demographic assumptions	**-**	-
Financial assumptions	**25**	-20
Curtailment of the other long-service benefit plan	**-**	-44
	50	-54
Other:		
Payments from the plans:		
Benefits payments	**-60**	-63
Long-service benefit obligation at Dec 31	**790**	799

	2019	2018
Actuarial assumptions		
Discount rate	**0.3%**	1.1%
Inflation	**1.1%**	1.5%
Forthcoming increases in wages and salaries	**1.5%**	1.9%
Employee turnover	**3.0%**	3.0%

Tikkurila Oyj expects to pay EUR 90 thousand of contributions into the long-service benefit plan during the year 2020.
At December 31, 2019, the weighted-average duration of the long-service benefit obligation was 9 years (2018: 9 years).

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

	Impact on long-service benefit plan obligation			
Effect in EUR thousand	**Dec 31, 2019**		Dec 31, 2018	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-31**	**34**	-31	34
Salary growth rate (0.5% movement)	**33**	**-31**	34	-32

31. Provisions

EUR thousand	Environmental provisions	Restructuring	Other provisions	**2019 Total**
2019				
Non-current provisions				
Balance at Jan 1, 2019	**-**	129	479	**608**
Exchange rate differences	**-**	-	5	**5**
Provisions made during the period	**-**	-	1,117	**1,117**
Provisions used during the period	**-**	-	-	**-**
Provisions reversed during the period	**-**	-	-	**-**
Reclassifications	**-**	-61	-83	**-145**
Non-current provisions at Dec 31, 2019	**-**	**67**	**1,517**	**1,584**
Current provisions				
Balance at Jan 1, 2019	118	1,929	103	**2,150**
Exchange rate differences	-	-	-	**-**
Provisions made during the period	-	13	869	**882**
Provisions used during the period	-118	-1,416	-81	**-1,615**
Provisions reversed during the period	-	-34	-	**-34**
Reclassifications	-	61	-	**144**
Current provisions at Dec 31, 2019	**-**	**553**	**975**	**1,528**

EUR thousand	Environmental provisions	Restructuring	Other provisions	2018 Total
2018				
Non-current provisions				
Balance at Jan 1, 2018	-	61	442	503
Exchange rate differences	-	-	-13	-13
Provisions made during the period	-	120	54	174
Provisions used during the period	-	-7	-	-7
Provisions released during the period	-	-	-4	-4
Reclassifications	-	-45	-	-45
Non-current provisions at Dec 31, 2018	-	129	479	608
Current provisions				
Balance at Jan 1, 2018	151	169	302	622
Exchange rate differences	-	-	-1	-1
Provisions made during the period	157	3,734	2	3,893
Provisions used during the period	-190	-1,907	-	-2,097
Provisions reversed during the period	-	-112	-200	-312
Reclassifications	-	45	-	45
Current provisions at Dec 31, 2018	118	1,929	103	2,150

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.

ENVIRONMENTAL PROVISIONS

Current provision for cost related to clean up and rehabilitate the land amounted EUR 118 thousand in the beginning of year 2019. Provision, which was related to closing of a production facility in Germany, was used by the end of the year 2019. The lease agreement of land area, in which production facility was located, expired in December 2018.

RESTRUCTURING PROVISIONS

As per previous years concluded co-operation negotiations related to Tikkurila's Finnish site, the restructuring provisions have been recognized concerning the deduction of personnel. At the end of the financial year 2019, these provisions amounted to EUR 232 thousand, from which the EUR 165 thousand is presented as current provisions. The accurate timing of realization of these provisions is uncertain.

As per closing the German operations a restructuring provision is recognized concerning expenses arising from closing the site. At end of the financial year 2019 the provision amounted to EUR 282 thousand. Costs for which provision is recognized is expected to be realized during the year 2020.

A restructuring provision for the deduction of personnel relates to closing of a Danish production unit. At end of financial year 2019 EUR 105 thousand is recognized as a current provision.

OTHER PROVISIONS

Other provisions arise from retirement one-time payments to employees by the company at the time of retirement. Such provision is in Poland. The amount of payment equals approximately two - three-month salary of the person at the time of retirement. This plan is based on legal requirements in the country. Company has no future obligations related to these plans after payment is settled.

Pension obligation of Tikkurila GmbH were amended at the end of year 2018 and during the financial year 2019 this commitment of German subsidiary has been taken over by Tikkurila Group parent company, Tikkurila Oyj. In according to agreement, higher yearly increase to benefits paid are guaranteed to beneficiaries, but instead of the lifetime payments, the benefits will be paid up until beneficiaries reach 90 years age. At the end of year 2019, the provision in relation of this obligation amounted to EUR 1,125 thousand, of which 91 thousand is recognized as current provisions.

In accordance with the interpretation of IFRIC 23, the Group has evaluated the uncertainty over income tax treatment. In according to Management's judgment some of items recorded as deductible expenses in taxation consist uncertainty of interpretation of tax authorities. In accordance with the management estimation, the provision of EUR 0.8 million was recorded at the end of financial year 2019. This amount is recognized in current provisions.

The Group had recognized in 2017 a provision on waste recycling tax related to its subsidiary in Lithuania. Provision on waste recycling tax was recognized as the Certificates of packaging waste recovery and/or recycling, acting as exemption from the waste recycling tax, given by Government certified and supervised waste management company were cancelled. The cancellation was caused due to waste management company's subcontractor's operations contrary to the agreement. Subcontractor collected payments for waste recycling tax but neglected to collect and/or recycle packaging waste. Adverse actions of subcontractor took place in years 2013-2015. At the end of financial year 2019 the provision recognized was EUR 79 (79) thousand. To the Ministry of Environment of Lithuania has been presented a proposal agreement together with many other companies in the same situation to decrease the payable Environment Tax significantly. The parties have not reached an agreement, and the matter has been submitted to court proceedings, in order to prove in legal means the decision in this case been illegal since the companies would be held accountable for third party actions contrary to the agreement. The proceedings are on hold for the moment and will continue after receiving another decision in criminal proceedings against the waste management company's subcontract.

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

EUR thousand	Note	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	**Total carrying amounts**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total fair values**
2019									
Financial assets measured at fair value									
Non-current financial assets									
Other investments	20	-	-	734	**734**	-	-	734	**734**
		-	**-**	**734**	**734**	**-**	**-**	**734**	**734**
Financial assets not measured at fair value									
Non-current receivables	21								
Loan receivables		-	4,289	-	**4,289**	-	4,289	-	**4,289**
Other receivables		-	2,263	-	**2,263**	-	2,263	-	**2,263**
Current financial assets									
Interest-bearing receivables	22	-	742	-	**742**				
Cash equivalents	24	-	47,008	-	**47,008**				
Trade and other non-interest-bearing receivables	23	-	88,373	-	**88,373**				
		-	**142,675**	**-**	**142,675**	**-**	**6,552**	**-**	**6,552**
Financial liabilities not measured at fair value									
Non-current financial liabilities									
Lease liabilities	27	-	15,310	-	**15,310**	-	15,310	-	**15,310**
Loans from financial institutions	27	-	59,825	-	**59,825**	-	59,999	-	**59,999**
Current financial liabilities									
Current interest-bearing liabilities	28	-	42,928	-	**42,928**				
Lease liabilities	28		7,315	-	**7,315**				
Trade payables	29	-	43,008	-	**43,008**				
		-	**168,386**	**-**	**168,386**	**-**	**75,309**	**-**	**75,309**

EUR thousand	Note	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2018									
Financial assets measured at fair value									
Non-current financial assets									
Other investments	20	-	-	744	744	-	-	744	744
		-	-	744	744	-	-	744	744
Financial assets not measured at fair value									
Non-current receivables	21								
Loan receivables		-	6,598	-	6,598	-	6,598	-	6,598
Other receivables		-	1,874	-	1,874	-	1,874	-	1,874
Current financial assets									
Interest-bearing receivables	22	-	983	-	983				
Cash equivalents	24	-	35,486	-	35,486				
Trade and other non-interest-bearing receivables	23	-	84,745	-	84,745				
		-	129,686	-	129,686	-	8,472	-	8,472
Financial liabilities not measured at fair value									
Non-current financial liabilities									
Finance lease liabilities	27	-	66	-	66	-	66	-	66
Loans from financial institutions	27	-	49,932	-	49,932	-	49,968	-	49,968
Current financial liabilities									
Current interest-bearing liabilities	28	-	71,006	-	71,006				
Trade payables	29	-	46,342	-	46,342				
		-	167,346	-	167,346	-	50,034	-	50,034

In financial year 2019, the Group's interest-bearing liabilities increased due to adoption of IFRS 16-standard as lease liabilities were recognized on the statement of financial positions. In comparison year 2018, the finance lease liabilities in relation to leases that were classified as finance leases under standard IAS 17 Leases were recognized in consolidated statement of financial position and non-cancellable obligations on operating leases were disclosed as contingent liabilities. The impact of the change in accounting policy following the adoption of IFRS 16 is disclosed in Note 40.

Fair values for non-current liabilities are based on discounted contractual cash flows. Interest rates used for discounting are the interest rates the Group would have to pay for similar loans at the end of reporting period. The interest rate is based on a risk-free interest rate and a company specific credit risk premium. The discount rate used is 0.90%. In year 2018 the discount rate used was 0.80%.

Substantial part of non-current assets is discounted. Fair value for current financial assets and liabilities correspond to the carrying amount as the effect of discounting is immaterial.

Other investments are mostly investments in shares with no quoted market price in an active market and their fair values cannot be measured reliably by using any valuation techniques. Therefore, according assessment of Tikkurila's management, the cost of shares or the cost less impairment, is the best available estimate for fair value.

FAIR VALUE HIERARCHY LEVELS

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

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

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

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASURED FINANCIAL ASSETS AND LIABILITIES

EUR thousand	**2019**	2018
	Other investments	Other investments
Carrying amount at Jan 1	**744**	755
Translation differences in other comprehensive income	**1**	-6
Other changes / Transfers	**-**	-
Disposals	**-11**	-5
Carrying amount at Dec 31	**734**	744

In year 2019, EUR 7 (EUR 72 gain on sale) thousand loss on sale of equity instruments as fair value through other comprehensive income is recognized. In financial year 2019 nor 2018, no impairment loss was recognized on equity instruments as fair value.

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

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

Tikkurila has classified these equity instruments as fair value through other comprehensive income. In financial year 2019 and 2018 received dividends on these investments are recognized in profit or loss but possible impairment losses will not be recognized in profit or loss nor gains or losses on disposal.

33. Financial risk management

THE OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The objective of financial risk management is to secure, according to the pre-defined principles, Group's cash flow, statement of financial position and net profit from the adverse impact and fluctuations caused by financial risks as well as to increase the predictability of the business. The aim is to keep the liquidity and creditworthiness of Tikkurila Group at a good level in all market circumstances.

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. The Group's finance organization regularly reports the most important financial risks to the Tikkurila Management Team and to the Board of Directors of the parent company.

Tikkurila Oyj's finance function acts as an internal bank for Group companies offering both short- and long-term funding, taking deposits and being responsible for Group cash management. The finance department is responsible for executing external financial transactions, and subsidiaries conduct their financial operations with parent company's finance department unless local law or other constraints prohibit it, or unless the decision is made, and approved by the Group management, to deviate from the above mentioned general practice.

In certain countries, in which the Group operates, there are local exchange control regulations that restrict the cash and money movements abroad. At the year-end 2019 Tikkurila in China held cash and cash equivalents EUR 3,867 thousand. At the year-end 2018 the corresponding amount of cash and cash equivalents held by Tikkurila in China amounted to EUR 4,598 thousand. The European Union and the United States have set, and might set further, sanctions against Russia or Russian counterparties. Since Russia is a significant market area for Tikkurila, these sanctions can have adverse effects on Tikkurila's business and/or investments, or they can make it more difficult to repatriate capital from Russia to Finland or they can have a negative impact on the financial position of Tikkurila's local customers or suppliers.

FINANCIAL INSTRUMENTS AND THEIR SIGNIFICANCE AND TREATMENT.

From the financial risk point of view the most significant items in Tikkurila's statement of financial position December 31, 2019 were the various components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness and diversification of counterparties are key elements for managing the risk.

Since the sale of paints and other products of the Group typically correlates with GDP development, also changes in general economic development have an impact on Tikkurila's business both directly and indirectly e.g. via interest rate changes. Tikkurila's sales are exposed to intra-year seasonality: usually, the second and the third quarters have the most significant influence on sales volume and profitability, which also impacts the timing of operative cash flows. In addition to intra-year seasonality, construction with its related services, which is one of the essential customer segments for Tikkurila, is by nature sensitive to economic conditions.

Due to seasonality, the year-end statement of financial position is not equal to an average statement of financial position, among others in relation to net working capital and cash, which matter has to be taken into account when analyzing items on the consolidated statement of financial position and financial risks. Typically, the highest level of net working capital is reached during summer. The treatment of financial instruments is described in more detail in ”Accounting policies for the consolidated financial statements”.

FOREIGN EXCHANGE RATE RISKS

Major part of the Group's business is outside the euro area. Foreign exchange rate fluctuations can have a significant impact on Tikkurila's revenue, result and statement of financial position, as well as on consolidated euro cash flows. During the recent years, the currencies of states in SBU East, especially Russian ruble, have significantly fluctuated. Moreover, the depreciation of the Swedish crown has adversely affected Group revenue and operating profit. As per decision of the Board of Directors Tikkurila Group does not carry out any forward agreements, so the Group result is sensitive to the currency exchange fluctuations currently and in the future within SBU East as well in SBU West.

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

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

The key methods used for managing exchange rate risks are:

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

TRANSACTION RISKS

During 2019 and 2018 about 70% of Tikkurila's revenue was generated outside the euro area, so foreign exchange rate changes have a significant impact on Tikkurila's consolidated euro-denominated revenue. At net profit level, the foreign exchange rate risks are reduced, as expenses are mostly denominated in the same currency as revenue. The major impact of foreign exchange rate risks is reflected on cash flows and statement of financial position items, which are denominated in other currencies than the functional currency of each Group company. The most important intra-group transactions that create exchange rate risks are business transactions between Group companies and loans and deposits between Group companies and Tikkurila Oyj. Transaction risks are monitored in respect of existing balance sheet items.

Transaction risks are hedged by matching currency denominated income and expenses. They also include flows resulting from currency clauses presented in commercial agreements. According to the financial risk management policy, as approved by The Board of Directors, the Group does not use currency forwards for hedging purposes.

The Group purchases raw materials and packing materials from several international suppliers in other than Tikkurila Group companies' functional currencies and thus exposes the Group to foreign exchange rate risk. Tikkurila can at least partly affect the currency used in the purchase contracts, or the contracts might include currency clauses or similar conditions. In some countries, the Group has a possibility to change sales prices if exchange rates change; although these changes are partly discretionary or require negotiations with customers, additionally changes can be effective only after a long-time lag.

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RUB	CNY	Other
Dec 31, 2019								
Bank accounts	**-379**	**-1,649**	**296**	**1,885**	**2,258**	**1,406**	**-**	**58**
Loans and deposits	**2,525**	**3,350**	**-**	**-**	**436**	**12,722**	**3,836**	**-**
Trade receivables and payables	**1,685**	**-2,657**	**919**	**118**	**1,577**	**13,992**	**1,809**	**-587**
Open position	**3,831**	**-955**	**1,215**	**2,003**	**4,272**	**28,120**	**5,645**	**-529**

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RUB	CNY	Other
Dec 31, 2018								
Bank accounts	-509	3,654	419	2,924	5,885	23,592	-	169
Loans and deposits	2,453	2,925	275	-	-	-	3,809	-
Trade receivables and payables	1,804	4,076	594	68	1,715	2,610	2,134	-468
Open position	3,748	10,655	1,288	2,992	7,600	26,202	5,943	-299

Transaction risk position is a sum of currency denominated items in the statement of financial position and counter-value of these items expressed in functional currency of a subsidiary.

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

THE IMPACT OF CURRENCY RATE CHANGES TO PROFIT BEFORE TAX BASED ON ITEMS IN STATEMENT OF FINANCIAL POSITION DECEMBER 31:

	2019					2018				
EUR thousand	**RUB**	**SEK**	**CNY**	**KZT**	**PLN**	RUB	SEK	CNY	KZT	PLN
Impact of 10% weakening of currency	**-2,566**	**87**	**-513**	**-348**	**-388**	-2,382	-969	-540	-341	-691
Impact of 10% strengthening of currency	**3,124**	**-106**	**627**	**426**	**475**	2,911	1,184	660	416	844

TRANSLATION RISKS

In addition to translation risks affecting income statements when the currency denominated income statements are converted into euro, also Tikkurila's equity is exposed to foreign exchange rate risk arising from net investments made to subsidiaries outside the euro area. According to the financial management policy accepted by the Board of Directors translation risks are not hedged. Translation differences arising from converting subsidiaries' equity are recognized in equity in translation differences.

NET INVESTMENTS MADE IN FOREIGN CURRENCIES

EUR thousand	RUB	SEK	PLN	CNY	Other
Dec 31, 2019					
Equity	**37,788**	**1,005**	**39,517**	**5,423**	**5,159**
Impact of 10% strengthening of currencies on equity	**4,199**	**112**	**4,391**	**603**	**573**
Impact of 10% weakening of currencies on equity	**-3,435**	**-91**	**-3,592**	**-493**	**-469**

EUR thousand	RUB	SEK	PLN	CNY	Other
Dec 31, 2018					
Equity	30,008	4,871	34,274	5,327	4,438
Impact of 10% strengthening of currencies on equity	3,334	541	3,808	592	493
Impact of 10% weakening of currencies on equity	-2,728	-443	-3,166	-484	-403

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2019 and/or 2018:

Interest-bearing assets:
- cash
- time deposits
- interest-bearing receivables
- interest-bearing receivables in relation to divestments

Interest-bearing debt:
- leasing and installment funding
- committed overdraft facilities
- commercial papers issued by Tikkurila Oyj
- revolving credit facility
- term loans
- other interest-bearing debt

Tikkurila's interest-bearing net debt is exposed to cash flow risk. The business cycle of Tikkurila follows in principle the overall economic development; therefore, the business cash flow is stronger when the economic cycle is strong and typically also interest rates are higher. On the other hand, when the economic cycle gets weaker and interest rates are lower, the cash flow is also weaker. Therefore, the duration of interest-bearing liabilities is kept short so that the cash flow and interest rate change follow the same cycle. According the financial risk management policy, Tikkurila does not use any interest rate derivatives to hedge interest rate risks.

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

EUR thousand	**Dec 31, 2019**	Dec 31, 2018
Fixed rate		
Financial assets *)	**277**	1,490
Financial liabilities	**-22,035**	-51,072
Net	**-21,757**	-49,582
Floating rate		
Financial assets	**4,754**	6,091
Financial liabilities	**-60,427**	-69,932
Net	**-55,674**	-63,841

*) Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 78.4 (85.5) million net debt position on December 31, 2019, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.9 (-0.8) million. The sensitivity analysis is based on the assumption that the interest rate changes will happen at the beginning of the year and that the changes are parallel over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of foreign exchange rates would be zero. Current loans are assumed to be renewed at due dates. Regarding non-current loans with floating interest rates, the effect of the interest rate change is taken into account from the date of rate fixing. Net debt includes cash and cash equivalents, but the interest rates on cash are expected to remain unchanged or any changes to take place only after the next financial year. Because of the seasonality of Tikkurila's business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year. If the average net debt in 2020 would be at the average level of 2019, calculated as the average of actual month-end balances, and consequently would equal about EUR 112 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2020 by about EUR 1.1 million. Correspondingly interest rate decrease by one percentage point would decrease the interest expense accordingly by the same amount.

Change in interest rates in respect of impairment testing, amount of defined benefit pension obligation and in respect of acquisition as the liabilities assumed and assets acquired are measured at their acquisition-date fair value, are disclosed in respective notes.

CREDIT RISKS

Credit risk is a risk that occurs when a counterpart fails to meet its obligations, so credit risks are counterparty risks. At Tikkurila, the most significant items that are exposed to credit risk are trade receivables, short-term investments and cash. The management of credit risk of trade receivables is decentralized to business units, but the Group's finance function monitors the risk. Tikkurila's large and geographically divergent clientele reduces concentration of credit risk, although some decorative paint retail chains have a relatively large influence. Credit risks related to trade receivables are managed by customer credit limits that take the prior sales history and creditworthiness of a customer into account. New customers are credit risk rated prior to sales. Tikkurila uses advance payments and credit insurances to relevant extent to reduce credit risks.

Advance payments are used in Russia where about 6% (6%) of revenue in 2019 took place using advance payments.

Credit insurance is used in Poland where about 74% (76%) of trade receivable as of December 31, 2019 was insured. According to terms of the insurance Tikkurila is entitled to get 95% of the nominal amount, if the customer is not able to pay the invoice.

Credit risks related to short-term investments and cash are controlled by principles defined by the Board of Directors. Tikkurila manages these counterparty risks by diversifying its excess liquidity into numerous counterparties and by investing surplus liquidity in high-quality short-term interest-bearing tradeable securities and in bank deposits, as defined in the internal policy determined by the Board of Directors. Investment related credit risk is mainly centralized to Tikkurila Oyj as subsidiaries' surplus liquidity is to a large extent in possession of parent company through the multicurrency cash pool established during the year 2016. Previously subsidiaries made deposits to the parent company. The carrying amounts of the financial assets correspond to their maximum credit risk.

THE MAXIMUM CREDIT RISK RELATING FINANCIAL ASSETS AT THE END OF REPORTING PERIOD IS PRESENTED BELOW:

EUR thousand	Note	**Dec 31, 2019**	Dec 31, 2018
Financial assets at fair value through profit or loss	23, 33	**-**	-
Loans and other receivables	21, 22, 23, 24	**141,308**	129,686
Total		**141,308**	129,686

LOANS AND OTHER RECEIVABLES BY CURRENCY IN EUROS AT DECEMBER 31:

EUR thousand	**Dec 31, 2019**	Dec 31, 2018
EUR	**45,960**	37,836
SEK	**17,170**	22,133
RUB	**33,776**	31,247
PLN	**27,393**	20,225
DKK	**4,398**	4,541
CNY	**8,390**	8,742
Other	**4,221**	4,962
Total	**141,308**	129,686

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. From the beginning of 2018 Tikkurila Group has applied IFRS 9 simplified approach to measure expected credit losses. New expected credit loss model considers lifetime expected loss allowance for all outstanding trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These expected loss rates are defined by grouping trade receivables based on their geographical location. Historical losses, customers' payment behavior in geographical area in question and information on macroeconomic factors, especially GDP development, are impacting to the percentages defined. As Tikkurila Group operates in several different economic environments the range of expected credit loss rates varies inside the Group. In addition, further expected loss allowance may have been calculated for specific individual customers. Trade receivables are written off when there is no reasonable expectation of recovery. In adoption of the new expected credit loss model, Group recognized an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

Dec 31, 2019	Not past due	Past due 1 - 90 days	Past due 91 - 180 days	Past due 181 - 365 days	Past due over 365 days	Total
Expected loss rate range	0.03%-1.2%	0.4%-4.4%	1.0%-17.6%	50.0%	100.0%	
Gross carrying amount- trade receivables	86,615	2,756	878	704	4,351	95,303
Loss allowance	**-243**	**-591**	**-271**	**-564**	**-4,366**	**-6,034**

Dec 31, 2018	Not past due	Past due 1 - 90 days	Past due 91 - 180 days	Past due 181 - 365 days	Past due over 365 days	Total
Expected loss rate range	0.03%-1.5%	0.4%-15.5%	1.0%-32.1%	50.0%	100.0%	
Gross carrying amount- trade receivables	85,086	1,930	647	506	3,666	91,835
Loss allowance	**-174**	**-705**	**-91**	**-355**	**-3,890**	**-5,215**

MOVEMENT OF ALLOWANCE FOR IMPAIRMENT OF TRADE RECEIVABLES

EUR thousand	**Dec 31, 2019**	Dec 31, 2018
Balance at beginning of year	**5,225**	4,810
Amounts restated through opening retained earnings	**-**	1,106
Exchange rate differences	**403**	-413
Additions	**2,044**	1,423
Realized	**-384**	-641
Decreases, unused amount	**-1,244**	-1,060
Total	**6,044**	5,225

THE AGEING OF LOANS AND OTHER RECEIVABLES AT DECEMBER 31:

EUR thousand	**Carrying amount Dec 31, 2019**	Carrying amount Dec 31, 2018
Not past due	**138,411**	127,979
Past due 1 - 90 days	**2,166**	1,225
Past due 91 - 180 days	**606**	556
Past due 181 - 365 days	**140**	150
Past due over 365 days	**-15**	-224
Total	**141,308**	129,686

In adaption of IFRS 9 at the beginning of the financial year 2018 loan receivables are classified as financial assets at amortized cost. From these estimated amounts of loss allowance equals to 12 -month expected credit losses, if there is no significant increase in credit risk since the initial recognition. This resulted that Group recognized EUR -0.2 million adjustment in retained earnings and loan receivables as of January 1, 2018. There was no indication in credit risks for the Group's loan receivables during the financial year 2019 and thus loss allowance is based on 12 -month expected credit losses. The Group has not recognized loss allowance for cash and cash equivalents, nor equity instruments classified at fair value though other comprehensive income as these are to be considered immaterial.

	Dec 31, 2019	Dec 31, 2018
Loss allowance at beginning of year	**304**	-
Amounts restated through opening retained earnings	**-**	228
Opening loss allowance as at 1 January 2018	**-**	228
Increase / decrease in the allowance recognized in profit or loss during the period	**-45**	76
Loss allowance at the year end	**259**	304

LIQUIDITY RISKS

Tikkurila's business is characterized by annual seasonality which varies somewhat in different geographical areas and which is the strongest in the Nordic countries due to outdoor painting season in summer. Need for working capital increases typically until the end of summer, when most of the cash flows related to outdoor paints are received. This can create challenges to liquidity management.

Tikkurila manages liquidity risk mainly by loan arrangements and committed credit facilities. The surplus liquidity is kept on bank accounts or invested to highly liquid short-term instruments.

In November 2019, Tikkurila Group signed new EUR 160 million long-term credit facility and term loan agreement with three banks. This replaced the term loan and credit facility arrangement of EUR 150 million signed in June 2015. The new credit facility consists of EUR 100 million five -year revolving credit facility and EUR 60 million term loan, which matures in November 2024. This EUR 160 million long-term loan and revolving credit facility includes an extension option for additional one year at banks' consent. The loans have one financial covenant, which is based on Tikkurila Group's net gearing and it is reviewed on a last day of each calendar quarter. This covenant sets the ratio of net interesting bearing debt to equity to a maximum of 1.45. If Tikkurila breaches this covenant, the loan will fall due immediately unless the lenders give a waiver.

In addition to these facilities, Tikkurila signed in October 2015 a commercial paper frame agreement with a nominal value of EUR 150 million. Based on this new program, Tikkurila Oyj can issue unsecured debt with a maturity of less than one year. This replaced the previously effective EUR 100 million commercial paper program.

At the end of 2019, Tikkurila had unused a EUR 100 (80) million revolving credit facility and EUR 10 (10) million committed credit facilities. A total of EUR 43 (51) million of commercial papers were issued at the end of the year. At the end of reporting period the amount of cash in bank accounts was EUR 47 (35) million.

The Group uses rolling cash flow estimates to manage liquidity risks. In addition, the funding is split into several different funding sources (equity, debt), different instruments, different maturities to reduce refunding risk, and if needed to several currencies and counterparties. The operative business units use various netting and pooling arrangements in order to make sure that funds are efficiently transferred, and the Group has a good visibility over cash flows. This is not yet possible in all areas where the Group is operating, mainly in SBU East.

In order to increase the efficiency of transferring funds and visibility over cash flows, and to optimize the total cash balances, Tikkurila is using cross border cash pool where Group companies in Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania and Poland are participating at the end of financial year 2019. This set-up decreases external limit needs since credit balances offset debit balances cross-currency by participating companies. With this pooling arrangement Tikkurila Oyj's finance department has real time full visibility and control of Group's liquidity. The internal short-term loans of the companies involved have been replaced by giving internal limits within the pool when feasible.

CONTRACTUAL MATURITIES OF LIABILITIES AT DECEMBER 31:

Dec 31, 2019

EUR thousand	Carrying amount	Contractual cash flows	2020	2021	2022	2023	2024	>2024
Loans from financial institutions	59,837	62,567	635	548	548	548	60,290	-
Commercial papers	42,916	43,000	43,000	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Lease liabilities	22,624	25,208	8,158	7,197	3,598	2,394	1,142	2,719
Trade payables	43,008	43,008	43,008	-	-	-	-	-
Guarantees	7,797	7,797	7,797	-	-	-	-	-
Total	**176,182**	**181,580**	**102,598**	**7,745**	**4,146**	**2,942**	**61,432**	**2,719**

Dec 31, 2018

EUR thousand	Carrying amount	Contractual cash flows	2019	2020	2021	2022	2023	>2023
Loans from financial institutions	69,941	70,899	20,459	407	50,033	-	-	-
Commercial papers	50,876	51,000	51,000	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Finance lease liabilities	186	195	127	52	12	4	-	-
Trade payables	46,342	46,342	46,342	-	-		-	-
Guarantees	9,144	9,144	9,144	-	-	-	-	-
Total	**176,489**	**177,580**	**127,072**	**459**	**50,045**	**4**	**-**	**-**

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

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

CAPITAL MANAGEMENT

The aim of capital management is to secure that Tikkurila has adequate capital for conducting its business both in the short-term and long-term, taking into consideration the risk factors in the operational environment, e.g. risk related to availability and price of funding. In addition, the capital management is linked to growth targets, possible changes in new businesses and in geographical split, and maintaining the flexibility to react to the changes in competitive environment. When analyzing the need for, and management of, capital, demands from external interest groups are taken into account, such as owners' requirements for profit distribution and requirements of authorities or restrictions related to equity ratio of Group companies.

Tikkurila's primary funding source is the cash flow generated from operations. If the cash flow from operations and existing financing facilities were not adequate, 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.

The Board of Directors of Tikkurila Oyj has set long-term targets for the Group's gearing and return for capital employed (ROCE-%): gearing aimed to be below 70% and return for capital employed aimed to be above 20%.

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

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

The Board of Directors of Tikkurila Oyj has given a guideline for dividend distribution. The targeted dividend payout should be 40% of annual net profit excluding the impact of items affecting comparability. The Board of Directors proposes to the annual general meeting, which will be held on March 24, 2020, that Tikkurila would pay EUR 0.50 per share dividend, which is about 62% of Group's 2019 net profit, excluding items affecting comparability, net of tax.

EUR thousand	**Dec 31, 2019**	Dec 31, 2018
Equity	**171,924**	150,132
Non-controlling interest	**-**	-
Total	**171,924**	150,132
Non-current interest-bearing liabilities	**75,135**	49,998
Current interest-bearing liabilities	**50,243**	71,006
Cash and cash equivalents	**47,008**	35,486
Net debt	**78,370**	85,518
Gearing, %	**45.6%**	57.0%
Equity ratio, %	**39.3%**	37.6%
EBITDA	**68,129**	48,112
Net debt/EBITDA	**1.15**	1.78
Capital employed		
Goodwill	**70,188**	69,825
Investments in equity-accounted investees	**282**	393
Property, plant and equipment ready for use and intangible assets ready for use (excluding goodwill)	**82,880**	88,315
Right-of-use assets	**22,224**	-
Net working capital	**83,624**	80,970
Total capital employed	**259,198**	239,503

EUR thousand		**Cash flows**					
Reconciliation of liabilities arising from financing activities	**Dec 31, 2018**	**Proceeds and repayments**	**Foreign exchange rates**	**Other non-cash changes**	**Reclassification to held for sale asset and liabilities**	**New leases*)**	**Dec 31, 2019**
Non-current borrowings from financial institutions	**49,932**	10,000	-	-107	-	-	**59,825**
Current borrowings from financial institutions	**20,009**	-19,997	-	-	-	-	**12**
Lease liabilities (year 2018 Finance lease liabilities)	**184**	-7,260	481	-180	-	29,400	**22,625**
Commercial papers	**50,877**	-7,960	-	-	-	-	**42,916**
	121,002	-25,217	481	-287	-	29,400	**125,378**

EUR thousand		Cash flows					
Reconciliation of liabilities arising from financing activities	Dec 31, 2017	Proceeds and repayments	Foreign exchange rates	Other non-cash changes	Reclassification to held for sale asset and liabilities	New leases	Dec 31, 2018
Non-current borrowings from financial institutions	49,900	-	-	32	-	-	49,932
Current borrowings from financial institutions	1,794	18,215	-	-	-	-	20,009
Finance lease liabilities	370	-194	-	-	-	8	184
Commercial papers	54,897	-4,020	-	-	-	-	50,877
	106,962	14,001	-	32	-	8	121,003

*) Includes EUR 24.0 million balance recognized as of Jan 1, 2019 on adoption of IFRS 16, see Note 40.

If bank overdrafts are in use in Group at the closing date of financial year, these are presented on the face of the consolidated statement of the financial position as part of the current loans from the financial institutions. On the consolidated statement of cash flows bank overdrafts are presented in cash and cash equivalents and are excluded in above stated reconciliation (Note 24).

34. Commitments and contingent liabilities

EUR thousand	**2019**	2018
Mortgages given as collateral for liabilities in the statement of financial position		
Other loans	**-**	-
Mortgages given	**-**	102
Total loans	**-**	-
Total mortgages given	**-**	102
Contingent liabilities		
Guarantees		
On behalf of own commitments	**317**	403
On behalf of others	**1,285**	1,283
Other obligations on own behalf	**-**	94
Rent obligations	**149**	31,004
Total contingent liabilities	**1,751**	32,784

Group's commitments related to leases that have not yet commenced are disclosed in the above table in line rent obligations in year 2019.

CONTRACTUAL COMMITMENTS:
Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 1.4 million (EUR 3.9 million in 2018) at the end of financial year 2019. Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 0.0 million) at the end of year 2019.

OBLIGATIONS ON OPERATING LEASES
Operating lease payments are of premises, facilities, land, advertising space and warehouses. Lease payments for facilities and fixture include trucks, vehicles and equipment for transportation and lifting. Lease terms vary from one country to another and contracts are including renewal rights.

On adoption of IFRS 16 Leases standard, the Group has recognized as of January 1, 2019 right-of-use assets and correspondingly lease liability for these lease contracts, except for short-term and low-value lease contract. See Note 15 Leases and Note 40 Changes in IFRS standards.

NON-CANCELLABLE OPERATING LEASE RENTALS ARE PAYABLE AS FOLLOWS:

EUR thousand	**2019**	2018
Within one year	**-**	8,986
After one year and not later than five years	**-**	14,074
Later than five years	**-**	7,944
Total	**-**	31,004

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

If there would be changes in the current operational circumstances, or there would be an accident causing environmental damages, or if the company would decide to close down or transfer a production facility, this might lead to obligations to clean up or rehabilitate the land. Moreover, if any changes by authorities into environmental laws and regulations would cause more obligations to the Group these could have a material adverse effect on Group's result. Some Group's facilities are located on or are utilizing leased land or rented buildings, whose lease expenses might change or might have to be paid in advance, in case there are external regulatory, land usage or operational permit changes or if the company itself will decide to adjust its operations. Moreover, additional investment requirements might arise in the future due to changes linked to production facilities, laboratories or warehousing facilities and equipment, or adjacent requirements like fire safety.

According to Tikkurila's management assumptions and estimates, at the end of the comparison period, there were such changes in operational circumstances that would, due the result of a past event, have caused outflows of economic benefits from the Group. Therefore, such an obligation related to environmental obligations were recognized. Provision related to clean up and rehabilitate the land amounted to EUR 0.1 million at year-end 2018. This provision has been used during the reporting period. Provisions are disclosed in Note 31.

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

The products and services of Tikkurila Group are sold to external companies specializing in wholesale or retail trade and especially in industrial and professional products, in certain markets direct to end-users of Tikkurila's products. Group companies have various

- frame, delivery and other - agreements with its customers. At the end of financial year 2019, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2019, and which have terms and conditions creating binding commitments to Tikkurila. To major extent the commitments granted for discounts, costs or guarantees are contingent. The agreements require customers to buy Tikkurila's products and are based on the amount or value of orders made by the customers in the future. In certain cases, however, there are commitments for Tikkurila Group companies to provide certain services or to participate in customers' sales promotion activities without direct link to deliveries of Tikkurila products.

Tikkurila has appealed against decision of Vilnius Regional Environmental Protection Department of the Ministry of Environment, according to which Tikkurila's subsidiary would be held accountable for third party actions contrary the agreement. This proceeding is pending on local court. Several companies subject to this decision have together proposed to the environment authorities an agreement with lower environment tax amount. The agreement has not been reached and the companies have started proceedings in order to prove in court that the original decision of the environment authority was illegal.

A competition law case in Poland has been pending since 2008. In December 2014, the Polish Competition Court at the first instance lowered the penalty to Tikkurila judged by the competition authority from PLN 9.3 million (about EUR 2.2 million) to PLN 1.8 million (about EUR 0.4 million). Tikkurila's Polish subsidiary has already paid this lowered amount of penalty to the authorities. The Court of Appeals didn't change this judgement in 2016. The Supreme Court decided on 30 January 2019 to cancel the 2016 judgement of the Court of Appeals. Therefore, the case will be re-considered in Court of Appeals. Based on the arguments provided in the decision of the Supreme Court, it is likely that the penalty already paid by Tikkurila may increase. However, it is expected that such increase will be low.

At the end of 2019, Tikkurila Oyj received a tax audit report from the Finnish Tax Administration concerning the dividend paid to a foreign shareholder during 2015 and 2016. The tax at source had not been withheld as should have been done in connection with the payment of the dividend. Therefore, the Finnish Tax Administration requires Tikkurila to pay for EUR 82,000 due to not having withheld the tax at source plus a tax increase of 3 % and late-payment interest. In addition to Tikkurila, several other Finnish companies had not withheld the tax at source in the similar context. During 2015 and 2016, Tikkurila has had a contract concerning payment of dividends with a Finnish bank and the provider of the issuance service. These two instances are considered to have neglected duties related to withholding tax at source. Tikkurila, among other listed companies having faced the same situation, has taken measures in order to claim damages from the bank and the issuance service provider.

35. Share-based payments

SHARE-BASED REMUNERATION OF THE BOARD OF DIRECTORS OF TIKKURILA OYJ

Based on the resolution of the Annual General Meeting, Tikkurila Oyj acquired from the market company's shares for the members of the Board of Directors to partially (about 40% of the fixed annual remuneration) pay Board members fees as following:

	Financial year 2019	Financial year 2018
Shares, pcs	**6,136**	7,279
Purchase price of the shares, EUR thousand	**96**	109

In 2019 there were altogether six Board members to whom the shares were granted – in 2018 there were seven Board members.

SHARE-BASED COMMITMENT AND INCENTIVE PLAN OF MANAGEMENT

Tikkurila has several share-based commitment and incentive plans of management. All plans have included CEO of Tikkurila Oyj, members of Tikkurila Management Team and other individual key employees. Plans and their terms are disclosed in following paragraphs.

RESOLUTIONS OF THE BOARD OF DIRECTORS OF TIKKURILA IN 2016-2019 ON SHARE-BASED INCENTIVE PLANS

The Board of Directors of Tikkurila Oyj approved in April 2016 a share-based incentive plan for the Group key employees. The plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan. In May 2017, the Board of Directors of Tikkurila resolved on details of the performance period 2017-2019 of the share-based incentive program 2015-2019 as well as a matching share plan 2017-2019 for the selected Group key employees. In June 2018, the Board of Directors of Tikkurila Oyj decided on two new share-based incentive plans for Group key employees; performance share plan 2018-2022 and share plan 2018-2019. In December 2018, the Board of Directors of Tikkurila Oyj decided to change the terms of performance share plan 2018-2022 so that part of the reward for performance period's 2019-2021 will be a time-based reward and the number of the participants of the plan will be increased. In December 2019, the Board of Directors of Tikkurila Oyj decided on the details of the performance period 2020-2022. There is no time-based reward.

PERFORMANCE SHARE PLAN 2015-2019

Originally approximately 10 key employees, including the members of the Management Team, belonged to the target group of the performance period 2015-2019. The Performance Share Plan includes three performance periods, calendar years 2015-2017, 2016-2018 and 2017-2019. At the end of year 2019, the target group of performance period 2017-2019 amounted to 3 key employees.

The potential reward of the plan from all the performance periods 2015-2017, 2016-2018 and 2017-2019 will be calculated with the same intrinsic value formula based on the Tikkurila Group's average EBITDA and net debt. The range varies for performance periods. The rewards to be paid on a basis of the performance periods 2015-2017 and 2016-2018 would have amounted to an approximate maximum total of 250,000 Tikkurila Oyj shares. The rewards to be paid on a basis of the performance period 2017-2019 would have amounted to an approximate maximum total of 120,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment.

As per the performance periods 2015-2017, 2016-2018 and 2017-2019 of share plan no reward will be paid since the criteria defined for the periods were not reached.

PERFORMANCE SHARE PLAN 2018-2022

The Performance Share Plan includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022.

The target group of performance period 2018-2020 includes less than 10 key employees, including the members of the Management Team. The potential reward of the plan from the performance period 2018-2020 will be based on the Tikkurila Group's average EBITDA and net debt based intrinsic values for 2018-2020. The rewards to be paid on the grounds of the performance period 2018-2020 will amount to an approximate maximum total of 130,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment. The potential reward will be paid in 2021.

According to the decision of the Board of Directors in December 2018, the number of participants to the performance period 2019-2021 was increased and a proportion of the reward of this performance period was converted into a time-based reward. Approximately 20 key employees, including the members of the Management Team, belong to the target group of the plan during the performance period 2019-2021. The potential reward of the plan will be based on the Tikkurila Group´s average EBITDA and net debt -based intrinsic values for 2019-2021. The rewards to be paid on the grounds of the performance period 2019-2021 will amount to an approximate maximum total of 130,000 Tikkurila Oyj shares. The potential performance-based rewards will be paid partly in the company´s shares and partly in cash in 2022. The time-based reward will be paid in two tranches, in 2020 and 2022. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participants.

According to the decision of the Board of Directors in December 2019, the performance period 2020-2022 includes approximately 20 key employees, including Group management team members. The potential reward from the performance period 2020-2022 will be based on Tikkurila Group's average EBITDA and net debt based intrinsic values for 2020-2022. The rewards to be paid on the grounds of the performance period 2020-2022 will amount to an approximate maximum of 160,000 Tikkurila Oyj shares. The potential performance-based rewards will be paid partly in the company´s shares and partly in cash in 2023.

As a rule, no reward will be paid, if a participant´s employment or service ends before the reward payment. The reward amounts earned through the plan will be capped if the upper limits set by the Board of Directors for the payable reward are exceeded.

SHARE PLAN 2018-2019

Approximately 30 key employees, including the members of the Management Team, originally belonged to the target group of the plan. At the end of year 2019, the target group consists of less than 20 employees. The plan includes one performance period.

The estimated aggregate value of the plan will amount to an approximate maximum of EUR 3.2 million. The potential reward of the plan will be based to the cumulative revenue and adjusted EBIT from the performance period 2018-2019. The potential reward from the plan will accrue in cash and will be paid partly in the Company's shares and partly in cash in 2020. In December 2019, the Board of Directors decided to pay the potential rewards in cash due to the low performance achievement during the period. Payment of the reward is conditional to that a participant is employed at the time of the payment.

MATCHING SHARE PLANS

In both Matching Share Plans there is one vesting period, calendar years 2016-2018 and 2017-2019. The prerequisite for receiving reward on a basis of these plans is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant's employment or service upon reward payment. The Matching Share Plans are directed to selected key employees determined by the Board of Directors, who have not participated in the share-based plan launched in 2012.

No rewards were paid on the basis of the Matching Share Plan with vesting period 2016-2018.

The rewards to be paid on a basis of the Matching Share Plan with vesting period 2017-2019 will amount to a maximum total of 8,000 Tikkurila Oyj shares. The Company will additionally pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2020.

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD JAN 1, 2019 - DEC 31, 2019

Plan	Matching Share Plan 2016-2018	Matching Share Plan 2017-2019	Performance Share Plan 2015-2019		Performance Share Plan 2018-2022	Extra STI 2018-2019
Type	Matching share, Initial investment	Matching share, Initial investment	Share		Share	Share
Instrument	**MSP 16-18**	**MSP 17-19**	**PSP 16-18**	**PSP 17-19**	**PSP 18-20**	**STI 18-19**
Grant dates	Apr 28, 2016	Aug 7, 2017	Apr 28, 2016	Jun 30, 2017	Jun 26, 2018	Jun 26, 2018
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash
Beginning of earning period	Jan 1, 2016	Jan 1, 2017	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2018
End of earning period	Mar 31, 2019	Mar 31, 2020	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Vesting conditions	Share ownership Employment until the end of the ownership period	Share ownership Employment until the end of the ownership period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period	Cumulative Adjusted EBIT and Revenue Employment until the end of the restriction period
Estimated end of restriction/ownership period	Mar 31, 2019	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2021	Mar 31, 2020
Maximum contractual life, years	0.0	3.2	3.2	3.2	3.2	2.2
Remaining contractual life, years	0.0	0.4	0.0	0.4	1.4	0.2
Number of persons at Dec 31, 2019	0	3	1	3	6	16
The calculable aggregate maximum value of the plan						EUR 2 million
Granted in currency						Reward will accrue in cash and will be paid in cash

Plan	Performance Share Plan 2018-2022		
Type	Share		
Instrument	**PSP 19-21**	**Time-based period I 19-21**	**Time-based period II 19-21**
Grant dates	Feb 8, 2019	Feb 8, 2019	Feb 8, 2019
Payment method	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	Jan 1, 2019	Jan 1, 2019	Jan 1, 2019
End of earning period	Dec 31, 2021	Jun 30, 2020	May 31, 2022
Vesting conditions	Average Intrinsic Value Employment until the end of the restriction period	Employment until the end of the restriction period	Employment until the end of the restriction period
Estimated end of restriction/ownership period	May 31, 2022	Jun 30, 2020	May 31, 2022
Maximum contractual life, years	3.4	1.5	3.4
Remaining contractual life, years	2.4	0.5	2.4
Number of persons at Dec 31, 2019	21	21	21

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD JAN 1, 2018 - DEC 31, 2018

Plan	**Matching Share Plan 2016-2018**	**Matching Share Plan 2017-2019**	**Performance Share Plan 2015-2019**		**Performance Share Plan 2018-2022**	**Extra STI 2018-2019**
Type	Matching share, Initial investment	Matching share, Initial investment	Share		Share	Share
Instrument	**MSP 16-18**	**MSP 17-19**	**PSP 16-18**	**PSP 17-19**	**PSP 18-20**	**STI 18-19**
Grant dates	Apr 28, 2016	Aug 7, 2017	Apr 28, 2016	Jun 30, 2017	Jun 26, 2018	Jun 26, 2018
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	Jan 1, 2016	Jan 1, 2017	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2018
End of earning period	Mar 31, 2019	Mar 31, 2020	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Vesting conditions	Share ownership Employment until the end of the ownership period	Share ownership Employment until the end of the ownership period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period	Cumulative Adjusted EBIT and Revenue Employment until the end of the restriction period
Estimated end of restriction/ ownership period	Mar 31, 2019	Mar 31, 2020	Mar 31, 2019	Mar 31, 2020	Mar 31, 2021	Mar 31, 2020
Maximum contractual life, years	0.0	3.2	3.2	3.2	3.2	2.2
Remaining contractual life, years	0.0	1.2	0.2	1.2	2.2	1.2
Number of persons at Dec 31, 2018	0	4	6	9	10	24
The calculable aggregate maximum value of the plan						EUR 3.2 million
Granted in currency						Reward will accrue in cash and will be paid partly in shares and cash

No payments were made from performance period 2015-2017, as the intrinsic value for the period of plan did not reach in advance set level.

Changes during the period 2019	**MSP 16-18**	**MSP 17-19**	**PSP 15-17**	**PSP 16-18**	**PSP 17-19**	**PSP 18-20**
Jan 1, 2019						
Outstanding at the beginning of the reporting period, pcs	-	4,500	-	30,000	56,000	110,000
Changes during the period						
Granted	-	-	-	-	-	-
Awarded	-	-	-	-	-	-
Forfeited	-	1,000	-	30,000	56,000	38,000
Expired	-	-	-	-	-	-
Dec 31, 2019						
Outstanding at the end of the period	-	3,500	-	-	-	72,000

Changes during the period 2019	**PSP 19-21**	**Time-based period I 19-21**	**Time-based period II 19-21**
Jan 1, 2019			
Outstanding at the beginning of the reporting period, pcs	-	-	-
Changes during the period			
Granted	87,540	14,590	14,590
Awarded	-	-	-
Forfeited	4,800	800	800
Expired	-	-	-
Dec 31, 2019			
Outstanding at the end of the period	82,740	13,790	13,790

Changes during the period 2018	MSP 16-18	MSP 17-19	PSP 15-17	PSP 16-18	PSP 17-19	PSP 18-20
Jan 1, 2018						
Outstanding at the beginning of the reporting period, pcs	2,000	4,500	58,000	58,000	84,000	-
Changes during the period						
Granted	-	-	-	-	-	118,000
Awarded	-	-	-	-	-	-
Forfeited	2,000	-	58,000	28,000	28,000	8,000
Expired	-	-	-	-	-	-
Dec 31, 2018						
Outstanding at the end of the period	-	4,500	-	30,000	56,000	110,000

FAIR VALUE DETERMINATION

VALUATION PARAMETERS FOR INSTRUMENTS GRANTED DURING PERIOD 2019

The fair value of share-based incentives has been determined at grant date and the fair value is expensed until vesting. The pricing of the share-based incentives granted during the period 2019 was determined by the following inputs and had the following effect:

	PSP 19-21
Share price at grant, EUR	13.17
Share price at reporting period end, EUR	14.36
Expected dividends (discounted), EUR	1.48
FMV of equity component, EUR	11.69
Fair value 31 Dec 2019, EUR thousand	**1,896**

VALUATION PARAMETERS FOR INSTRUMENTS GRANTED DURING PERIOD 2018

The fair value of share-based incentives has been determined at grant date and the fair value is expensed until vesting. The pricing of the share-based incentives granted during the period 2017 were determined by the following inputs and had the following effect:

	PSP 18-20
Share price at grant, EUR	14.62
Share price at reporting period end, EUR	12.02
Holding period, years	2.76
Expected dividends (discounted), EUR	1.46
FMV of equity component, EUR	13.16
Fair value Dec 31, 2018, EUR thousand	863

EFFECT OF SHARE-BASED INCENTIVES ON THE RESULT AND FINANCIAL POSITION DURING THE PERIOD, EUR THOUSAND

	2019	2018
Expenses for the financial year, share-based payments	**824**	237
Expenses for the financial year, share-based payments, equity-settled	**765**	221
Liabilities arising from share-based payments December 31	**84**	26

	2019
Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	**1,456**

36. 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 and joint ventures.

Related parties include members of the Board of Directors and the members of Tikkurila Management Team, CEO, their family members and controlled entities.

The terms and conditions of related party transactions are determined on an arm's length basis. Related party companies are disclosed in Note 38 Group's ownership in shares and participations.

Related party transactions are presented below:

EUR thousand	Revenue	Other operating income	Purchases	Receivables	Liabilities
2019					
Joint ventures	**5,138**	**990**	**-**	**468**	**44**
2018					
Joint ventures	4,955	959	-	433	19

The dividends received from joint ventures amounted to EUR 354 thousand (EUR 366 thousand) during the financial year.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2019 or 2018.

TIKKURILA ANNOUNCE TO SELL ITS BUSINESS OPERATION IN THE BALKAN AREA TO LOCAL MANAGEMENT

In December 2017, Tikkurila announced that company has entered into an agreement to sell the entire share capital of its subsidiaries in Serbia and Macedonia to the local management of Tikkurila. The sale was concluded in January 2018.

EUR thousand	2019	2018
Management employee benefits [1]		
Wages, salaries and other short-term employee benefits	**2,170**	1,848
Benefits related to termination of employment	**77**	86
Post-employment benefits	**340**	252
Share-based incentive plan	**529**	154
Total	**3,116**	2,340

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

Remunerations presented in this note are on accrual basis.
Share-based incentive plan is disclosed in Note 35.
The disclosures about remuneration differ between Tikkurila Group (applying IFRS) and parent company Tikkurila Oyj (applying Finnish Accounting Standards) due to differences in accounting and valuation principles especially in relation to share-based payments.

EXECUTIVE REMUNERATION

EUR thousand	2019	2018
CEO (since April 12, 2018)		
Elisa Markula		
Fixed salary (fringe benefits included)	**407**	286
Bonuses	**86**	54
Share-based incentive plan	**200**	47
Total	**694**	388
Statutory pension expenses	**84**	59

EUR thousand	2019	2018
Interim CEO (until April 11, 2018) [1)]		
Jukka Havia		
Fixed salary (fringe benefits included)	-	75
Total	-	75
Statutory pension expenses	-	13
Other Management Team members		
Fixed salary (fringe benefits included)	1,159	945
Bonuses	210	141
Benefits related to termination of employment	77	86
Share-based incentive plan	330	107
Total	1,776	1,279
Statutory pension expenses	256	179
Board compensation		
Board members [2)]		
Jari Paasikivi, Chairman of the Board	72	72
Petteri Walldén, Vice chairman of the Board	48	48
Eeva Ahdekivi, member of the Board until April 12, 2018	-	2
Pia Rudengren, member of the Board, until April 11, 2019	4	56
Lars Peter Lindfors, member of the Board as of April 11, 2019	40	-
Riitta Mynttinen, member of the Board	51	49
Harri Kerminen, member of the Board until April 11, 2019	2	40
Catherine Sahlgren, member of the Board	39	39
Heikki Westerlund, member of the Board	51	39
Total	307	346

[1)] Tikkurila Oyj's Board of Directors appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. He acted in this position until the new CEO, Elisa Markula, started at Tikkurila. Jukka Havia has been a member of the Tikkurila Management Team and his employee benefits until September 21, 2017 and after April 12, 2018 is disclosed as part of the Other Management Team members' remuneration.

[2)] 40 percent of the annual fee, excluding meeting fees, of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (109) thousand in year 2019 and included in figures presented above.

Elisa Markula, CEO of Tikkurila starting from April 12, 2018 has a notice period of 6 months. If the Company terminates the agreement the CEO will receive a severance pay equaling 6-month salary. The retirement age of the CEO is specified in accordance with the legislation and is around 65 years.

Jukka Havia acted as the Interim CEO up until April 11, 2018 and had period of notice 6 months. In the event the company would give notice to the CEO, he would receive an additional remuneration equaling 6-month salary. The CEO has the right to terminate his employment with 6-month period of notice. The retirement age for the Interim CEO is around 65 years.

The retirement age of the other Management Team members is around 65 years. According to the Finnish legislation change of Employees Pension Act (TyEL) entered into force as of January 1, 2017, the lowest retirement age varies and is dependent on the employee's year of birth.

According the decision of the Board of Tikkurila Oyj, the criteria for annual management bonus scheme for the financial year 2019 for the Tikkurila Management Team consist two bonus criteria: The Tikkurila Group adjusted operating profit and revenue for the 2019 financial year. CEO's annual cash-based bonus may not exceed 60% of CEO's annual salary. Other management Team members' annual cash-based bonus may not exceed 50% of their annual salary.

According the decision of the Board of Tikkurila Oyj, the criteria for annual management bonus scheme for the financial year 2018 for the Tikkurila Management Team consist four bonus criteria: The Tikkurila Group adjusted operating profit, SKU reduction, cash flow from operations and personnel expenses for the 2018 financial year. CEO's annual cash-based bonus may not exceed 58.33% of CEO's annual salary. Other management Team members' annual cash-based bonus may not exceed 48.33% of their annual salary.

37. 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 %
2019				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
TOO Tikkurila	Almaty	Kazakhstan	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Tikkurila Drytech AB	Flen	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	100
Tikkurila Danmark A/S	Brönby	Denmark	100	100
Tikkurila GmbH	Ansbach	Germany	100	100

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2018				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
TOO Tikkurila	Almaty	Kazakhstan	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Tikkurila Drytech AB	Flen	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	100
Tikkurila Danmark A/S	Brönby	Denmark	100	100
Tikkurila GmbH	Ansbach	Germany	100	100

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2019				
Alcro Parti AB	Stockholm	Sweden	50	-
2018				
Alcro Parti AB	Stockholm	Sweden	50	-

38. Changes in group structure

CHANGES IN THE GROUP STRUCTURE DURING 2019
No changes in year 2019.

CHANGES IN THE GROUP STRUCTURE DURING 2018
Tikkurila concluded in January 2018 a divestment of its subsidiaries in Serbia and Macedonia to company Gudmark.

39. Events after the end of reporting period

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

40. Changes in IFRS standards

From the beginning of 2019 Tikkurila Group has applied the IFRS 16 Leases -standard. The impacts resulting from the application of this new, revised or amended standards, change the Group's opening balances as presented in the table below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Dec 31, 2018	Adjustment	Jan 1, 2019
ASSETS			
Non-current assets			
Goodwill	69,825		69,825
Other intangible assets	20,970		20,970
Property, plant and equipment	70,910	-193	70,717
Right-of-use assets	-	24,800	24,800
Equity-accounted investees	393		393
Other investments	744		744
Non-current receivables	8,870		8,870
Defined benefit pension and other long-term employee benefit assets	-		-
Deferred tax assets	8,112		8,112
Total non-current assets	**179,824**	**24,607**	**204,431**
Current assets			
Inventories	78,842		78,842
Interest-bearing receivables	983		983
Non-interest-bearing receivables	103,291	-563	102,728
Cash and cash equivalents	35,486		35,486
Non-current assets held for sale	1,559		1,559
Total current assets	220,161	-563	**219,598**
Total assets	**399,985**	**24,045**	**424,030**

EQUITY AND LIABILITIES	Dec 31, 2018	Adjustment	Jan 1, 2019
Share capital	35,000		35,000
Other reserves	42		42
Fair value reserve	1		1
Reserve for invested unrestricted equity	40,000		40,000
Treasury shares	-42		-42
Translation differences	-45,969		-45,969
Retained earnings	121,100	1	121,101
Equity attributable to owners of the parent	**150,132**	**1**	**150,133**
Non-controlling interest	-	-	-
Total equity	**150,132**	**1**	**150,133**
Non-current liabilities			
Interest-bearing non-current liabilities	49,998	17,778	67,776
Other non-current liabilities	107		107
Defined benefit pension and other long-term employee benefit liabilities	26,124		26,124
Provisions	608		608
Deferred tax liabilities	3,887		3,887
Total non-current liabilities	**80,724**	**17,778**	**98,502**
Current liabilities			
Interest-bearing current liabilities	71,006	6,266	77,272
Non-interest-bearing current liabilities	95,973		95,973
Provisions	2,150		2,150
Liabilities classified as held for sale	-		-
Total current liabilities	**169,129**	**6,266**	**175,395**
	-	-	-
Total equity and liabilities	**399,985**	**24,045**	**424,030**
Interest-bearing financial liabilities (net), EUR thousand	85,518	24,044	109,562
Gearing, %	57.0%		73.0%
Equity ratio, %	37.5%		35.4%

ADOPTION OF STANDARD IFRS 16 LEASES

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

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

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

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

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

At the time of initial application of IFRS 16, lease liability of EUR

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

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

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

Due to IFRS 16 other operating expenses decreased in financial year 2019 period by EUR 8.3 million. Depreciations in financial year amounted to a total of EUR 24.2 million including depreciations from right-of-use assets EUR 8.2 million. The standard had a positive effect of EUR 0.1 million on operating result. Interest expenses January-December amounted to a total of EUR 2.0 million and included EUR 1.1 million interest expenses of lease liabilities. The adoption of IFRS 16 standard had a positive effect of EUR 7.3 million to the cash flow from operating activities.

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

Tikkurila Oyj income statement (FAS)

EUR thousand	Note	**Jan 1 - Dec 31, 2019**	Jan 1 - Dec 31, 2018
Revenue	2	**200,449**	189,446
Change in inventories of finished goods and work in progress	4	**4,613**	-5,264
Other operating income	3	**21,628**	23,181
Materials and services	4	**-121,982**	-109,857
Personnel expenses	5	**-34,990**	-34,152
Depreciation, amortization and impairment losses	7	**-5,707**	-6,751
Other operating expenses	4, 6	**-47,515**	-48,210
Operating profit		**16,496**	8,393
Financial income and expenses	8	**16,000**	6,567
Profit before appropriations and taxes		**32,497**	14,960
Appropriations	7, 9	**622**	1,802
Income taxes	10	**-4,708**	-1,635
Net profit for the period		**28,411**	15,127

Tikkurila Oyj balance sheet (FAS)

EUR thousand	Note	**Dec 31, 2019**	Dec 31, 2018
ASSETS			
Non-current assets	11		
Intangible assets		**13,688**	15,066
Tangible assets		**13,732**	14,576
Investments			
Holdings in Group companies		**185,943**	185,933
Other shares and holdings		**540**	540
Total investments		**186,483**	186,473
Total non-current assets		**213,903**	216,116
Current assets			
Inventories	12	**31,930**	26,293
Non-current receivables	13	**11,913**	14,926
Current receivables	13	**57,312**	61,328
Cash and cash equivalents		**32,757**	25,043
Total current assets		**133,911**	127,590
Total assets		**347,815**	343,705
EQUITY AND LIABILITIES			
Equity	14		
Share capital		**35,000**	35,000
Reserve for invested unrestricted equity		**40,000**	40,000
Retained earnings		**85,757**	85,185
Net profit for the period		**28,411**	15,127
Total equity		**189,168**	175,312
Appropriations	15	**1,432**	2,054
Provisions	16	**1,358**	239
Liabilities	17		
Non-current liabilities		**60,332**	50,198
Current liabilities		**95,525**	115,902
Total liabilities		**155,857**	166,100
Total equity and liabilities		**347,815**	343,705

Tikkurila Oyj cash flow (FAS)

EUR thousand	**Jan 1 - Dec 31, 2019**	Jan 1 - Dec 31, 2018
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before appropriations and taxes	**32,497**	14,960
Adjustments:		
Unrealized exchange gains and losses	**-2,062**	2,651
Depreciation, amortization and impairment losses	**5,707**	6,751
Interest income	**-3,559**	-3,800
Interest expenses	**823**	1,161
Dividend income	**-13,013**	-12,196
Other adjustments	**1,048**	160
Write-down of non-current investments	**-**	1,620
Write-down of non-current loan receivables	**1,500**	1,841
Other financial items	**370**	300
Funds from operating activities before change in net working capital	**23,309**	13,447
Change in net working capital		
Change in inventories	**-5,637**	5,950
Change in current receivables	**-6,799**	4,489
Change in interest-free current liabilities	**1,402**	-3,402
Operating cash flow before financing items and taxes	**12,275**	20,484
Interest and other financial expenses paid	**-1,538**	-1,434
Interest and other financial income received	**3,543**	4,849
Income taxes paid	**825**	277
Dividends received	**13,013**	12,196
Total cash flow from operating activities	**28,118**	36,372
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	**-3,648**	-1,186
Investments in Group companies	**-9**	-
Disposal of Group companies	**-**	50
Change in loan receivables	**12,729**	1,751
Net cash used in investing activities	**9,072**	615
Cash flow before financing	**37,190**	36,987
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans (+)	**60,000**	-
Decrease in non-current loans (-)	**-50,000**	-
Change in current financing increase (+)	**204,832**	258,587
Change in current financing decrease (-)	**-228,658**	-246,994
Dividends paid	**-14,555**	-35,285
Net cash used in financing activities	**-28,381**	-23,692
Net change in cash and cash equivalents	**8,809**	13,296
Cash and cash equivalents at Dec 31	**33,852**	25,043
Cash and cash equivalents at Jan 1	**25,043**	11,747
Change in cash and cash equivalents	**8,809**	13,296

1. Summary of significant accounting policies – Tikkurila Oyj

Tikkurila Oyj is a Finnish public limited company which share is listed on Nasdaq Helsinki since March 26, 2010. The company is domiciled in Vantaa and the registered address is Heidehofintie 2, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group.

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

FOREIGN CURRENCY TRANSACTIONS

In the day-to-day accounting, Tikkurila Oyj translates foreign currency transactions into its functional currency at the exchange rates quoted on the transaction date.

In preparation of financial statements monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate of the end of reporting period.

Exchange rate differences arising from trade receivables are accounted for as adjustments to sales and those arising from trade payables to purchases. Exchange rate differences arising from financing transactions are accounted for in financial income and expenses.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are measured at amortized cost, less any impairment losses.

SHARE-BASED INCENTIVE PLAN FOR THE PERSONNEL

The treatment of the share-based incentive plan has been described in the accounting principles for the consolidated financial statements. In the parent company, the share-based payments are recorded as an expense in the amounts of the payments to be made.

REVENUE RECOGNITION

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

INCOME TAXES

Tax expense in income statement comprises current tax of the company calculated on the taxable profit for the period determined in accordance with the local tax rules, final taxes from previous years and the change in deferred taxes.

DEFERRED TAXES

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

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

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

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

Depreciation periods:	
buildings and constructions	8 - 25 years
machinery and equipment	3 - 15 years
intangible assets	5 - 10 years

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

INVENTORIES

The inventory of Tikkurila Oyj is valued to direct and indirect acquisition cost or if lower, to the value of replacement price or to the value of probable sales price. The direct acquisition cost is defined through weighted average cost method. Manufacturing and sourcing related fixed costs, depreciations and indirect variable costs are activated as indirect costs to the value of finished goods.

RESEARCH AND DEVELOPMENT COSTS

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

LEASES

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

2. Revenue

	2019	2018
Revenue by geographical segment, % of total revenue	**%**	%
Finland	**45**	50
Other EU countries	**30**	28
Other Europe	**21**	18
Other countries	**4**	4
Revenue by geographical segment, total	**100**	100

3. Other operating income

EUR thousand	2019	2018
Gains on sale of non-current assets	**5**	0
Other income from operations	**21,622**	23,180
Other operating income, total	**21,628**	23,181

Other operating income from operations includes EUR 2.9 million of insurance compensation related to raw material sourcing and EUR 0.7 million compensation as per arbitration proceeding in 2018.

Additionally, other operating income includes intercompany service charges and intercompany charges regarding intangible asset licenses, rights to use in total of EUR 21.0 (18.7) million.

4. Other operating expenses

EUR thousand	2019	2018
Change in inventories of finished goods and work in progress	**4,613**	-5,264
Materials and services		
Materials and supplies		
Purchases during the financial year	**-122,711**	-108,816
Change in inventories of materials and supplies	**1,024**	-687
External services	**-295**	-355
Total materials and services	**-121,982**	-109,857
Personnel expenses	**-34,990**	-34,152
Rents	**-1,420**	-1,221
Other expenses and expense reimbursement	**-46,095**	-46,989
Total other operating expenses	**-199,873**	-197,483

5. Personnel expenses and number of personnel

EUR thousand	**2019**	2018
Wages and salaries	**-28,891**	-27,777
Pension expenses	**-5,150**	-5,138
Other personnel expenses	**-948**	-1,237
Total personnel expenses	**-34,990**	-34,152
Fringe benefits (tax value)	**-1,272**	-1,353

In financial year 2019 personnel expenses include EUR 0.3 (1.4) million one-time expenses as a result of the personnel dismissals due to co-operation negotiations and changes of organization structure.

Management remunerations	**2019**	2018
Members of the Board of Directors, CEO and other Management Team members	**-2,533**	-2,016

The disclosures about remuneration differ between Tikkurila Group (applying IFRS) and parent company Tikkurila Oyj (applying Finnish Accounting Standards) due to differences in accounting and valuation principles especially in relation to share-based payments. In bookkeeping of Tikkurila Oyj (FAS) the personnel expenses arisen from the share-based incentive plan paid as a part of the remuneration for CEO and other Management Team members, have been recognized in the period when the shares have been transferred to participants. Whereas in the Group according the IFRS, those expenses have been accrued for a longer period, in about a three-year period. The valuation of the shares in Tikkurila Oyj bookkeeping and in remuneration specifications is based on the share price at the time of the transfer, whereas the valuation in accordance with IFRS is based on the share price value at the beginning of the vesting period of the plan and for example the effect of the estimated future dividends is taken into account as well.

Details from share-based commitment and incentive plan of management can be found from notes to the consolidated financial statements in Note 35.

ACCRUAL BASED REMUNERATION OF CEO AND MANAGEMENT TEAM

In the following table remuneration of CEO is presented on accrual basis in year 2019 and 2018.

EUR thousand	**2019**	2018
CEO Elisa Markula (since April 12, 2018)		
Fixed salary, fringe benefits included	**-407**	-286
Bonuses	**-86**	-54
Share-based incentive plan	**-107**	-25
Total	**-600**	-365
Statutory pension expenses	**-84**	-59

Elisa Markula, CEO of Tikkurila starting from April 12, 2018 has a notice period of 6 months. If the Company terminates the agreement the CEO will receive a severance pay equaling 6-month salary. The retirement age of the CEO is specified in accordance with the legislation and is around 65 years.

Interim CEO Jukka Havia (until April 11, 2018)	**2019**	2018
Fixed salary, fringe benefits included	**-**	-75
Total	**-**	-75
Statutory pension expenses	**-**	-13

Tikkurila Oyj's Board of Directors has appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. He acted in this position until the new CEO, Elisa Markula, started at Tikkkurila. Jukka Havia has been a member of the Tikkurila Management Team and his employee benefits until September 21, 2017 and after April 12, 2018 are disclosed as part of the Other Management Team members' remuneration.

Jukka Havia acted as the Interim CEO up until April 11. 2018 and had period of notice 6 months. In the event the company would give notice to the CEO, he will receive an additional remuneration equaling 6-month salary. The CEO has the right to terminate his employment with 6-month period of notice. The retirement age for the Interim CEO is around 65 years.

EUR thousand	**2019**	2018
Other Management Team members [1]		
Fixed salary, fringe benefits included *)	**-1,236**	-1,031
Bonuses	**-210**	-141
Share-based incentive plan	**-180**	-57
Total	**-1,626**	-1,229
Statutory pension expenses	**-256**	-179
Statutory pension is a defined contribution plan.		

[1] EUR 160 thousand is not included in income statement line wages and salaries in year 2019. The comparison year EUR 333 thousand was not included in wages and salaries.
*) In addition, the reported salaries include severance payment of EUR 77 (86) thousand as per ended employment of Management Team member during the year 2019.

The retirement age of the other Management Team members is around 65 years. According to the Finnish legislation change of Employees Pension Act (TyEL) entered into force as of January 1, 2017 the lowest retirement age varies and is dependent on the employee's year of birth.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

EUR thousand	**2019**	2018
Jari Paasikivi, Chairman of the Board	**-72**	-72
Petteri Walldén, Vice chairman of the Board	**-48**	-48
Harri Kerminen, member of the Board until April 11, 2019	**-2**	-40
Pia Rudengren, member of the Board until April 11, 2019	**-4**	-56
Eeva Ahdekivi, member of the Board until April 12, 2018	**-**	-2
Riitta Mynttinen, member of the Board	**-51**	-49
Catherine Sahlgren, member of the Board	**-39**	-39
Heikki Westerlund, member of the Board	**-51**	-39
Lars Peter Lindfors, member of the Board as of April 11, 2019	**-40**	-
Total	**-307**	-346

*) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (109) thousand in year 2019. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2019 or in 2018.

Number of personnel	**2019**	2018
Average number of white-collar employees	**339**	360
Average number of blue-collar employees	**209**	202
Personnel (average)	**548**	562

6. Auditor's fees

EUR thousand	**2019**	2018
Ernst Young Oy and KPMG Oy Ab, Authorized Public Accountants		
Audit fees	**-195**	-179
Tax consultancy	**-**	-1
Other auditing	**-6**	-57
Other fees	**-**	-4
Auditing fees, total	**-201**	-240

KPMG Oy Ab has been company´s principal auditor until April 11, 2019 after that starting from April 11, 2019 Ernest & Young Oy has taken over to be principal auditor.

7. Depreciation, amortization and impairment losses

EUR thousand	**2019**	2018
Depreciation according to plan and impairment losses		
Intangible asset		
Other intangible assets	**-3,492**	-3,324
Tangible assets		
Buildings and constructions	**-479**	-701
Impairment of buildings and constructions	**-**	-898
Machinery and equipment	**-1,722**	-1,815
Other tangible assets	**-14**	-14
Total depreciation, amortization and impairment losses	**-5,707**	-6,751
Change in depreciation difference		
Other intangible assets	**-13**	42
Buildings and constructions	**-66**	1,003
Machinery and equipment	**697**	751
Other tangible assets	**5**	5
Total	**622**	1,802

8. Financial income and expenses

EUR thousand	2019	2018
Financial income		
Dividend income		
Dividend income from Group companies	**13,013**	12,196
Dividend income from others	**-**	-
Total dividend income	**13,013**	12,196
Interest income		
Interest income from Group companies	**3,266**	3,514
Interest income from others	**293**	287
Total interest income	**3,559**	3,800
Other financial income		
Other financial income from Group companies	**128**	128
Total other financial income	**128**	128
Exchange gains		
Exchange gains from Group companies	**915**	724
Exchange gains from others	**5,085**	347
Total exchange gains	**6,000**	1,072
Total financial income	**22,700**	17,197
Write-down of non-current investments		
From holdings in Group companies	**-**	-1,620
Total write-down of non-current investments	**-**	-1,620
Financial expenses	**2019**	2018
Interest expenses		
Interest expenses to Group companies	**-21**	-6
Interest expenses to others	**-802**	-1,155
Total interest expenses	**-823**	-1,161
Other financial expenses		
Other financial expenses to Group companies *)	**-1,500**	-1,841
Other financial expenses to others	**-497**	-428
Total other financial expenses	**-1,997**	-2,269
Exchange losses		
Exchange losses to Group companies	**-161**	-1,801
Exchange losses to others	**-3,718**	-3,779
Total exchange losses	**-3,879**	-5,580
Total financial expenses	**-6,700**	-9,010
Total financial income and expenses	**16,000**	6,567

*) A write-down of subsidiary loan receivables of EUR 1,500 (1,841) thousand.

EUR thousand	2019	2018
Exchange gains and losses		
Realized	**58**	-1,857
Unrealized	**2,062**	-2,651
Total exchange gains and losses	**2,121**	-4,508

9. Change in appropriations

EUR thousand	**2019**	2018
Change in depreciation difference	**622**	1,802
Total change in appropriations	**622**	1,802

10. Income taxes

EUR thousand	**2019**	2018
Income tax for current year	**-4,742**	-1,486
Income tax for previous years	**-37**	0
Change in deferred taxes	**71**	-149
Total income taxes	**-4,708**	-1,635

11. Non-current assets

INTANGIBLE ASSETS

EUR thousand	**2019**	2018
Other intangible assets		
Acquisition cost at beginning of year	**30,436**	28,349
Increase	**1,279**	2,122
Decrease	**-**	-35
Acquisition cost at year end	**31,716**	30,436
Accumulated amortization at beginning of year	**-15,435**	-12,112
Amortization during the financial year	**-3,492**	-3,324
Accumulated amortization and impairment losses at year end	**-18,927**	-15,435
Carrying amount at year end	**12,788**	15,001
Advance payments and assets under construction		
Acquisition cost at beginning of year	**65**	1,640
Change during the year	**835**	-1,575
Carrying amount at year end	**900**	65
Total intangible assets	**13,688**	15,066

Prepayments and assets under construction in year 2017 comprised EUR 1,003 thousand of project related expenses of the enterprise resource planning. These expenses were transferred to item “Other intangible assets” when project was completed.

TANGIBLE ASSETS

EUR thousand	**2019**	2018
Land and water		
Acquisition cost at beginning of year	**1,512**	1,512
Carrying amount at year end	**1,512**	1,512
Buildings and constructions		
Acquisition cost at beginning of year	**24,130**	24,107
Increase	**134**	23
Acquisition cost at year end	**24,264**	24,130
Accumulated depreciation at beginning of year	**-19,827**	-18,228
Depreciation during the financial year	**-479**	-701
Impairment loss	**-**	-898
Accumulated depreciation and impairment losses at year end	**-20,306**	-19,827
Carrying amount at year end	**3,958**	4,303

The impairment loss of EUR 898 thousand was recognized on an office building in 2018.

Machinery and equipment	**2019**	2018
Acquisition cost at beginning of year	**45,269**	44,608
Increase	**905**	662
Decrease	**-40**	-
Acquisition cost at year end	**46,134**	45,269
Accumulated depreciation at beginning of year	**-36,809**	-34,994
Depreciation during the financial year	**-1,682**	-1,815
Accumulated depreciation and impairment losses at year end	**-38,490**	-36,809
Carrying amount at year end	**7,644**	8,460

The carrying amount of production machinery and equipment is EUR 6,391 thousand (EUR 7,202 thousand).

EUR thousand	**2019**	2018
Other tangible assets		
Acquisition cost at beginning of year	**1,024**	1,024
Acquisition cost at year end	**1,024**	1,024
Accumulated depreciation at beginning of year	**-784**	-770
Depreciation during the financial year	**-14**	-14
Accumulated depreciation at year end	**-797**	-784
Carrying amount at year end	**227**	240
Advance payments and assets under construction		
Acquisition cost at beginning of year	**60**	106
Change during the year	**332**	-46
Carrying amount at year end	**392**	60
Total tangible assets	**13,732**	14,576

INVESTMENTS

EUR thousand	2019	2018
Holdings in Group companies		
Acquisition cost at beginning of year	185,933	187,603
Increase	9	-
Write-down	-	-1,670
Carrying amount at year end	185,943	185,933

In year 2018, investments in Group company shares included increase of EUR 9,219 thousand which was impaired during the financial year. Correspondingly, reversal of impairment on a loan receivable from subsidiaries was recognized with the same amount.

EUR thousand	2019	2018
Other shares and holdings		
Acquisition cost at beginning of year	540	540
Decrease	-	-
Carrying amount at year end	540	540
Total investments	186,483	186,473

12. Inventories

EUR thousand	2019	2018
Materials and supplies	11,954	10,929
Work in progress	1,889	2,034
Finished goods	18,088	13,330
Total inventories	31,930	26,293

13. Receivables

EUR thousand	2019	2018
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	4,164	6,262
Loan receivables from others	4,978	6,411
Total non-current interest-bearing receivables	9,142	12,673
Non-current interest-free receivables		
Trade receivables from others	1,003	1,882
Deferred expenses and accrued income from others	380	148
Other receivables from others	1,209	114
Total non-current interest-free receivables	2,592	2,144
Deferred tax assets	179	108
Total non-current receivables	11,913	14,926

EUR thousand	**2019**	2018
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	**813**	1,043
Current interest-bearing receivables from Group companies	**22,225**	30,631
Total current interest-bearing receivables	**23,039**	31,674
Current interest-free receivables		
Other current receivables from others	**2,237**	4,473
Trade receivables		
Trade receivables from Group companies	**15,869**	11,304
Trade receivables from others	**10,892**	10,743
Total trade receivables	**26,761**	22,046
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	**3,364**	429
Deferred expenses and accrued income from others	**1,911**	2,705
Total deferred expenses and accrued income	**5,275**	3,135
Total current interest-free receivables	**34,273**	29,654
Total current receivables	**57,312**	61,328
Total receivables	**69,225**	76,254
Deferred expenses and accrued income		
Interest income	**511**	367
Income taxes	**-**	825
Personnel expenses	**123**	499
IT services	**908**	738
E-services from group companies	**2,917**	-
Others	**1,196**	854
Total deferred expenses and accrued income	**5,655**	3,283

Deferred expenses and accrued income “Others” include withdrawal costs of a loan EUR 467 (EUR 190) thousand. These expenses have been accrued for the period of repayment schedule.

14. Equity

EUR thousand	**2019**		2018
Share capital at January 1	**35,000**		35,000
Share capital at December 31	**35,000**		35,000
Total restricted equity	**35,000**		35,000
Reserve for invested unrestricted equity at January 1	**40,000**		40,000
Reserve for invested unrestricted equity at December 31	**40,000**		40,000
Retained earnings at January 1	**100,312**		
Confirmed financial statement December 31, 2017		121,276	
Adjustment due to change in accounting policy to the period January 1, 2017 - December 31, 2017	**-**	-807	120,470
Dividends	**-14,555**		-35,285
Retained earnings at December 31	**85,757**		85,185
Net profit for the period	**28,411**		15,127
Retained earnings and net profit for the period at December 31	**114,168**		100,312
Total unrestricted equity	**154,168**		140,312
Total equity at December 31	**189,168**		175,312

EUR thousand	**2019**	2018
Distributable funds at December 31		
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**100,312**	121,276
Adjustment to do change in accounting policy to the period January 1, 2017 - December 31, 2017	**-**	-807
Dividends	**-14,555**	-35,285
Net profit for the financial year	**28,411**	15,127
Distributable funds	**154,168**	140,312

Changes in treasury shares	EUR thousand	Number of shares
Acquisition cost / Number of pieces at January 1	42	2,461
Change	-	-
Carrying amount / Number of pieces at December 31, 2019	42	2,461

Changes in treasury shares	EUR thousand	Number of shares
Acquisition cost / Number of pieces at January 1	42	2,461
Change	-	-
Carrying amount / Number of pieces at December 31, 2018	42	2,461

15. Appropriations

EUR thousand	**2019**	2018
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	**-3,569**	-3,635
Machinery and equipment	**4,572**	5,269
Other tangible assets	**97**	21
Other intangible assets	**331**	391
Intangible rights	**-**	7
Total accumulated depreciation difference	**1,432**	2,054
Change in depreciation difference		
Depreciation difference at January 1	**2,054**	3,856
Change in depreciation difference in income statement	**-622**	-1,802
Depreciation difference at December 31	**1,432**	2,054

16. Provisions

EUR thousand	2019	2018
Other provisions	**1,358**	239

Other provisions include Tikkurila Group's German subsidiary's pension obligation which has been taken over by Tikkurila Oyj during financial year 2019. According to the contract, participants are guaranteed an increase to pension payments which will be paid until the beneficiaries reach the age of 90 years. At the end of year 2019, the provison in relation to this obligation amounted to EUR 1,124 thousand of which EUR 91 thousand is recognized as current provision.

17. Liabilities

EUR thousand	2019	2018
Non-current liabilities		
Loans from financial institutions	**60,000**	50,000
Other non-current liabilities to others	**332**	198
Total non-current liabilities	**60,332**	50,198
Maturity of non-current liabilities		
Maturity		
2021 (2020)	**104**	137
2022 (2021)	**228**	50,062
2023 (2022)	**-**	-
2024 (2023)	**60,000**	-
2025 (2024)	**-**	-
Total non-current liabilities	**60,332**	50,198
Loans that will fall due after 5 years or later		
Loans from financial institutions	**-**	-
Total	**-**	-
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	**7,809**	3,674
Other interest-bearing liabilities to others	**42,916**	70,876
Total other interest-bearing liabilities	**50,724**	74,550
Total current interest-bearing liabilities	**50,724**	74,550
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	**3,994**	2,512
Trade payables to others	**16,754**	16,031
Total trade payables	**20,748**	18,543
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	**599**	1,780
Accrued expenses and deferred income to others	**22,400**	17,594
Total accrued expenses and deferred income	**22,998**	19,373
Other interest-free liabilities		
Other interest-free liabilities to Group companies	**112**	2,423
Other interest-free liabilities to others	**943**	1,012
Total other interest-free liabilities	**1,055**	3,435
Total current interest-free liabilities	**44,801**	41,352
Total current liabilities	**95,525**	115,902

EUR thousand	**2019**	2018
Accrued expenses and deferred income		
Personnel expenses	**7,364**	6,122
Related to sales	**8,863**	9,495
Other	**7,103**	3,955
Total accrued expenses and deferred income	**23,330**	19,572

18. Contingent liabilities

EUR thousand	**2019**	2018
Lease liabilities		
Maturity within one year	**735**	706
Maturity later than one year	**961**	701
Total lease liabilities	**1,696**	1,408
Operating lease liabilities		
Maturity within one year	**400**	353
Maturity later than one year	**431**	797
Total lease liabilities	**830**	1,150

MORTGAGES

The company has real estate mortgages EUR 99 million, which are held by Tikkurila Oyj.

EUR thousand	**2019**	2018
Guarantees		
On own behalf	**33**	33
On behalf of Group companies	**28,442**	25,501
Total guarantees	**28,475**	25,533

OTHER COMMITMENTS

In addition, Tikkurila Oyj has personnel's years in service related commitments, which are not mandatory but are rather established by a pattern of past practice, and share-based incentive plan commitments. These together are approximately EUR 1.4 (1.1) million.

Board of Directors' proposal for the distribution of profits and signing of financial statements and Board of Directors' Report

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 154,167,619.38 of which EUR 28,410,650.96 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.50 per share will be distributed as dividend from the net profit for the year. The total dividend would amount to EUR 22,052,895,50. Dividend will be paid in two tranches. EUR 132,114,723.88 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 11, 2020

Jari Paasikivi Chairman of the Board	Petteri Walldén Vice Chairman of the Board	Catherine Sahlgren Member of the Board
Riitta Mynttinen Member of the Board	Heikki Westerlund Member of the Board	Lars Peter Lindfors Member of the Board
Elisa Markula CEO		

Auditor's report (Translation of the Finnish original)

TO THE ANNUAL GENERAL MEETING OF TIKKURILA OYJ

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Tikkurila Oyj (business identity code 0197067-4) for the year ended 31 December 2019. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5 (1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the consolidated financial statements.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Revenue recognition *The accounting principles and disclosures concerning revenue recognition are disclosed in Notes 1, 2 and 3.* Revenue recognition is considered as a key audit matter because Tikkurila's sales contracts contain different types of customer specific discounts and credits dependent on delivered volumes and values which fall due after the delivery. These discounts and credits have material impact on the recognized revenue and further on the profitability of the operations. Assessing subsequent discounts and credits require management judgment both at the time of the revenue recognition as well as at the end of each reporting period. Management must consider historical information regarding similar customer contracts and the potential impact of new discount structures. The areas where significant judgment is required are more prone to the risk that the assumptions may be deliberately misappropriated. Based on above, revenue recognition was a key audit matter. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement included: • Assessment of Tikkurila's accounting policies over revenue recognition from IFRS standards' perspective. • Assessment of appropriateness and effectiveness of internal controls in sales process. • Comparison of prior year discount and credit accrual against actual settlements in order to confirm the accuracy of management's assessment process. • On a sample basis an analysis of current sales contracts and evaluation of revenue transactions and related discount and credit accruals. • Analytical procedures over revenue transactions as well as discount and credit accruals. • In addition, we tested general ledger journal entries on a sample basis to identify abnormal entries.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of goodwill *The accounting principles and disclosures concerning goodwill are disclosed in Notes 1, 2, 16 and 17.* Valuation of goodwill was a key audit matter because • the assessment process is judgmental, • it is based on assumptions relating to market or economic conditions extending to the future, and • because of the significance of the goodwill to the financial statements. As of balance sheet date 31 December 2019, the value of goodwill amounted to 70 million euro representing 41% of the total assets and 16% of the total equity. The valuation of goodwill is based on management's estimate about the value-in-use calculations of the cash generating units. There are number of underlying assumptions used to determine the value-in-use, including the revenue growth, EBITDA and discount rate applied on net cash-flows. Estimated value-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill.	Our audit procedures regarding the valuation of goodwill included involving EY valuation specialists to assist us in evaluating methodologies, impairment calculations and underlying assumptions applied by the management in the impairment testing. In evaluation of methodologies, we compared the principles applied by the management in the impairment tests to the requirements set in IAS 36 Impairment of assets standard and ensured the mathematical accuracy of the impairment calculations. The key assumptions applied by the management in impairment tests were compared to • approved budgets and long-term forecasts, • information available in external sources, as well as • our independently calculated industry averages such as weighted average cost of capital used in discounting the cashflows. In addition, we compared the sum of discounted cash flows in impairment tests to Tikkurila's market capitalization. We also assessed the sufficiency of the disclosures as well as whether the disclosures about the sensitivity of the impairment assessment are appropriate.
Valuation of inventories *The accounting principles and disclosures concerning trade receivables are disclosed in Notes 1, 2 and 19.* Valuation of inventories was a key audit matter because • the carrying value of inventories is material to the financial statements, and because • the assessment process regarding inventory obsolescence requires management judgment. As of 31 December 2019, the carrying value of inventories amounted to 85 million euros. The purpose of inventory obsolescence reserve calculated at the end of the reporting period is to adjust the value of inventory to correspond with the net realizable value. In accordance with the accounting principles as defined by the management of Tikkurila, the starting point of obsolescence assessment is inventory turnover calculation. Both the management of subsidiaries and the group management evaluate case-by-case the actual need for reserve and the actual amount of reserve based on internal policies and available operative information. The management evaluation may have significant impact on the amount of obsolescence reserve recognized in the financial statements.	Our audit procedures comprised • Assessment of Tikkurila's accounting policies over inventory valuation from IFRS standards' perspective. • Testing of internal processes regarding inventory valuation by comparing them to Tikkurila's internal policies. • Testing of accuracy of inventory turnover reports used as a starting point of inventory obsolescence reserve. • Assessment of judgmental adjustments made by the management of subsidiaries and group management through e.g. discussions and by obtaining understanding of the documentation supporting the adjustments. • In addition, we have carried out analytical procedures in respect of inventories and tested general ledger journal entries on a sample basis to identify abnormal entries.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director 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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the Annual General Meeting on 11 April 2019.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OTHER OPINIONS ON ASSIGNMENT OF THE BOARD OF DIRECTORS

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown on the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the Chief Executive Officer should be discharged from liability for the financial period audited by us.

Vantaa, 11 February 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Antti Suominen
Authorized Public Accountant

Shares and Shareholders

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

BREAKDOWN BY SHAREHOLDER CATEGORY ON DECEMBER 31, 2019

Private companies	19.4%
Financial and insurance institutions	7.3%
Public sector organizations	9.0%
Households	11.0%
Non-profit organizations	2.1%
Foreigners and Nominee registered	51.2%

TIKKURILA'S LARGEST SHAREHOLDERS ON DECEMBER 31, 2019

		Number of shares	% of share capital
1	Oras Invest Oy	7,969,552	18.1
2	Varma Mutual Pension Insurance Company	2,493,525	5.7
3	Mandatum Life Insurance Company Ltd.	1,684,991	3.8
4	Ilmarinen Mutual Pension Insurance Company	863,000	2.0
5	ODIN Finland	797,448	1.8
6	Kaleva Mutual Insurance Company	650,000	1.5
7	Nordea Nordic Small Cap Fund	468,594	1,1
8	The State Pension Fund	407,000	0.9
9	Pekka Paasikivi	195,241	0.4
10	Esr Seligson & Co Phoebus	178 973	0,4
	10 largest registered shareholders total	**15,708,224**	**35.7**
	Nominee registered shares	21,751,077	49.3
	Other shares	7,291,620	16.5
	Total	**44,108,252**	**100.0**

Lannebo Fonder from Sweden has on February 3, 2020, informed Tikkurila that on December 31, 2019, they owned in total 2,710,000 Tikkurila shares (6.14% of all shares). These shares are included in the nominee-registered shares category above.

BREAKDOWN OF SHARE OWNERSHIP ON DECEMBER 31, 2019

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	9,858	53.4	447,771	1.0
101–1,000	7,734	41.9	2,446,501	5.6
1,001–10,000	784	4.3	1,783,387	4.0
10,001–100,000	60	0.3	1,967,320	4.5
100,001–1,000,000	8	0.0	3,672,125	8.3
over 1,000,000	5	0.0	33,791,148	76.6
Total	**18,449**	**100.0**	**44,108,252**	**100.0**

Corporate governance statement 2019

1. INTRODUCTION

During 2019 Tikkurila Oyj (later referred to also as "Tikkurila" or "Group" both in relation to Tikkurila Oyj and the Group it forms) complied in full with the Finnish Corporate Governance Code that entered into force on January 1, 2016 (the "CG Code 2015"). As of January 1, 2020 Tikkurila, complies in full with the new Corporate Governance Code that entered into force on January 1, 2020 (the "CG Code 2020").

Tikkurila has prepared this corporate governance statement based on the CG Code 2020. This corporate governance statement is issued separately from the Board of Directors' report, and is also available on the website https://www.tikkurilagroup.com/, as well as is included in the 2019 Annual Review.

The CG Code 2015 and the CG Code 2020 are publicly available on the website of Securities Market Association's at www.cgfinland.fi/en.

General Principles and Framework

Tikkurila is a Finnish limited liability company with headquarters in Vantaa, Finland. Tikkurila shares are listed on the official list of Nasdaq Helsinki Ltd.

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

- Finnish Companies Act;
- Finnish Securities Market Act;
- Finnish Corporate Governance Code;
- Articles of Association of Tikkurila;
- regulations and guidelines issued by the Finnish Financial Supervision Authority and the European Securities and Markets Authority;
- rules and regulations of Nasdaq Helsinki Ltd;
- Helsinki Takeover Code, issued by the Securities Market Association; and
- other legislation or regulations applicable to Tikkurila's business.

Information about Tikkurila's governance practices is also available on the corporate website.

As a major part of Tikkurila's business is either directly or indirectly dependent on markets outside of the domicile of Tikkurila Oyj, relevant local (i.e. non-Finnish) laws and regulations are also complied with in Tikkurila's operations. Furthermore, Tikkurila has issued internal policies and guidelines where governance aspects are being instructed.

2. TIKKURILA'S GOVERNING BODIES

The following diagram summarizes the key governing bodies of Tikkurila:

The main duties of the Group's governing bodies are to major extent defined in the Finnish Companies Act.

Shareholders' Meeting

The General Meeting of Shareholders is the supreme decision-making body of Tikkurila Oyj, and the matters decided by the Shareholders' Meeting 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 General Meeting has decision-making power 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 on 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 CEO;
- any proposals by the Board of Directors or by the shareholders or group of shareholders related to e.g. authorizations granted to the Board, share buy-backs or granting of special rights related to shares; and
- any changes in the Articles of Association.

Tikkurila Oyj has one class of shares; therefore, all shares have equal voting rights at the General Meetings of Shareholders. A detailed information on the Annual General Meetings can be found in Tikkurila's Articles of Association, which are available on the company web page, https://www.tikkurilagroup.com/articles-of-association.

The decisions of the 2019 Annual General Meeting of shareholders are presented in the Board of Directors' report, and the meeting materials and key decisions are published on Tikkurila's web page. The Annual General Meeting for the year 2020 will be held on March 24, 2020.

Nomination Board

Tikkurila has a Nomination Board consisting of shareholders or representatives of shareholders to prepare and present to Annual General Meeting a proposal for the members and the chairman of Tikkurila's Board of Directors, as well as their remuneration. As defined in the Nomination Board's charter, representatives of the three largest shareholders in the shareholders' register maintained by Euroclear Finland Ltd as of the end of the month of April shall be represented in the Nomination Board. In addition, the Chairman of the Board of Directors of Tikkurila shall act as an expert member of the Nomination Board.

During 2019, the Nomination Board had the following members: Annika Paasikivi, Chief Executive Officer, Oras Invest Oy; Reima Rytsölä, Executive Vice President, Investments, Varma Mutual Pension Insurance Company; and Annika Ekman, Head of Direct Equity Investments, Ilmarinen Mutual Pension Insurance Company. Moreover, Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, acted as the expert member of the Nomination Board. During 2019, the Nomination Board had three (2018: 3) meetings, and the attendance rate was 100 (100) percent.

NOMINATION BOARD MEMBERS & MEETING ATTENDANCE IN 2019	
Member: Annika Paasikivi	3/3
Member: Reima Rytsölä	3/3
Member: Annika Ekman	3/3

Preparation Process for the Board nomination and the Diversity of the Board of Directors

The Nomination Board prepares and presents proposals for the General Meeting in relation to the number of the members of the Board, the composition of the Board, the Chairman and Vice Chairman of the Board, as well as the Board member's remuneration. When designing the composition of the Board of Directors, the Nomination Board of Tikkurila assesses the composition from the viewpoint of the company's current and future business needs, considering the diversity of the Board.

The diversity of the Board of Directors will be assessed from various viewpoints. Tikkurila's Board of Directors shall have sufficient and complementary experience and expertise in the key industries and markets relevant to Tikkurila's business. In addition, an essential element is the personal characteristics of a member.

Among others the following factors reflecting diversity are considered when electing Board members:

PROFESSIONAL EXPERTISE	PERSONAL CHARACTERISTICS
• knowledge of the company's value creation drivers	• education
• industry	• gender
• relevant markets	• age
• accounting and finance	• personality
• governance	• culture

The company has followed the CG Code 2015's recommendation and follows the CG Code 2020's recommendation on the composition of the Board of Directors, and the Board of Directors shall represent expertise in different industries and markets, diverse professional and educational background, diverse age distribution and both genders. Concerning gender diversity Tikkurila's objective is that both genders are represented in the Board by at least two members. Currently, the Board fulfills the diversity criteria.

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 Board of Directors has prepared a written charter for its work including the Board's main duties and working principles. The main duties of the Board include:

- to approve the company's strategy;
- to decide on long-term financial and operational goals;
- to approve major business plans;
- to decide on any major corporate restructuring, merger, acquisition or divestment;
- to decide on major investments as well as major expenses, commitments and internal policies;
- to decide on key funding and risk management issues and related pledges and commitments;
- to appoint and dismiss the CEO, and to confirm the appointment of Management Team members and their admissibility to company's incentive programs;
- to monitor and evaluate CEO's performance;
- 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 the General Meetings of Shareholders, including but not limited to propose the dividend payout for, and to convene the Annual General Meeting;
- to oversee that the Group's policies are applied; and
- to ensure that the supervision of the accounting and financial matters, and any related audits, are properly organized.

The Board of Directors represents all the shareholders and shall always work in the best interest and to the advantage of the Group and all the shareholders of Tikkurila.

In accordance with Tikkurila's Articles of Association, the Board of Directors comprises of a minimum of three and a maximum of seven members 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. The Board of Directors has a quorum when more than half of its members attend the meeting. The CEO and the CFO attend the Board meetings presenting the issues being discussed or decided upon, and the General Counsel acts as the Secretary of the Board.

During the financial year 2019, Tikkurila Oyj's Board of Directors had the following members:

MEMBER		MAIN OCCUPATION	SHARE OWNERSHIP IN TIKKURILA
Jari Paasikivi	Born 1954, M.Sc. (Econ.) Member of the Board 2008 -, Chairman 2010 -	CEO, Oras Invest Ltd, 2006 - 2018	82,159 shares*
Petteri Walldén	Born 1948, M.Sc. (Eng.) Member of the Board 2008 -, Vice Chairman 2010 -	Board professional 2010 -	11,022 shares
Lars Peter Lindfors	Born 1964, Ph. D. (Tech.), MBA Member of the Board 2019 -	Senior Vice President, Technology and Member of the Executive Committee in Neste Corporation, 2009 -	842 shares
Riitta Mynttinen	Born 1960, B.Sc (Chem.Eng.), MBA Member of the Board 2011 -	Board Professional 2014 -	6,956 shares
Catherine Sahlgren	Born 1962, M.Sc. (BA and Econ.) Member of the Board 2018 -	CEO, Werksta Group 2019 -	1,698 shares
Heikki Westerlund	Born 1966, M.Sc. (Econ.) Member of the Board 2018 -	Board professional 2017 -	1,909 shares **
Harri Kerminen	Born 1951, M.Sc. (Eng.), MBA. Member of the Board until April 2019	Board professional 2012 -	5,366 shares
Pia Rudengren	Born 1965, M.Sc. (BA & Econ.) Member of the Board until April 2019	Board professional 2006 -	7,278 shares

* In addition, Oras Invest Oy owned 7,969,552 Tikkurila's shares (18.1%) on December 31, 2019.
** In addition, Heiwes Oy, a company controlled by Heikki Westerlund, owned 10,000 Tikkurila's shares on December 31, 2019.

All of the Board members are independent of the company. Other members than Jari Paasikivi are independent of the major shareholders. Chairman of the Board, Jari Paasikivi, is the Chairman of the Board of Oras Invest Ltd, and hence not independent of the major shareholders, as Oras Invest Ltd owns approximately 18 percent of Tikkurila Oyj's shares.

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 CEO.

During 2019, the Board had 8 meetings (2018: 11) meetings, and the average attendance rate was 98 (2018: 100) percent.

Remuneration of the Board of Directors

In 2019, the Board's remuneration was the following:

- Chairman of the Board, EUR 64,000 per year;
- Vice Chairman of the Board and Chairman of the Audit Committee, EUR 40,000 per year; and
- other members of the Board, EUR 32,000 per year.

The annual remuneration of the Board members was paid as a combination of shares and cash so that approximately 40 percent of the annual remuneration was paid as Tikkurila shares acquired from the market, and 60 percent was paid in cash.

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

- EUR 600 per meeting held in the home state of a member; and
- EUR 1,200 per meeting held outside the home state of a member.

Moreover, EUR 600 was paid per telephone or video meeting. The meeting-specific fee was also paid for any committee meetings. Board members' travel expenses related to meetings were compensated in accordance with Tikkurila Group's travel policy.

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

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, internal control, audit processes, risk management, and for monitoring compliance with laws, regulations and internal policies.

Tikkurila's Audit Committee does not have any executive power. The Audit Committee's duties and responsibilities, as defined in the committee charter, include:

- to assess and oversee the preparation of financial statements, half-year financial reports and business reviews, as well as statutory non-financial reporting, and to review the results of the impairment testing of the assets;
- to assess risks and to review risk management policies and actions;
- to monitor and assess how agreements and other legal acts between Tikkurila and its related parties meet the requirements of the ordinary course of business and arm's-length terms;
- to evaluate Tikkurila's compliance with laws, regulations and Tikkurila's Code of Conduct, financial reporting principles as well as ESG and sustainability initiatives;
- to oversee the internal auditor's work, review the internal auditor's audit reports and monitor management's responsiveness to the internal auditor's findings and recommendations;
- to asses and confirm audit plans for both external and internal audit;
- to prepare the election of company's auditors;
- to pre-approve the non-audit services of the external audit firm, or to grant mandate to management to do so within pre-set limits;
- to monitor and evaluate the independence of the auditor and, in particular, the offering of services other than auditing services by the auditor as well as to monitor the auditing;
- to handle the auditor's report and possible audit minutes as well as the supplementary report presented by the auditor to the committee; and
- to review the corporate governance statement.

In 2019, Heikki Westerlund was elected as the Chairman of the Audit Committee. Riitta Mynttinen acted as the Audit Committee member for the full financial year, and Lars Peter Lindfors from April 11, 2019 onwards.

During 2019, the Audit Committee met seven (2018: 6) times. The attendance rate was 100 (100) percent. Tikkurila's principal auditor Toni Aaltonen was present in the meetings and presented reports to Audit Committee until April 2019. Antti Suominen from Ernst & Young was elected as Tikkurila's new principal auditor effective April 2019 and was present at the rest of the meetings in 2019. In addition, Tikkurila's internal auditor reported audit findings to the Audit Committee.

Remuneration Committee

According to its charter, the Remuneration Committee discusses and proposes the remuneration for Tikkurila's CEO and the members of Tikkurila Management Team, as well as any share-based incentive scheme. Tikkurila's Remuneration Committee prepares Tikkurila's remuneration policy and presents it to the Annual General Meeting.

In 2019 Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén was a member of the Committee. Harri Kerminen was also a member until April 2019. Riitta Mynttinen was nominated a member of the Committee from April 2019 onwards. During 2019 the Remuneration Committee met two times (2018: 5), and the average attendance rate was 100 (100) percent.

Summary of the Attendance to Board and Committee meetings and Remuneration of the Board of Directors, 2019

		Board of Directors	Audit Committee	Remuneration Committee	Total Gross Remuneration
Name	**Position**	**# of meetings attendance**	**# of meetings attendance**	**# of meetings attendance**	**EUR all fees total**
Harri Kerminen	Member (until April 11, 2019)	2/2			2,400
Riitta Mynttinen	Member	8/8	7/7	2/2	51,200
Jari Paasikivi	Chairman and Chairman of the Remunation Committee	8/8		2/2	71,800
Pia Rudengren	Member and Chairman of the Audit Committee (until April 11, 2019)	2/2	1/1		3,600
Catherine Sahlgren	Member	7/8			39,200
Heikki Westerlund	Member	8/8	7/7		50,800
Petteri Walldén	Vice Chairman	8/8		2/2	47,800
Lars Peter Lindfors	Member (since April 11, 2019)	6/6	6/6		39,800
		49/50 (98%)	21/21 (100%)	6/6 (100%)	306,600

Chief Executive Officer (CEO)
The Board of Directors appoints the CEO and decides upon his/her remuneration and other benefits. The CEO is in charge of the day-to-day management of Tikkurila. The CEO is responsible for the arrangement of the company's day-to-day administration and supervises that the accounts of the company are in compliance with the law and that the company's financial affairs have been arranged in a reliable manner. In addition, the 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 Finnish Companies Act.

The CEO may take measures that are considered unusual or extensive in view of the scope and nature of the company's business only with the authorization from the Board of Directors, unless the time required to obtain such authorization would cause substantial harm to the company. In the latter case, the Board of Directors shall be notified of the measures taken as soon as possible.

Elisa Markula has been the CEO of Tikkurila Oyj since April 12, 2018.

Tikkurila Management Team
Tikkurila's Management Team is chaired by the CEO, and it assists the CEO in the operative management and development of Tikkurila. The CEO proposes the appointment of the Management Team members, and the Board of Directors approves their appointment, as well as the admissibility to company's incentive schemes. The CEO of Tikkurila is responsible for decision making in such major matters that do not require decision of the Board of Directors.

The composition of Tikkurila Management Team is the following at the year-end 2019:
- Elisa Markula, CEO (Born 1966, M.Sc. Econ.)
- Markus Melkko, CFO from April 2019 on (Born 1975, M.Sc. (Tech.) B.Sc. (Econ.)
- Melisa Bärholm, Senior Vice President, Human Resources (Born 1967, M.Sc. Psychology)
- Fredrik Linde, Senior Vice President, Operations (Born 1971, M.Sc. (Eng.), eMBA)
- Meri Vainikka, Senior Vice President, Offering (Born 1971, M.Sc. (Econ.)
- Anders Rotkirch, Senior Vice President, Transformation and ICT (Born 1980, M.Sc. (Tech.)
- Oskari Vidman, Senior Vice President, Sales from May 2019 (Born 1976, M.Sc. (Econ.)

Remuneration of the Management members reporting directly to the CEO
Detailed information about the remuneration of the Group management is available in the separate Remuneration Statement.

3. AUDITING, INTERNAL CONTROL, RISK MANAGEMENT AND OTHER GOVERNANCE

Statutory Audit
According to the Articles of Association of Tikkurila Oyj, Tikkurila has one ordinary auditor which shall be an auditing firm approved by the Finnish Central Chamber of Commerce.

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 and participates in Audit Committee meetings.

Tikkurila has had a written pre-approval policy for non-audit services, in which the Audit Committee has been specified to govern this topic. The policy e.g. defines the services that may not at any circumstances be provided by the statutory auditor, and for those services that are permissible provided that pre-approval and reporting processes have been created.

The Annual General Meeting 2019 elected Ernst & Young Oy ("EY") as the new auditor. Ernst & Young Oy nominated Authorized Public Accountant Antti Suominen as the principal auditor.

The Audit Committee of the Board prepares the election process of auditors. The aggregate duration of the principal auditor cannot exceed seven years. The previous principal auditor, Toni Aaltonen from KPMG Oy Ab had started in the role of the principal auditor in 2012, and therefore the seven-year tenure for Toni Aaltonen was reached at the Annual General Meeting in April 2019.

During 2019 the Group had a total of EUR 466,000 (2018: EUR 447,000) statutory audit related expenses, EUR 390,000 by EY and EUR 76,000 by KPMG, and EUR 6,000 (EUR 18,000) expenses for other services provided by KPMG. During the financial year 2019, the Group companies purchased additional audit services from other audit companies than EY and KPMG for a total of EUR 17,000 (36,000).

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
- reliability, timeliness and transparency 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 Audit Committee is responsible for organizing the internal control and determines the operating principles for internal control.

The main components of internal control are:
- management and organizational culture;
- risk assessment;
- control activities;
- reporting and communication; and
- monitoring and auditing.

Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control. Tikkurila's Values, Code of Conduct and group-level policies provide the basis for corporate governance and internal control in the company. Every employee has the right and duty to report to Group Internal Audit, or anonymously via Tikkurila's whistleblowing -system, any violations of the law and the company policies.

Financial Reporting Process
Every Tikkurila Group subsidiary reports on a monthly basis their income statement, balance sheet, cash flow statement and forward-looking estimates and forecasts in accordance with IFRS principles and based on pre-set reporting model, Group finance manual and timetable. Moreover, each subsidiary reports additional notes to the income statement and balance sheet, as well as their off-balance sheet liabilities, at the end of each quarter. The parent company consolidates all subsidiary reports and generates consolidated and segment reporting, which is the basis for monthly reporting to the Board of Directors and to the Group management.

Subsidiaries' reporting timetable is followed on a daily basis. Local and group controllers are responsible for ensuring that reporting is timely and correct. In addition, business controllers at countries and at functions analyze historical and forward-looking reporting. Group management and functional management regularly visits the business units. The financial reporting of each Group company is one part of top management reporting, and hence under regular follow-up.

Internal Audit

The internal audit provides an 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 Audit Committee has confirmed the Internal Audit Charter for Tikkurila. The purpose is to evaluate and contribute to the improvement of risk management, internal control and governance systems in the Group. The internal audit function has the complete and unrestricted access to all activities of Tikkurila. Internal audit focuses on both regular business unit auditing as well as business process audits. Annual internal audit plans are based on the assessment of each topic's importance and risks for Tikkurila and confirmed by the Audit Committee. Internal audit and statutory audit regularly co-operate and share information.

Tikkurila has an internal audit function consisting of an in-house internal auditor who reports to the Audit Committee of the Board of Directors.

Risk Management

Risk management is part of Group's strategic and operational planning, and it also is linked to internal control activities. Tikkurila's risk management is based on Tikkurila's risk management policy. There are also other internal policies defining in more detail the goals, segregation of duties, authorities and risk limits of the management.

The Board of Directors of Tikkurila Oyj decides on the key risk management principles and approves the risk management policy, and the Audit Committee of the Board has an oversight role to assist the Board to control the risk management processes. Tikkurila's Management Team and the Group's functions are in charge of the risk management inside their own scope of activities.

Tikkurila systemically assesses and manages the key strategic, operational, financial and hazard risks. The results and outcome of the risk management process is regularly reported internally and externally, as part of Tikkurila Oyj's statutory reporting. The main principle is to have a systematic risk management process in place, so that the company can define and attain an optimal total risk level in relation to its risk tolerance while at the same time ensuring continuity of the business.

More detailed information about the risks relevant to Tikkurila is presented at the Board of Directors' Report, which is part of the official financial statements for financial year 2019.

Management of Insider Issues

Tikkurila has organized its insider administration according to the Market Abuse Regulation and applicable national law, including Nasdaq Helsinki Ltd's Guidelines for Insiders and the Finnish Financial Supervisory Authority's regulations and guidance. Tikkurila's insider instructions and procedures relate, inter alia, to disclosure requirements, management and supervision of inside information, notification and disclosure of transactions of managers and persons closely associated with them as well as maintenance of relevant insider lists.

Tikkurila does not maintain a list of permanent insiders. All persons involved in insider projects will be included in project-specific insider lists.

Managers in Tikkurila and persons closely associated with them (as defined in relevant regulations) have the obligation to notify the company and the Finnish Financial Supervisory Authority of transactions with Tikkurila's financial instruments.

Tikkurila has determined the following persons as managers:

- Members of the Board of Directors;
- CEO; and
- CFO.

Managers and recipients of financial information are prohibited from trading, directly or indirectly, in the company's financial instruments during the period that starts at the end of a reporting period and lasts until the publication of the following half-year report, business review (Q1 and Q3) or financial statement bulletin; and in any way, these limitations start at least 30 days prior to the announcement of such information. Furthermore, it is recommended that the managers and recipients of financial information trade in company shares only at a time when the market has the fullest possible information on circumstances influencing the value of the company's share (e.g. after the publication of results).

Management of Related Party Issues

Tikkurila's Board of Directors has approved a specific group-level policy on related party transactions, which governs the management and reporting on related party transactions and defines the principles concerning the monitoring and evaluating of related party transactions.

The Audit Committee monitors and assesses how agreements and other legal acts between Tikkurila and its related parties meet the requirements of ordinary activities and arm's-length terms in accordance with applicable laws and regulations. The Group financial management monitors and supervises related party transactions as part of Tikkurila's normal reporting and monitoring procedures and reports to the Audit Committee on regular basis.

Tikkurila also maintains a list of related parties.

The decision-making processes have been structured in order to avoid conflicts of interest. In case Tikkurila would have any related party transactions that are not part of Tikkurila's ordinary course of business or are not implemented under arm's-length terms, such transactions shall be handled by the Audit Committee and approved by the Board of Directors.

As a general rule, transactions with related parties are carried out in the ordinary course of business and under arm's-length terms, and potential conflicts of interest shall be avoided.

Further information regarding related party transactions is provided in the notes to the financial statements.

4. MORE DETAILED INFORMATION ABOUT THE MEMBERS OF THE BOARD OF DIRECTORS AND OF TIKKURILA MANAGEMENT TEAM

Information on the members of the Board of Directors

Jari Paasikivi
Born 1954, M.Sc. (Econ.)

Chairman of the Board since 2010,
Vice Chairman of the Board 2008-2010
Chairman of the Remuneration Committee since 2012
Expert member of the Nomination Board since 2011
Independent of the company, not independent of a significant shareholder
Finnish citizen
Tikkurila shares on Dec 31, 2019: 82,159 shares (Dec 31, 2018: 80,475)

Career history
- President and Chief Executive Officer, Oras Ltd, 2002-2007
- Managing Director, Oras Ltd, 1994–2001
- Plant Director, Oras Ltd, 1989–1994

Positions of trust
- Kemira Oyj, Vice Chairman of the Board of Directors since 2012, Chairman of the Board of Directors since 2014
- Kemira Oyj, Member of the Nomination Committee since 2009
- Oras Ltd, Member of the Board of Directors since 1982, Chairman of the Board of Directors since 2013
- Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Directors 2014–2016, Chairman of the Board of Directors since 2017

Lars Peter Lindfors (Member since April 11, 2019)
Born 1964, Ph.D. (Tech.), MBA

Member of the Board since 2019
Member of the Audit Committee since 2019
Independent Board Member
Finnish citizen
Tikkurila shares on Dec 31, 2019: 842 shares

Career history
- Senior Vice President, Technology and Member of the Executive Committee in Neste Corporation, 2009–
- Senior Vice President, Technology and Strategy in Neste Corporation, 2009–2012
- Vice President, R&D in Neste Corporation, 2007-2009
- Executive Vice President, Renewal and Development and Member of the Executive Team, Perstorp Group, 2001–2007
- Various positions in Neste since 1989

Positions of trust
- Board Member, Fortum Foundation, 2012–

Petteri Walldén
Born 1948, M.Sc. (Eng.)

Vice Chairman of the Board since 2010, Member of the Board since 2008
Member of the Remuneration Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2019: 11,022 (Dec 31, 2018: 9,969)

Career history
- President & CEO, Alteams Oy, 2007–2010
- President & CEO, Onninen Oy, 2001–2005
- President & CEO, Ensto Ltd, 1996–2001
- President, Nokia Cables, 1990–1996
- President & CEO, Sako Ltd, 1987–1990

Positions of trust
- Componenta Oyj, Chairman of the Board of Directors since 2017
- Savonlinna Opera Festival Patrons' Association, Chairman of the Board of Directors since 2015
- Kuusakoski Group Oy, Member of the Board of Directors since 2007
- Savonlinna Opera Festival Ltd., Chairman of the Board of Directors since 2015
- Alteams Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors since 2006

Riitta Mynttinen
Born 1960, B.Sc. (Chem. Eng.), MBA

Member of the Board since 2011
Member of the Audit Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2019: 6,956 (Dec 31, 2018: 6,114)

Career history
- Vice President, Minerals Technologies Inc., 2005–2014
- Director, Rohm and Haas Company, 1998–2005
- Director, Ferro Corporation, 1996–1998
- Manager, Rohm and Haas Company, 1987–1996
- Research Chemist, NIF, 1986–1987
- Research Chemist, Tikkurila Oy, 1984–1986

Positions of trust
- Boreal Plant Breeding Ltd., Chairman of the Board since 2016
- Terrafame Ltd., Member of the Board since 2018

Catherine Sahlgren
Born 1962, M.Sc. (BA and Econ.)

Member of the Board since 2018
Independent Board Member
Swedish citizen
Tikkurila shares on Dec 31, 2019: 1698 (Dec 31, 2018: 856)

Career history
- CEO, Weksta Group 2019–
- CEO, Teknikmagasinet AB since 2016–2019
- Managing Director Northern Europe, Selecta Group 2006–2016
- Managing Director, Nordic Area, Selecta Group 2004–2006
- Managing Director, Scandinavia, Selecta Group 2001–2004
- Chief Executive Officer, Euroseek.com 2000–2001
- Managing Director, Pressbyrån 1998–2000

Positions of trust
- Future, Member of the Board of Directors since 2015
- Bringwell International, Member of the Board 2010–
- Arkitektkopia, Member of the Board of Directors since 2006

Heikki Westerlund
Born 1966, M.Sc. (Econ.)

Member of the Board since 2018
Member of the Audit Committee since 2018, Chairman of the Audit Committee since April 2019
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2018: 1,909 (Dec 31, 2018: 856)

Career history
- CEO, CapMan Plc, 2013–2017
- Chairman, CapMan Plc, 2010–2013
- CEO, CapMan Plc, 2005–2010
- Head of CapMan Buyout team, 2002–2005

Positions of trust
- Kemppi Oy, Member of the Board of Directors since 2018
- Duuri Oy, Member of the Board of Directors since 2018
- Orion Oyj, Chairman of the Board of Directors since 2017

Pia Rudengren (Member until April 11, 2019))
Born 1965, M.Sc. (BA & Econ.)

Member of the Board since 2009
Member of the Audit Committee since 2010, Chairman from April 4, 2017
Independent Board member
Swedish citizen
Tikkurila shares on April 11, 2019: 7,278 (Dec 31, 2018: 7,278)

Career history
- Executive Vice President, W Capital Management AB, 2001-2005
- Chief Financial Officer, Member of the Management Group, Investor AB, 1998–2001

Positions of trust
- WeMind AB, Member of the Board of Directors since 2017
- AcadeMedia AB, Member of the Board of Directors since 2017
- Boliden AB, Member of the Board of Directors since 2017
- Kappahl AB, Member of the Board of Directors since 2013
- Social Initiative Norden AB, Member of the Board of Directors since 2008, Chairman of the Board of Directors since 2011
- Duni AB, Member of the Board of Directors since 2007

Harri Kerminen (Member until April 11, 2019)
Born 1951, M.Sc. (Eng.), MBA

Member of the Board since 2012
Member of the Remuneration Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on April 11, 2019: 5,366 (Dec 31, 2018: 5,366)

Career history
- President and CEO, Kemira Oyj, 2008-2012
- President, Kemira Pulp & Paper business area of Kemira Oyj, 2006–2007
- President, Kemira Specialty business area, 2000–2006
- Managing Director, Kemira Pigments Oy, 2002–2003
- Vice President, Human Resources, Kemira Chemicals Oy, 1996–2000
- Manager, Oulu plant of Kemira Oyj, 1994–1996
- Production Manager, Kemira Kemi AB, 1990
- Project Manager, plant construction projects in Finland, Sweden, Belgium and the US, Kemira Oy/Kemira Oyj, 1989–1994

Positions of trust
- Spinverse Group, Chairman of the Board of Directors since 2015
- SK Spice Holdings S.A.R.L, Member of the Board of Directors since 2015
- LUT, Lappeenranta University of Technology, Member of the Advisory Board since 2015
- Harjavalta Oy, Member of the Board of Directors since 2014
- Magsort Oy, Chairman of the Board of Directors since 2014
- Metgen Oy, Chairman of the Board of Directors since 2012
- Normet Oy, Member of the Board of Directors since 2012

Jari Paasikivi

Lars Peter Lindfors (since April 11, 2019)

Petteri Walldén

Riitta Mynttinen

Catherine Sahlgren

Heikki Westerlund

Pia Rudengren (until April 11, 2019)

Harri Kerminen (until April 11, 2019)

INFORMATION ON THE MEMBERS OF THE TIKKURILA MANAGEMENT TEAM

Elisa Markula
Born 1966, M.Sc. (Econ.)
Chief Executive Officer (CEO)

Chairman of the Tikkurila Management Team since April 12, 2018
Finnish citizen
Tikkurila shares on Dec 31, 2019: 0 (Dec 31, 2018: 0)

Career history
- Senior Vice President, Paulig Group, Managing Director, Oy Gustav Paulig Ab (Coffee division) 2010–2018
- Country Manager, Oy Suomen LEGO Ab (Finland) 2006–2009
- Sales Director, Oy Snellman Ab 2003–2006
- Key Account Manager and Trade Marketing Manager, Oy SCA Hygiene Products Ab 2000–2003
- Brand Manager, Oy SCA Hygiene Products Ab 1998–1999
- Area Marketing Manager, Fazer Chocolates Ltd 1993–1998

Positions of trust
- Olvi Oyj, Member of the Board, since 2015
- The Association of Finnish Advertisers (Mainostajien liitto), Member of the Board, since 2014
- The Chemical Industry Federation of Finland, Member of the Board, since 2018
- Finnish-Russian Chamber of Commerce (FRCC), Member of the Board, since 2018
- Association of Finnish Paint industry (VTY), Member of the Board, since 2018

Markus Melkko (Member since April 11, 2019)
Born 1975, M.Sc. (Tech.) B.Sc. (Econ.)
Chief Financial Officer (CFO)

Member of Tikkurila Management Team from April 11, 2019
Finnish citizen
Joined Tikkurila in 2019
Tikkurila shares on Dec 31, 2019:0

Career history
- Vice President, Business Control, Tikkurila Oyj, 2019–
- CFO, Unisport Saltex, 2017–2019
- CFO, Ekokem Oyj, 2015–2017
- EVP, Cleantech Industries Global N.V., 2014–2015
- Vice President, Strategy and Business Development, Fazer Food Services
- Vice President, Business Controlling and Manager, Strategy, Outokumpu Oyj
- Director, Business Development, Loparex
- Director, Business Development, Itella Oyj

Positions of trust
- Bang & Bonsomer Group Oy, Member of the Board of Directors since 2019

Melisa Bärholm
Born 1967, M. Sc. (Psychology)
Senior Vice President, Human Resources

Member of Tikkurila Management Team since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017
Tikkurila shares on Dec 31, 2019: 2,000 (Dec 31, 2018: 2,000)

Career history
- HR Director, Tikkurila, BU Finland 01/2017–04/2017
- Founder & Consultant, MBM Coaching Oy, 2014–2016
- Vice President, HR, Rovio Entertainment Ltd, 2012–2014
- HR Director, Suunto Oy, 2007–2011
- HR Director, Sako Oy, 2004–2007
- HR Director, Itella Oyj, 2002–2004
- Development Manager, Nokia Oyj, 1999–2002
- HR Consultant, Nokia Networks, 1996–1999

Fredrik Linde
Born 1971, M.Sc. (Eng), eMBA
Senior Vice President, Operations

Member of Tikkurila Management Team since June 1, 2018
Swedish citizen
Joined Tikkurila in 2009
Tikkurila shares on Dec 31, 2019: 0 (Dec 31, 2018: 0)

Career history
- Vice President, Supply Chain Planning, Tikkurila Oyj 2017-2018
- General Manager, Kefa Drytech AB (acquired by Tikkurila in 2014), 2014-2016
- Vice President, Supply Chain Scandinavia, Tikkurila Oyj/Tikkurila Sverige AB 2010–2017
- Vice President, Head of Production & Logistics, Alcro-Beckers AB 2009-2010
- Director, API Production, AstraZeneca Sweden 2008-2009
- Associate Director, API Production, AstraZeneca Sweden 2007-2008

Meri Vainikka
Born 1971, M.Sc. (Econ.)
Senior Vice President, Offering

Member of Tikkurila Management Team since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017
Tikkurila shares on Dec 31, 2019: 2,000 (Dec 31, 2018: 2,000)

Career history
- Marketing and Communications Director, Tikkurila, BU Finland, 01/2017-04/2017
- Marketing Director, Non-alcohol drinks, Hartwall Oy, 03/2016–12/2016
- Marketing Director, Alcohol drinks, Hartwall Oy, 2015–2016
- Marketing Manager, Hartwall Oy, 2012–2014
- Marketing Manager, L'Oréal Finland Oy, 2010–2012
- Marketing Manager, Mars Finland Oy, 2008–2010 and 1998–2003
- Program Manager, South Karelia University of Applied Sciences, Business Administration 2004-2008

Anders Rotkirch
Born 1980, M. Sc. (Tech.)
Senior Vice President, Transformation and ICT

Member of the Management Team since January 1, 2019
Finnish citizen
Joined Tikkurila in 2019
Tikkurila shares on Dec 31, 2019: 0

Career history
- Finance Director, Coffee Division of Paulig Group, 2015–2018
- Group Business Controller, Paulig Group, 2013–2015
- Business Controller, Paulig Group, 2011–2013
- Manager, Ernst & Young, Advisory Services, 2011
- Senior Consultant, Ernst & Young, Advisory Services, 2010–2011
- Consultant, Ernst & Young, Advisory Services, 2007–2009

Oskari Vidman (since May 2019)
Born 1976, M.Sc. (Econ.)
Senior Vice President, Sales

Member of the Management Team since May 2019
Finnish citizen
Joined Tikkurila in 2019
Tikkurila shares on Dec 31, 2019: 0

Career history
- Chief P&M Officer, Cloetta Group Sweden 04/2018–04/2019
- Sales Director, Cloetta Finland Oy 10/2015–03/2018
- Head of Trade, Sweden and Norway, British American Tobacco Sweden A/S 02/2014–09/2015
- Country Manager, British American Tobacco Norway 02/2012–02/2014
- Various managerial sales positions in British American Tobacco since 2002

Petri Miettinen (Member until April 30, 2019)
Born 1968, M.Sc. (Econ.)
Senior Vice President, Sourcing since June 1, 2018

Member of Tikkurila Management Team since 2007
Finnish citizen
Joined Tikkurila in 2007

Career history
- Senior Vice President, Operations, from May 1, 2017, until May 30, 2018, Tikkurila
- Senior Vice President, Supply Chain Management & HSEQ since 2007 until April 30, 2017, Tikkurila
- Vice President, Sourcing and Logistics, Marine business, ABB, 2002–2007
- Vice President, controlling (in addition to normal duties), Marine business, ABB, 2003–2004
- Business Controller, Marine business, ABB, 2000–2002
- Controller, Project Manager, Electric Machine business, ABB, 1997–2000

Positions of trust
- Katu-Karhu Oy, Member of the Board since 2016

Jukka Havia (Member until April 11, 2019)
Born 1968, M.Sc. (Econ.)
Chief Financial Officer (CFO) since 2010

Member of Tikkurila Management Team since 2010
Finnish citizen
Joined Tikkurila in 2010
Tikkurila shares on April, 2019: 14,000 (Dec 31, 2018: 14,000)

Career history
- Deputy Chief Executive Officer, Ruukki Group plc., 2008–2010
- Chief Financial Officer, Ruukki Group plc., 2005–2008
- Director of Finance, Student Union of the Helsinki School of Economics, 2001–2005
- Managing Director, KY-Palvelu Oy, 2001–2005
- Financial Director, RSL Com Finland Oy, 1997–2001
- Controller, Oy Canon Ab, 1995–1997

Positions of trust
- Lapti Group Oy, Member of the Board of Directors since 2017
- Leipurin Oyj, Member of the Board of Directors since 2014
- Student Union of Aalto University, Member of the Finance Committee 2010–2018, Chairman 2016–2018


Elisa Markula


Markus Melkko (since April 11, 2019)


Melisa Bärholm


Fredrik Linde


Meri Vainikka


Anders Rotkirch


Oskari Vidman (since May 2019)


Petri Miettinen (until April 30, 2019)


Jukka Havia (until April 11, 2019)

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