



TIKKURILA

Half year financial report

January–June 2020

Tikkurila Oyj, Half year financial report, July 24, 2020 at 11:00 a.m. (EEST)

Tikkurila Half year financial report for January–June 2020

Tikkurila's profitability clearly improved in Q2/2020

Original guidance for profitability restored, no guidance for revenue

April–June 2020 highlights

- Revenue increased by 1.3 percent to EUR 171.8 (169.7) million. Comparable revenue* increased by 4.6 percent.
- Operating result (EBIT) increased by 56.2 percent to EUR 33.1 (21.2) million and was 19.3 (12.5) percent of revenue.
- Adjusted operating result increased by 49.2 percent to EUR 34.7 (23.2) million and was 20.2 (13.7) percent of revenue.
- EPS increased by 67.6 percent to EUR 0.61 (0.37).
- Tikkurila restores original guidance for adjusted operating profit for 2020 but will not give guidance for revenue due to expected fluctuations in demand.

January–June 2020 highlights

- Revenue increased by 2.0 percent to EUR 304.8 (298.8) million. Comparable revenue* increased by 4.2 percent.
- Operating result (EBIT) increased by 43.3 percent to EUR 41.7 (29.1) million and was 13.7 (9.7) percent of revenue.
- Adjusted operating result increased by 37.6 percent to EUR 43.2 (31.4) million and was 14.2 (10.5) percent of revenue.
- EPS increased by 30.9 percent to EUR 0.70 (0.53).

* *Comparable revenue excludes currency effects, divestments and closures.*

Outlook

Guidance for 2020

- Due the strong first half, Tikkurila has decided to restore its original profitability guidance for 2020: Full year adjusted operating result is expected to continue to improve (2019: EUR 46.4 million).
- Tikkurila will not give guidance for the revenue for 2020 due to expected fluctuations in demand in all segments.

Assumptions behind the guidance

Tikkurila withdrew its guidance for 2020 on 27 March 2020 due to increased uncertainty and weakened visibility, as the global coronavirus pandemic (Covid-19) and the related local restrictions were rapidly changing Tikkurila's business environment.

During the second quarter, demand fluctuated rapidly and significantly in Tikkurila's core markets but, overall, the quarter and first half year were strong. The various impacts of Covid-19 on Tikkurila during the second quarter have been described in more detail under relevant segments of this half year financial report.

However, uncertainties remain concerning the development of demand for paint as well as the general macroeconomic development. Tikkurila expects demand for decorative paints to normalize after the exceptionally strong end of the second quarter. Also, even if the recovery was also visible in the professional and industry paints at period-end, these businesses are expected to continue to be impacted by the forecasted negative GDP development in all key markets. In decorative paints, customers place their orders at a relatively short notice. Thus, any forecasting can only be done based on current demand and visibility remains weak.

Elisa Markula, CEO

During the second quarter, demand fluctuated rapidly and substantially in Tikkurila's core markets. Still, due to the rapid recovery experienced towards the end of the quarter, with revenue growing by 24 percent in June, Tikkurila's performance during the second quarter was strong.

Adjusted operating result improved 49 percent to EUR 34.7 million, driven by exceptionally high sales in the consumer driven DIY business in all Tikkurila's core markets towards the end of the quarter. Profitability also increased thanks to our strong margin management, continued efficiency improvements and strictly executed temporary short-term savings. Improved profitability was reflected in our cash flow.



Revenue increased by 1 percent, and by 5 percent in local currencies in the second quarter. In April, sales declined in all markets as governments began to impose restrictions on the movement of people to slow down the spread of the Covid-19 pandemic. However, a rapid consumer-lead recovery started from May onwards in decorative paints. The recovery was strongest in Finland and in Sweden, where demand especially for exterior paints was extraordinarily high, while Poland grew in all decorative segments. In Russia, restrictions were stricter – curfews were imposed in major cities and most shops were closed until end of May – and lasted longer. Thus, the recovery there started later, but in June our sales were in double-digit growth in Russia.

Half of our sales comes from consumers, with the other half coming from professionals and industry customers. As expected, professional and industry businesses were negatively impacted by Covid-19 pandemic during the quarter, but the decline in both remained in single digits. Revenue continued to increase in the more locally driven wood industry paints, whereas revenue from metal industry paints decreased, driven by generally soft demand. Among professional customers, demand clearly recovered in June, especially in Poland, Sweden and Finland.

Overall, our profitability was strong during the first half year, which prompted us to restore our original guidance for adjusted operating result for 2020. Still, our visibility into revenue development during the rest of the high-season, and beyond, is low. In decorative paints, we expect the exceptionally high consumer demand to normalize.

Key figures

EUR million	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Revenue	171.8	169.7	+1.3%	304.8	298.8	+2.0%	563.8
Comparable revenue growth*			+4.6%			+4.2%	+1.4%
Operating result (EBIT)	33.1	21.2	+56.2%	41.7	29.1	+43.3%	43.9
Operating result (EBIT) margin, %	19.3%	12.5%		13.7%	9.7%		7.8%
Adjusted operating result	34.7	23.2	+49.2%	43.2	31.4	+37.6%	46.4
Adjusted operating result margin, %	20.2%	13.7%		14.2%	10.5%		8.2%
Result before taxes	34.3	20.9	+64.2%	39.1	30.6	+27.7%	44.2
Net result for the period	27.0	16.1	+67.5%	30.8	23.5	+30.9%	33.2
Earnings per share (EPS), EUR	0.61	0.37	+67.6%	0.70	0.53	+30.9%	0.75
Interest-bearing net liabilities (at period-end)				96.9	151.8	-36.2%	78.4
Total equity (at period-end)				173.8	161.1	+7.8%	171.9
Total assets (at period-end)				561.8	530.3	+5.9%	437.1
Equity ratio, %				30.9%	30.4%		39.3%
Gearing, %				55.8%	94.2%		45.6%
ROCE, %, rolling				20.5%	12.2%		15.4%
Cash flow after capital expenditure	11.4	-12.0	+194.9%	-5.9	-30.1	+80.2%	52.7

* Comparable revenue excludes currency effects, divestments and closures.

Press conference and live webcast

CEO Elisa Markula will present the results in English for investors, analysts and the media in a live webcast, which starts at 1:00 p.m. (EEST). CFO Markus Melkko will join the Q&A session.

Webcast

<https://tikkurila.videosync.fi/2020-q2-result>

Dial-in

Questions can only be asked via dial-in.

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- Sweden: +46 856 642 651
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- United States: +1 631 913 1422
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An on-demand version of the webcast will be available on our webpage later the same day. The report and related presentation material will be available before the press conference at <http://www.tikkurilagroup.com/investors>.

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Sustainable Nordicness

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

www.tikkurilagroup.com

Tikkurila Oyj Half year financial report January 1 – June 30, 2020

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

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

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

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

Tikkurila's reporting segments are SBU West and SBU East. SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Estonia, Latvia, and Lithuania. SBU East consists of Russia, Central Asia, and China. Furthermore, SBU East is responsible for the exports to more than 30 other countries. 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 and 2020.

Financial performance

April–June 2020 (Q2)

EUR million	Revenue			Operating result (EBIT)			Adjusted operating result		
	4-6/2020	4-6/2019	Change %	4-6/2020	4-6/2019	Change %	4-6/2020	4-6/2019	Change %
Consolidated Group	171.8	169.7	+1.3%	33.1	21.2	+56.2%	34.7	23.2	+49.2%
Comparable revenue growth*			+4.6%						
SBU West	119.4	107.5	+11.1%	25.0	14.8	+69.0%	25.3	14.8	+70.8%
Comparable revenue growth*			+13.1%						
SBU East	52.4	62.2	-15.6%	9.7	7.7	+25.1%	11.0	9.8	+12.1%
Comparable revenue growth*			-10.0%						
Group common and eliminations	-0.1	0.0	-5,300.0%	-1.6	-1.3	-16.8%	-1.6	-1.3	-16.2%

* Comparable revenue excludes currency effects, divestments and closures.

January–June 2020 (H1)

EUR million	Revenue			Operating result (EBIT)			Adjusted operating result		
	1-6/2020	1-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-6/2020	1-6/2019	Change %
Consolidated Group	304.8	298.8	+2.0%	41.7	29.1	+43.3%	43.2	31.4	+37.6%
Comparable revenue growth*			+4.2%						
SBU West	216.4	204.7	+5.7%	35.4	25.3	+39.8%	35.7	25.4	+40.4%
Comparable revenue growth*			+7.3%						
SBU East	88.5	94.1	-6.0%	8.7	7.0	+23.8%	10.0	9.1	+10.1%
Comparable revenue growth*			-2.7%						
Group common and eliminations	-0.1	0.0	-2,600.0%	-2.5	-3.3	+24.8%	-2.5	-3.1	+19.9%

MAIN DRIVERS DURING 4–6/2020 (Q2)

Tikkurila's total revenue in Q2/2020 was EUR 171.8 (169.7) million, which is an increase of 1.3% on the previous year. In comparable terms*, revenue increased by 4.6 percent.

* Comparable revenue excludes currency effects, divestments and closures.

Despite the restrictions, Tikkurila remained fully operational throughout the first half year, except for the temporary closing of production in Russia between March 30 and April 7 due to nationally imposed restrictions.

During the quarter, demand fluctuated rapidly and significantly in most of Tikkurila's core markets. Initially, revenue started to decline in April as governments began to impose restrictions on the movement of people to slow down the spread of the Covid-19 pandemic. The decline was strongest in countries where the demand impacts of the national lockdowns were more severe – such as in Russia and China – and more moderate in Poland and Finland. In Sweden, restrictions had only a minor impact on demand during the quarter. In May, demand in all core markets again started to recover, and by June, all main business units showed strong revenue growth.

Fluctuation in revenue

	Total revenue growth, as % of comparison period Q2/2020 vs Q2/2019
April	-16%
May	-2%
June	+24%

The recovery was driven by decorative paints. By the end of the quarter, especially the strong DIY demand for premium paints helped more than offset the slow sales in beginning of the quarter. In professional paints, business also recovered by the end of the quarter, but the steepness of the initial decline caused quarterly revenue in this business to decline, though the decline remained in single digits.

In industry paints, revenue expectedly declined, but the decline was in single digits during the quarter. Overall performance in industry paints was mixed as revenue from the wood industry increased while revenue from the metal industry decreased.

Currencies had a clear negative impact on revenue during the quarter. The weakening Russian Ruble amplified the revenue decline in SBU East, whereas the Polish Zloty and the Swedish Krona had a negative impact on growth in SBU West.

Operating result increased due to the exceptionally good performance in the consumer driven DIY business in all Tikkurila's core markets towards the end of the quarter. Profitability improvement was additionally driven by continued efficiency improvements, as well as temporary short-term savings executed during the quarter.

OVERVIEW OF 1–6/2020 (H1)

Tikkurila's total **revenue** in January–June was EUR 304.8 (298.8) million, which is an increase of 2.0 percent on the previous year. In comparable terms, revenue increased by 4.2 percent. During the first half year, revenue growth was driven by SBU West where consumer demand picked up in the second quarter due to the Covid-19. In SBU East, the negative demand impacts of the Covid-19 related restrictions during the second quarter offset the strong first quarter, despite the later demand recovery in June.

Operating result increased, as the continued positive development with price/mix was supported by exceptionally good performance in the consumer driven DIY business in all Tikkurila's core markets, towards the end of the second quarter. Profitability improvement was additionally driven by continued efficiency improvements, as well as the temporary short-term savings executed during the second quarter.

In the adjusted operating result, main items affecting comparability were as follows during the first half year:

- Q2/2020: Costs related to the closing of a small solvent-borne industrial paint production unit in Russia (EUR -1.3 million) impacted SBU East (as communicated in April 29, 2020).
- Q2/2019 (comparison period): Cost related to the cancelled factory project (EUR -1.8 million) in Russia (as communicated in April 25, 2019) impacted SBU East.

Effects of various factors on revenue for the Group

	4–6 (Q2)		1–6 (H1)	
	EUR million	%	EUR million	%
Revenue in 2019	169.7		298.8	
Volume	+0.5	+0.3%	-1.4	-0.5%
Price/mix	+7.2	+4.3%	13.9	+4.6%
Currencies	-5.6	-3.3%	-6.5	-2.2%
Divestments and closures	0.0	0.0%	0.0	0.0%
Revenue in 2020	171.8	+1.3%	304.8	+2.0%

MAIN DRIVERS, 4–6/2020 (Q2)

The **volume** shift from SBU East to SBU West resulted in a slight positive overall volume impact on revenue. Sales of premium brands increased, whereas volumes of private labels and cheaper economy paints declined as planned.

The strong positive effect from **price/mix changes** was driven by the increasing share of premium products as well as price increases implemented since the comparison period.

The overall impact of all key **currencies** on revenue was negative in the second quarter, especially in SBU East.

Financial performance by reporting segments

SBU West

EUR million	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Revenue	119.4	107.5	+11.1%	216.4	204.7	+5.7%	370.0
Comparable revenue growth*			+13.1%			+7.3%	
Operating result (EBIT)	25.0	14.8	+69.0%	35.4	25.3	+39.8%	30.4
Operating result (EBIT) margin, %	20.9%	13.8%		16.4%	12.4%		8.2%
Adjusted operating result	25.3	14.8	+70.8%	35.7	25.4	+40.4%	30.7
Adjusted operating result margin, %	21.1%	13.7%		16.5%	12.4%		8.3%
Capital expenditure	3.4	2.9	+15.9%	6.0	5.8	+4.7%	12.6

* Comparable revenue excludes currency effects, divestments and closures.

Revenue in key countries

EUR million	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Sweden	38.2	35.3	+8.3%	69.2	66.5	+4.1%	118.7
Finland	33.5	28.4	+17.9%	61.1	55.0	+11.1%	91.1
Poland	25.7	23.7	+8.5%	47.1	47.3	-0.2%	89.4

MAIN DRIVERS, 4–6/2020 (Q2), SBU WEST

SBU West's total revenue during the second quarter was EUR 119.4 (107.5) million, which was an increase of 11.1 percent on the previous year. In comparable terms*, revenue increased by 13.1 percent.

* Comparable revenue excludes currency effects, divestments and closures.

In **Sweden**, revenue increased across all businesses (consumer, professional, industry). Growth was driven by increasing consumer DIY demand, especially for exterior paints. The weak Swedish Krona had a negative impact on revenue.

Finland saw clearly the strongest growth within SBU West, with revenue increasing in consumer and industry businesses. The recovery driven by consumer DIY demand especially for exterior paints was strong in Finland.

In **Poland**, revenue increased in decorative paints, easily offsetting the slight decline in industry paints. The weak Polish Zloty had a clear negative impact on revenue in the second quarter.

Operating result increased, as the continued positive development with price/mix was supported by the quarter's exceptionally good performance in the consumer driven DIY business, towards the end of the quarter. Profitability improvement was additionally driven by continued efficiency improvements, as well as the temporary short-term savings executed during the second quarter.

OVERVIEW OF 1–6/2020 (H1), SBU WEST

SBU West's total **revenue** in January–June was EUR 216.4 (204.7) million, which is an increase of 5.7 percent on the previous year. In comparable terms, revenue increased by 7.3 percent. The strong consumer driven growth related to Covid-19 during the second quarter more than offset the currency-induced slight decline during the first quarter.

Operating result increased, as the continued positive development with price/mix during January–June was supported by second quarter's exceptionally good performance in the consumer driven DIY business, towards the end of the quarter. Profitability improvement was additionally driven by continued efficiency improvements and temporary short-term savings.

Effects of various factors on revenue in SBU West

	4-6 (Q2)		1-6 (H1)	
	EUR million	%	EUR million	%
Revenue in 2019	107.5		204.7	
Volume	+10.0	+9.3%	+9.6	+4.7%
Price/mix	+4.1	+3.8%	+5.5	+2.7%
Currencies	-2.1	-2.0%	-3.4	-1.7%
Divestments and closures	0	0.0%	0.0	0.0%
Revenue in 2020	119.4	+11.1%	216.4	+5.7%

MAIN DRIVERS, 4–6/2020 (Q2), SBU WEST

Volumes increased in all core markets, driven by premium brands.

The positive effect from **price/mix changes** was driven by the increasing share of premium products and price increases implemented since the comparison period.

The overall impact of **currencies** on revenue was negative, driven by weakening of the Swedish Krona and the Polish Zloty.

SBU East

EUR million	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Revenue	52.4	62.2	-15.6%	88.5	94.1	-6.0%	193.8
Comparable revenue growth*			-10.0%			-2.7%	
Operating result (EBIT)	9.7	7.7	+25.1%	8.7	7.0	+23.8%	20.0
Operating result (EBIT) margin, %	18.4%	12.4%		9.9%	7.5%		10.3%
Adjusted operating result	11.0	9.8	+12.1%	10.0	9.1	+10.1%	22.0
Adjusted operating result margin, %	20.9%	15.7%		11.3%	9.7%		11.4%
Capital expenditure	0.3	1.2	-73.1%	0.5	1.8	-71.5%	3.7

* Comparable revenue excludes currency effects, divestments and closures.

Revenue in key countries

EUR million	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Russia	39.1	47.3	-17.3%	66.8	69.1	-3.3%	143.6

MAIN DRIVERS, 4–6/2020 (Q2), SBU EAST

SBU East's total revenue in Q2/2020 was EUR 52.4 (62.2) million, which is a decrease of 15.6 percent on the previous year. In comparable terms*, revenue decreased by 10.0 percent.

* Comparable revenue excludes currency effects, divestments and closures.

In **Russia**, revenue decrease reflected the severity and long duration of the national Covid-19 lockdown. By June, revenue was in strong growth also in Russia, but this did not compensate for the initial decline which in April–May was steeper in Russia than in other markets. The decline in the beginning of the quarter was mainly driven by curfews imposed in major cities, as most retail stores remained closed until the end of May. Also, due to the restrictions imposed nationwide affecting all production businesses, Tikkurila's local factories were forced to close between March 30 and April 7. The weak Russian Ruble also contributed clearly to the decline, as did the strong comparison period in 2019, during which decorative paint volumes had increased ahead of price increases.

Due to Covid-19 impacts revenue declined also in **China**, where our exposure is limited.

Operating result increased, driven by continuous focus on value over volume, despite lower level of revenue. Profitability improvement was additionally driven by continued efficiency improvements and temporary short-term savings.

OVERVIEW OF 1–6/2020 (H1), SBU EAST

SBU East's total **revenue** in January–June was EUR 88.5 (94.1) million, which is a decrease of 6.0 percent on the previous year. In comparable terms, revenue decreased by 2.7 percent. Revenue declined despite the strong growth in the first quarter due to the negative demand impacts of the Covid-19 pandemic during the second quarter, and against a strong comparison period. The weakening Russian Ruble further amplified the decline.

Operating result increased, driven by continuous focus on value over volume. Profitability improvement was additionally driven by continued efficiency improvements and temporary short-term savings.

Effects of various factors on revenue in SBU East

	4-6 (Q2)		1-6 (H1)	
	EUR million	%	EUR million	%
Revenue in 2019	62.2		94.1	
Volume	-9.4	-15.1%	-10.9	-11.6%
Price/mix	+3.2	+5.1%	+8.4	+8.9%
Currencies	-3.5	-5.6%	-3.1	-3.3%
Divestments and closures	0	0	0.0	0.0%
Revenue in 2020	52.4	-15.6%	88.5	-6.0%

MAIN DRIVERS, 4–6/2020 (Q2), SBU EAST

Volumes were driven by the generally lower level of sales due to the impacts Covid-19 pandemic in Russia as well as decreasing sales of economy and private label paints in Russia as a result of the company's deliberate strategy to focus on value.

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 negative in the second quarter, driven by weakening of the Russian Ruble.

Progress of the strategy action plan

Despite the Covid-19 pandemic, Tikkurila continued the execution of the strategy action plan to boost profitability and efficiency as planned. The management has highlighted six focus areas to improve the company's performance:

- **Optimize portfolio:** Tikkurila continued to reduce complexity, targeting a 50 percent reduction in sales articles by the end of this year, compared to 2016. Target will be achieved by the end of this year.
- **Grow in decorative paints and selected industry segments:** New products' share of revenue increased, reflecting product launches for consumers, professionals and industry customers. Marketing campaigns were refocused in all markets to address the changed customer needs ("Stay at home") and consumers increasing online activity due to Covid-19 lockdowns and support the recovery of demand. Also, Tikkurila's customer hotline experienced a clear increase in the amount of calls during the quarter.
- **Improve sales performance management:** Tikkurila successfully continued to focus on increasing the share of premium products and improve the product mix. The execution of price increases continued according to plan, and the company continues to actively monitor and manage margins in each business. After period-end, on 24 July 2020, Tikkurila announced that the sales function will be split in two: West and East divisions. More information is available in the section Events after period-end.
- **Increase efficiency in operations:** As announced on 29 April 2020, a small solvent-borne industrial paint production unit will be closed in St. Petersburg, as Tikkurila continued to focus on water-borne paints.
- **Savings in fixed costs, centralize indirect sourcing:** Tikkurila moved from cost reduction to active cost management, while successfully implementing temporary savings related to the Covid-19 pandemic.
- **Increase efficiency in raw materials:** Tikkurila successfully continued negotiations with raw material and packaging suppliers, as the company continued to seek for cost savings in sourcing.

Cash flow, financing activities, and financial risk management

Tikkurila's liquidity and funding position has remained at a good level through the review period.

Cash flow from operations in January–June totaled EUR -2.0 (-25.4) million. Cash flow from operations was improved by favorable development in profitability and lower level of net working capital over the first half year. Due to Covid-19 pandemic, governments in Tikkurila's operating countries have granted various subsidies and payment terms for payments of indirect employee costs, indirect taxes and payments of corporate income taxes. Tikkurila utilized deferred payment times, which had approximately EUR 3.8 million positive impact on operating cash flow in the review period. In addition, the direct subsidies in relation to personnel costs and governments decisions to decrease contribution rates of obligatory employee expenses had minor impact on profitability. These decreased approximately EUR 0.5 million of personnel expenses in the review period.

The decrease in net working capital during January - June was primarily due to a lower level of inventories, supported by favorable development in trade receivables and trade payables, too. At the end of the review period, net working capital totaled EUR 130.4 (148.1) million. The net cash flow from investing activities was EUR -3.9 (-4.6) million, when taking into account acquisitions and

divestments. Cash flow after capital expenditure totaled EUR -5.9 (-30.1) million at the end of the review period.

Interest-bearing liabilities amounted to EUR 197.7 (186.0) million at the end of the review period, of which EUR 20.1 (23.2) million was lease liabilities.

Interest-bearing net liabilities was EUR 96.9 (151.8) million, and interest-bearing net liabilities excluding lease liabilities was EUR 76.8 (128.6) million. At the end of the review period, cash and cash equivalents amounted to EUR 100.8 (34.2) million. Short-term interest-bearing debt totaled EUR 125.2 (119.7) million, including the company's issued commercial papers for a total nominal amount of EUR 77.8 (112.8) million, and short-term lease liability of EUR 7.4 (6.9) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 72.5 (66.3) million including lease liability of EUR 12.7 (16.4) million. At the end of June, the Group had a total of EUR 110.0 (110.2) million of unused committed credit facilities or credit limits.

The Group's net financial expense was EUR -2.7 (1.4) million, of which net interest expenses totaled EUR -0.8 (-0.6) million including interest expenses related to lease liabilities EUR -0.6 (-0.6) million, and other financing expenses EUR -0.2 (-0.2) million. The average capital-weighted interest rate of interest-bearing debt was 1.2 (1.2) percent. The net profit was negatively affected by a total of EUR -1.7 (2.1) million based on the impact of realized and unrealized exchange rate differences recognized during the review period. The main negative impact was related to the Russian ruble. 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 June, the equity ratio was 30.9 (30.4) percent and gearing 55.8 (94.2) percent. Gearing excluding lease liabilities was 44.2 (79.8) percent. Tikkurila's financing arrangement includes a covenant that is based on Group's gearing.

Capital Expenditure

In January–June 2020, gross capital expenditure amounted to EUR 6.5 (7.5) million, of which EUR 2.6 (2.2) million are related investments in right-of-use assets.

The Group's depreciation, amortization and impairment losses in January-June amounted to EUR 13.0 (12.1) million, including EUR 3.9 (4.1) million depreciation on right-of-use assets. . Tikkurila announced in Q1 business review published on April 29, 2020 its decision to close a small solvent-borne industrial paint production unit in St. Petersburg. Due to this closure decision, the Group recorded an impairment on goodwill and impaired carrying amount of the tradenames, production of which will be ceased due to decision made. These impairments totaled EUR 1.2 million. The Group performs impairment tests in accordance with the IAS 36 standard.

Research, Development and Innovation

Tikkurila's research and development expenses were EUR 4.8 (4.9) million, which accounts for 1.6 (1.6) percent of revenue.

Human Resources and company management

At the end of June 2020, the Tikkurila Group employed 2,789 (2,846) people. The average number of employees in January–June was 2,698 (2,760). The influx of seasonal workers increased the number of employees in operations from the previous quarter.

Tikkurila Group's number of employees at the end of each quarter is presented below split by SBU, starting from the first quarter of 2019.

	Q1/2019	Q2/2019	Q3/2019	Q4/2019	Q1/2020	Q2/2020
SBU West	1,575	1,701	1,566	1,550	1,583	1,706
SBU East	1,133	1,130	1,063	1,041	1,085	1,066
Group functions	15	15	16	16	17	17
Total	2,723	2,846	2,645	2,607	2,685	2,789

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
- Anders Rotkirch, Senior Vice President, Transformation and ICT
- Meri Vainikka, Senior Vice President, Offering
- Oskari Vidman, Senior Vice President, Sales

After period-end, Tikkurila announced on 24 July 2020, that **Roman Ivashko** has been appointed SVP, Sales, East division, as of September 1, 2020. He will also join the Tikkurila Management Team. Ivashko joins Tikkurila from Paulig Group where he has worked since 2012, most recently as SVP, Business Area East. The current SVP Sales, Oskari Vidman, will take over the West division, corresponding to 66 percent of Tikkurila's total revenue.

Shares and Shareholders

At the end of June 2020, Tikkurila's share capital was EUR 35.0 million, and a total number of registered shares was 44,108,252. At the end of the reporting period, Tikkurila held 2,371 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had 18,806 (18,814) shareholders on June 30, 2020. 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>.

At the end of June, the closing price of Tikkurila's share was EUR 12.38. In January–June, the volume-weighted average share price was EUR 12.86, the lowest price EUR 9.36, and the highest price EUR 16.04. At the end of June, the market value of Tikkurila Oyj's shares was EUR 546.1 million. During January–June, a total of 4.7 million Tikkurila shares, corresponding to approximately 10.6 percent of the number of shares, were traded on Nasdaq Helsinki Ltd. The value of the traded volume was EUR 60.4 million. Tikkurila's shares are traded also outside of Nasdaq Helsinki, but the company does not have detailed statistics available on this external trading.

Major shareholder notifications

On January 3, 2020, Tikkurila announced it had received a notification from FMR LLC on January 2, 2020, that with effect from January 1, 2020, Fidelity Management & Research Company has changed name to Fidelity Management & Research Company LLC. FMR Co., Inc, FIMM, and SelectCo have also merged into **Fidelity Management & Research Company LL**. Following the announcement, Fidelity Management & Research Company LL held a total of 4,337,873 shares (9.83% of the total amount of shares and voting rights).

On June 29, 2020, announced it had received a notification from Varma Mutual Pension Insurance Company that their holdings in Tikkurila Oyj's shares have decreased below the 1/20 (5%) threshold. Following the announcement, the holdings of Varma Mutual Pension Insurance Company in Tikkurila Oyj amounted to 1,693,525 shares (3.84% of the total amount of shares and voting rights).

Decisions of the Annual General Meeting

Tikkurila Oyj's Annual General Meeting (AGM) was held on June 9, 2020 in Vantaa, Finland. For the first time, shareholders were able to follow the meeting remotely through a webcast. The AGM approved the Financial Statements for 2019, discharged the members of the Board of Directors and the CEO from liability for the 2019 financial year and adopted the Remuneration Policy.

The AGM decided on the payment of dividend, the composition of the Board of Directors and their remuneration, the election of the auditor and its remuneration, authorized the Board of Directors to decide on the repurchase of the Company's own shares as well as authorized the Board of Directors to decide on the issuance of shares.

The AGM decided on a dividend of a maximum amount of EUR 0.50 per share for the period ending on December 31, 2019. Half of the proposed maximum dividend, i.e. EUR 0.25 per share, was paid to a shareholder who was recorded on the record date for the dividend payment on June 11, 2020 in the Company's shareholders' register maintained by Euroclear Finland Ltd. The proposed date of the payment for this instalment was June 18, 2020. In addition, the AGM authorized the Board of Directors to decide, in its discretion, on a dividend payment of a maximum of EUR 0.25 per share to be distributed at a later stage when it is possible to make a more reliable estimate on the impacts of the coronavirus pandemic to the company's business. The authorization is valid until the beginning of the next Annual General Meeting. The Company will publish the possible Board of Directors' decisions on a dividend payment, and simultaneously confirm the dividend record and payment date.

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 publication of this Half year financial report for the period January 1 - June 30, 2020. 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 Board of Directors consists of seven members. Lars Peter Lindfors, Riitta Mynttinen, Jari Paasikivi, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund were re-elected and Andrey Pantyukhov 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.

Authorised public accountants Ernst & Young Finland Oy continues as Company's auditor for a term expiring at the end of the next AGM and APA Antti Suominen continues as the responsible auditor. Auditors' fees shall be paid against invoices approved by the Company.

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, 2021.

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, 2021.

Composition of the committees of Tikkurila's Board of Directors

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 and 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 www.tikkurilagroup.com/agm.

Near-term risks and uncertainties

Tikkurila's business operations are affected by various strategic, operational, financial, and hazard risks. Tikkurila endeavors to identify and evaluate risks and respond to them as proactively as possible and contain their possible adverse effects.

For Tikkurila, uncertainties related to the Covid-19 pandemic are mainly related to the timing, extent and duration of the impacts which local regulations may have on mobility of people, customer demand, production and suppliers. A further escalation of the Covid-19 pandemic in the Group's core markets could have adverse impacts on Tikkurila's own operations, customer activities, supply chain or availability of financing. On the other hand, there could also continue to be positive impacts on customer demand due to increased time spent at home.

Tikkurila's Financial Statement release for the 2019 financial year described the other near-term risks related to industry, raw material availability and price trend, and operations.

Tikkurila's risk management principles can be viewed on Tikkurila's website at www.tikkurilagroup.com/investorsgovernance/risk-management.

Market review and the impact of Covid-19

Economic growth has been hit hard by Covid-19. But although a decline in GDP is evident in all markets, Covid-19 effects have not been only negative for the paint industry. While in industrial paints the pandemic has led to weaker demand, the decorative market has recovered faster as consumer demand picked up. The effects vary significantly between different segments of the paint industry, as well as regionally.

Decorative paints account for slightly over 80 percent (2019) of Tikkurila's total revenue, including consumer and professional customers. The pandemic has changed the dynamics of the decorative market: during the lockdowns, consumers have increasingly turned back to Do-It-Yourself (DIY) from Do-It-For-Me (DIFM) trend. Also, consumers' increasing interest towards renovation has clearly boosted their online activity, and where the availability of physical stores has been restricted, ecommerce has become more common. As a result, during the recent quarter, demand for decorative paints has been on an extraordinary level, driven by consumers. In the construction sector, demand for professional painters has depended on the continuation of construction projects, and the availability of construction workers. Overall, our professional business is very diverse, and recent trends have differed regionally and per customer segment. In decorative paints, customers place their orders at a relatively short notice. Thus, any forecasting can only be done based on current demand and visibility remains weak.

Industry paints represent less than 20 percent of Tikkurila's revenue. Our industry customer base is fragmented, and customers are diverse. Overall, industrial paint demand has reflected the development of our customers' business, including the availability of other resources necessary for their production activities. With OEM (original equipment manufacturers) customers, paint demand has already been impacted by customers' decreased production activity.

Covid-19 has had a negative impact on all currencies relevant to Tikkurila's key business areas, including the Swedish krona, Polish zloty and especially the Russian ruble.

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

Sources: Markets & Markets: Paints & Coating market and forecast 2019-2024, Euromonitor Home Paint annual data 2019, Oxford Economics country economic forecasts per June 2020, market share data per Q1 2020 from Chem Courier, GFK, SVEFF and VTY.

Events after the reporting period

Preliminary information published of the Q2/2020 result

On July 9, 2020, in the absence of guidance, Tikkurila exceptionally shared advance information on revenue and operating profit during Q2/2020 and H1/2020. The announcement signaled clearly higher profitability compared to the previous year.

Roman Ivashko appointed as SVP, Sales East division at Tikkurila

On July 24, 2020, Tikkurila announced that to further increase the efficiency and focus in leading sales, it has been decided to split the current sales function into two divisions: West and East. Divisions represent the company's current external reporting segments. The current SVP Sales, Oskari Vidman, will take over the West division, corresponding to 66 percent of Tikkurila's total revenue. Roman Ivashko has been appointed SVP, Sales, East division, as of September 1, 2020. He will also join the Tikkurila Management Team. Ivashko joins Tikkurila from Paulig Group where he has worked since 2012 as SVP, Business Area East.

Vantaa, July 24, 2020

TIKKURILA OYJ

BOARD OF DIRECTORS

Summary Financial Statements and Notes

This half year financial report is prepared in accordance with IAS 34 Interim Financial Reporting standard. The same accounting policies have been applied in this half year financial report as in the annual financial statements for 2019, with the exception of new or revised or amended standards and interpretations which have been applied from the beginning of 2020.

This half year financial report is unaudited.

As a result of rounding differences, the figures presented in the tables may not add up to the total.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Revenue	171.8	169.7	304.8	298.8	563.8
Other operating income	0.5	0.6	1.3	1.2	3.3
Expenses	-132.1	-143.0	-251.4	-258.8	-499.0
Depreciation, amortization and impairment losses	-7.2	-6.0	-13.0	-12.1	-24.2
Operating result	33.1	21.2	41.7	29.1	43.9
Total financial income and expenses	1.0	-0.4	-2.7	1.4	0.0
Share of profit or loss of equity-accounted investees	0.1	0.1	0.2	0.2	0.3
Result before taxes	34.3	20.9	39.1	30.6	44.2
Income taxes	-7.3	-4.7	-8.3	-7.1	-10.9
Net result for the period	27.0	16.1	30.8	23.5	33.2
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Changes of equity investments at fair value through other comprehensive income	-	0.0	-	0.0	0.0
Remeasurements on defined benefit plans	-2.2	-2.6	0.3	-3.4	-3.9
Income taxes relating to items that will not be reclassified to profit or loss	0.5	0.6	-0.1	0.7	0.8
Total items that will not be reclassified to profit or loss	-1.7	-2.0	0.2	-2.7	-3.1
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations	3.9	0.9	-7.4	4.5	5.5
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	3.9	0.9	-7.4	4.5	5.5
Total comprehensive income for the period	29.2	15.0	23.7	25.3	35.6

Net result attributable to:

Owners of the parent	27.0	16.1	30.8	23.5	33.2
Non-controlling interest	-	-	-	-	-
Net result for the period	27.0	16.1	30.8	23.5	33.2

Total comprehensive income attributable to:

Owners of the parent	29.2	15.0	23.7	25.3	35.6
Non-controlling interest	-	-	-	-	-
Total comprehensive income for the period	29.2	15.0	23.7	25.3	35.6

Earnings per share of the net result attributable to owners of the parent

Basic earnings per share (EUR)	0.61	0.37	0.70	0.53	0.75
Diluted earnings per share (EUR)	0.61	0.37	0.70	0.53	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million

	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
ASSETS			
Non-current assets			
Goodwill	69.3	70.1	70.2
Other intangible assets	15.6	19.5	18.2
Property, plant and equipment	63.9	69.7	69.3
Right-of-use assets	19.5	23.3	22.2
Equity-accounted investees	0.5	0.5	0.3
Other investments	0.7	0.7	0.7
Non-current receivables	6.4	7.6	7.0
Defined benefit pension and other long-term employee benefit assets	-	-	0.1
Deferred tax assets	10.7	10.8	10.3
Total non-current assets	186.6	202.4	198.4
Current assets			
Inventories	78.9	89.5	85.5
Interest-bearing receivables	1.1	1.4	0.7
Trade and other non-interest-bearing receivables	188.4	193.8	96.7
Current tax assets	4.7	7.5	7.4
Cash and cash equivalents	100.8	34.2	47.0
Non-current assets held for sale	1.2	1.6	1.4
Total current assets	375.2	327.9	238.7
Total assets	561.8	530.3	437.1

	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
EQUITY AND LIABILITIES			
Share capital	35.0	35.0	35.0
Other reserves	0.0	0.0	0.0
Fair value reserve	0.0	0.0	0.0
Reserve for invested unrestricted equity	40.0	40.0	40.0
Treasury shares	0.0	0.0	0.0
Translation differences	-47.9	-41.5	-40.5
Retained earnings	146.6	127.6	137.4
Equity attributable to owners of the parent	173.8	161.1	171.9
Non-controlling interest	-	-	-
Total equity	173.8	161.1	171.9
Non-current liabilities			
Interest-bearing non-current liabilities	72.5	66.3	75.1
Other non-current liabilities	0.0	0.0	0.0
Defined benefit pension and other long-term employee benefit liabilities	28.2	28.0	28.7
Provisions	1.6	1.6	1.6
Deferred tax liabilities	3.2	3.7	3.6
Total non-current liabilities	105.6	99.6	109.1
Current liabilities			
Interest-bearing current liabilities	125.2	119.7	50.2
Trade and other non-interest-bearing payables	151.3	145.1	101.0
Provisions	1.6	1.1	1.5
Current tax liabilities	4.3	3.7	3.2
Liabilities classified as held for sale	-	-	-
Total current liabilities	282.4	269.6	156.0
Total equity and liabilities	561.8	530.3	437.1

**CONSOLIDATED FINANCIAL STATEMENT
OF CASH FLOWS**

EUR million

4-6/2020 4-6/2019 **1-6/2020** 1-6/2019 1-12/2019

**CASH FLOW FROM OPERATING
ACTIVITIES**

Net result for the period	27.0	16.1	30.8	23.5	33.2
Adjustments for:					
Non-cash transactions	9.2	8.6	15.9	15.1	29.0
Interest and other financial expenses	-0.9	0.6	3.1	1.2	2.6
Interest income and other financial income	-0.2	-0.2	-0.4	-2.6	-2.5
Income taxes	7.3	4.7	8.3	7.1	10.9
Funds from operations before change in net working capital	42.5	29.9	57.8	44.3	73.2
Change in net working capital	-27.1	-34.6	-52.7	-65.0	-2.5
Interest and other financial expenses paid	-0.3	-0.8	-1.2	-1.2	-2.7
Interest and other financial income received	0.2	0.3	0.3	2.4	1.8
Income taxes paid	-1.8	-4.2	-6.1	-6.0	-8.4
Total cash flow from operations	13.4	-9.3	-2.0	-25.4	61.4

CASH FLOW FROM INVESTING ACTIVITIES

Business combinations	-	-	-	-	-
Other capital expenditure	-2.0	-3.1	-4.4	-5.2	-11.1
Proceeds from sale of assets	0.0	0.4	0.5	0.6	1.6
Loan receivables decrease (+), increase (-)	-	-	-	-	0.4
Dividends received	0.0	0.0	0.0	0.0	0.4
Net cash used in investing activities	-2.0	-2.7	-3.9	-4.6	-8.6
Cash flow before financing	11.4	-12.0	-5.9	-30.1	52.7

CASH FLOW FROM FINANCING ACTIVITIES

Non-current borrowings, increase (+), decrease (-)	-	-	-	-	10.0
Current financing, increase (+), decrease (-)	31.0	38.9	74.9	41.9	-28.0
Payments of lease liabilities	-1.8	-1.9	-3.7	-3.8	-7.3
Dividends paid	-9.9	-7.3	-9.9	-7.3	-14.6
Acquisition of own shares	-0.2	-	-0.2	-	-
Other	-	-	-	-	-
Net cash used in financing activities	19.0	29.7	61.0	30.8	-39.8

Net change in cash and cash equivalents	30.4	17.7	55.1	0.8	13.0
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Cash and cash equivalents at the beginning of period	70.5	17.1	47.0	35.5	35.5
Effect of exchange rate fluctuations on cash held	0.1	0.7	1.3	2.1	1.4
Cash and cash equivalents at the end of period	100.8	34.2	100.8	34.2	47.0
Net change in cash and cash equivalents	30.4	17.7	55.1	0.8	13.0

Cash flows on leases, IFRS 16	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Interest on lease liabilities, in cash flow from operating activities	-0.2	-0.3	-0.5	-0.6	-1.0
Payments on lease liabilities, in cash flow from financing activities	-1.8	-1.9	-3.7	-3.8	-7.3
Total cash flows on leases	-2.0	-2.3	-4.2	-4.4	-8.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million

	Equity attributable to the owners of the parent							Non-controlling interest	Total equity
	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Treasury shares	Translation differences	Retained earnings	Total	
Equity at Dec 31, 2018	35.0	0.0	0.0	40.0	0.0	-46.0	121.1	150.1	- 150.1
Change in accounting principles, IFRS 16	-	-	-	-	-	-	0.0	0.0	- 0.0
Equity at Jan 1, 2019	35.0	0.0	0.0	40.0	0.0	-46.0	121.1	150.1	- 150.1
Total comprehensive income for the period	-	-	-	-	-	4.5	20.8	25.3	- 25.3
Share-based compensation	-	-	-	-	-	-	0.3	0.3	- 0.3
Dividends paid	-	-	-	-	-	-	-14.6	-14.6	- -14.6
Equity at Jun 30, 2019	35.0	0.0	0.0	40.0	0.0	-41.5	127.6	161.1	- 161.1
Equity at Jan 1, 2020	35.0	0.0	0.0	40.0	0.0	-40.5	137.4	171.9	- 171.9
Total comprehensive income for the period	-	-	-	-	-	-7.4	31.1	23.7	- 23.7
Acquisition of treasury shares	-	-	-	-	-0.2	-	-	-0.2	- -0.2
Share-based compensation	-	-	-	-	0.2	-	0.2	0.4	- 0.4
Dividends paid	-	-	-	-	-	-	-22.0	-22.0	- -22.0
Equity at Jun 30, 2020	35.0	0.0	0.0	40.0	0.0	-47.9	146.6	173.8	- 173.8

REPORTABLE SEGMENTS

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

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

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

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

Revenue by segment	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
SBU West	119.4	107.5	216.4	204.7	370.0
SBU East	52.4	62.2	88.5	94.1	193.8
Eliminations	-0.1	0.0	-0.1	0.0	0.0
Total	171.8	169.7	304.8	298.8	563.8

EBIT by segment	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
SBU West	25.0	14.8	35.4	25.3	30.4
SBU East	9.7	7.7	8.7	7.0	20.0
Tikkurila common	-1.6	-1.3	-2.5	-3.3	-6.5
Eliminations	-	0.0	-	0.0	-
Total	33.1	21.2	41.7	29.1	43.9

Items affecting comparable EBIT by segment	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
SBU West	-0.2	0.0	-0.2	-0.1	-0.3
SBU East	-1.3	-2.1	-1.3	-2.1	-2.0
Tikkurila common	-	0.0	-	-0.2	-0.2
Eliminations	-	-	-	-	-
Total	-1.5	-2.0	-1.5	-2.3	-2.5

Adjusted operating result by segment	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
SBU West	25.3	14.8	35.7	25.4	30.7
SBU East	11.0	9.8	10.0	9.1	22.0
Tikkurila common	-1.6	-1.3	-2.5	-3.1	-6.3
Eliminations	-	0.0	-	0.0	-
Total	34.7	23.2	43.2	31.4	46.4

Non-allocated items:

Total financial income and expenses	1.0	-0.4	-2.7	1.4	0.0
Share of profit or loss of equity-accounted investees	0.1	0.1	0.2	0.2	0.3
Result before taxes	34.3	20.9	39.1	30.6	44.2

Revenue by product group and by segment

EUR million	4-6/2020		4-6/2019	
	Decorative paints	Industrial coatings	Decorative paints	Industrial coatings
SBU West	102.8	16.6	91.2	16.3
SBU East	45.4	7.0	54.1	8.1
Eliminations	-0.1	-	-	-
Total	148.2	23.7	145.3	24.4

Revenue by product group and by segment

EUR million	1-6/2020		1-6/2019	
	Decorative paints	Industrial coatings	Decorative paints	Industrial coatings
SBU West	183.7	32.6	172.4	32.3
SBU East	74.4	14.1	79.3	14.8
Eliminations	-0.1	-	-	-
Total	258.0	46.7	251.7	47.1

Assets by segment

EUR million	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
SBU West	396.0	363.2	343.1
SBU East	97.8	91.4	98.0
Assets, non-allocated to segments	104.8	96.5	31.4
Eliminations	-36.8	-20.8	-35.4
Total assets	561.8	530.3	437.1

CHANGES IN PROPERTY, PLANT AND EQUIPMENT	1-6/2020	1-6/2019	1-12/2019
EUR million			
Carrying amount at the beginning of period	69.3	70.9	70.9
Additions	3.4	4.5	9.4
Business combinations	-	-	-
Disposals	-0.2	0.0	-0.2
Depreciation, amortization and impairment losses	-5.9	-5.9	-11.8
Exchange rate differences and other changes	-2.7	0.2	1.0
Carrying amount at the end of period	63.9	69.7	69.3

Tikkurila Group had contractual commitments for purchase of property, plant and equipment EUR 0.7 (1.9) million at the end of review period.

CHANGES IN INTANGIBLE ASSETS	1-6/2020	1-6/2019	1-12/2019
EUR million			
Carrying amount at the beginning of period	88.4	90.8	90.8
Additions	0.5	0.8	1.7
Business combinations	-	-	-
Disposals	-	-	0.0
Depreciation, amortization and impairment losses	-3.2	-2.1	-4.2
Exchange rate differences and other changes	-0.9	0.1	0.1
Carrying amount at the end of period	84.9	89.6	88.4

Tikkurila Group had contractual commitments for intangible assets EUR 0.0 (0.0) million at the end of review period. In review period the impairment on goodwill and on carrying amount of trademark were recorded. These impairments totaled EUR 1.2 million and were related to Group's decision to close a small solvent-borne industrial paint production unit in Russia.

CHANGES IN RIGHT-OF-USE ASSETS	1-6/2020	1-6/2019	1-12/2019
EUR million			
Adoption of IFRS 16	-	24.8	24.8
Carrying amount at the beginning of period	22.2	-	-
Additions	2.6	2.2	5.4
Disposals	-0.6	0.0	-0.3
Depreciation, amortization and impairment losses	-3.9	-4.1	-8.2
Exchange rate differences and other changes	-0.8	0.5	0.5
Carrying amount at the end of period	19.5	23.3	22.2

INVENTORIES

Write-down of inventory for a total amount of EUR 2.6 (1.6) million was recognized until end of review period.

RELATED PARTY TRANSACTIONS

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

Related parties include members of Board of Directors and the Group's Board of Management, CEO, their family members and controlled entities as well as Country Sales directors and members of the board of directors in significant subsidiaries, and other single directors and managers who control or exercise significant influence in making financial and operational decisions in Tikkurila or in the relevant significant subsidiary.

Related party transactions:

EUR million

Joint ventures	1-6/2020	1-6/2019	1-12/2019
Sales	2.6	2.5	5.1
Other operating income	0.5	0.5	1.0
Receivables	0.8	0.8	0.5
Liabilities	0.1	0.1	0.0

Share-based Commitment and Incentive Plans

The Group's share-based incentive plans are disclosed in note 35 of consolidated financial statements 2019.

In May 2017, the Board of Directors decided on a matching share plan 2017-2019, which consists of one vesting period. The rewards based on this plan were paid in May and target group consisted of three persons at the end of performance period. A total of 3,500 Tikkurila Oyj's treasury shares have been transferred to participants as well as the cash reward to cover taxes and tax-related costs arising from the reward to the participants. The total value of the plan at the end of the performance period amounted to EUR 0.1 million.

In June 2018, the Board of Directors of Tikkurila Oyj decided on a share-based incentive plan for Group key employees, a share plan 2018-2022. The share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The potential rewards from the plan will be paid partly in cash and partly in shares of Tikkurila Oyj. The payment of the reward is conditional to, that a participant is employed at the time of the payment. The rewards to be paid on the basis of the performance periods will be based on the Tikkurila Group's average EBITDA and net debt based intrinsic value on corresponding performance period. The details are decided separately for each performance period. In accordance with the decision of the Board of Directors of Tikkurila Oyj in December 2018, a part of the reward for the performance period 2019-2021 is a time-based reward and the number of the participants of the plan was increased. The first tranche of the time-based reward was paid in review period and a total of 13,590 shares were transferred to 20 participants. In addition, the cash payment was made to cover taxes and tax-related costs arising from the reward to participants. The aggregate value of the rewards on this time-based plan at due time amounted to a total of EUR 0.3 million. The second tranche of the time-based reward will be paid in year 2022.

In December 2019, the Board of Directors of Tikkurila Oyj decided on the details of the performance period 2020-2022. The rewards to be paid on the basis of the performance period 2020-2022 will amount to an approximate maximum total of 150,000 Tikkurila Oyj shares. The potential reward of the plan will be based on the Tikkurila Group's average EBITDA and net debt-based intrinsic values for 2020-2022. Approximately 20 key employees, including the members of the Management Team, belong to the target group of the plan. This performance period has no time-based reward.

In June 2018, the Board of Directors of Tikkurila Oyj decided on share plan 2018-2019. This share plan had one performance period. In December 2019, the Board of Directors of Tikkurila Oyj decided to pay the potential rewards in cash. Payment of the rewards was conditional to, that a participant is employed at the time of the payment. The rewards were paid in March - April in cash amounting to a total of EUR 0.2 million.

Based on these share-based incentive plans EUR 0.6 (0.3) million was recognized during the financial year 2020 first half in personnel expenses.

COMMITMENTS AND CONTINGENT LIABILITIES	Jun 30,	Jun 30,	Dec 31,
EUR million	2020	2019	2019
Mortgages given as collateral for liabilities in the statement of financial position			
Other loans	-	-	-
Mortgages given	-	-	-
Total loans	-	-	-
Total mortgages given	-	-	-
Contingent liabilities			
Guarantees			
On behalf of own commitments	0.3	0.5	0.3
On behalf of others	1.3	1.2	1.3
Other obligations of own behalf	-	8.4	-
Lease obligations	-	1.7	0.1
Total contingent liabilities	1.6	11.8	1.8

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

	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	Carrying amounts	Fair values
Jun 30, 2020					
Non-current financial assets					
Other investments	-	-	0.7	0.7	0.7
Non-current receivables	-	4.7	-	4.7	4.7
Current financial assets					
Interest-bearing receivables	-	1.1	-	1.1	1.1
Cash equivalents	-	100.8	-	100.8	100.8
Trade and other non-interest-bearing receivables	-	183.3	-	183.3	183.3
Total	-	289.9	0.7	290.6	290.6
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	72.5	-	72.5	72.7
Current financial liabilities					
Current interest-bearing liabilities	-	125.2	-	125.2	125.2
Trade payables	-	56.6	-	56.6	56.6
Total	-	254.3	-	254.3	254.4
Jun 30, 2019					
Non-current financial assets					
Other investments	-	-	0.7	0.7	0.7
Non-current receivables	-	6.1	-	6.1	6.1
Current financial assets					
Interest-bearing receivables	-	1.4	-	1.4	1.4
Cash equivalents	-	34.2	-	34.2	34.2
Trade and other non-interest-bearing receivables	-	186.8	-	186.8	186.8
Total	-	228.5	0.7	229.2	229.2
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	66.3	-	66.3	66.4
Current financial liabilities					
Current interest-bearing liabilities	-	119.7	-	119.7	119.7
Trade payables	-	65.6	-	65.6	65.6
Total	-	251.6	-	251.6	251.6

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

FAIR VALUE HIERARCHY

EUR million

Jun 30, 2020	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Other investments	-	-	0.7	0.7
Jun 30, 2019				
Recurring fair value measurements				
Other investments	-	-	0.7	0.7
Dec 31, 2019				
Recurring fair value measurements				
Other investments	-	-	0.7	0.7

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

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

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

Reconciliation of Level 3 fair value measured financial assets and liabilities

	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
Other investments			
Carrying amount at Jan 1	0.7	0.7	0.7
Translation differences in other comprehensive income	0.0	0.0	0.0
Change in valuation	-	-	-
Disposals	-	0.0	0.0
Other changes / transfers	-	-	-
Carrying amount at end of review period	0.7	0.7	0.7

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

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

KEY PERFORMANCE INDICATORS	4-6/2020/ Jun 30, 2020	4-6/2019/ Jun 30, 2019	1-6/2020/ Jun 30, 2020	1-6/2019/ Jun 30, 2019	1-12/2019/ Dec 31, 2019
Earnings per share / basic, EUR	0.61	0.37	0.70	0.53	0.75
Earnings per share / diluted, EUR	0.61	0.37	0.70	0.53	0.75
Operating result (EBIT), EUR million	33.1	21.2	41.7	29.1	43.9
of revenue %	19.3%	12.5%	13.7%	9.7%	7.8%
Adjusted operating result, EUR million	34.7	23.2	43.2	31.4	46.4
of revenue %	20.2%	13.7%	14.2%	10.5%	8.2%
Cash flow from operations, EUR million	13.4	-9.3	-2.0	-25.4	61.4
Cash flow from operations / per share, EUR	0.30	-0.21	-0.05	-0.58	1.39
Capital expenditure, EUR million	2.0	3.1	4.4	5.2	11.1
of revenue %	1.2%	1.8%	1.4%	1.8%	2.0%
Shares (1,000), average *)	44,101	44,106	44,104	44,106	44,106
Shares (1,000), at the end of the reporting period *)	44,106	44,106	44,106	44,106	44,106
Weighted average number of shares, adjusted for dilutive effect (1,000) ^{1) *)}	44,267	44,193	44,233	44,174	44,186
Number of shares at the end of period, adjusted for dilutive effect (1,000) ^{1) *)}	44,258	44,193	44,258	44,193	44,202

Equity attributable to the owners of the parent / per share, EUR	3.94	3.65	3.94	3.65	3.90
Equity ratio, %	30.9%	30.4%	30.9%	30.4%	39.3%
Gearing, %	55.8%	94.2%	55.8%	94.2%	45.6%
Interest-bearing net liabilities, EUR million	96.9	151.8	96.9	151.8	78.4
Return on capital employed (ROCE), % p.a.	20.5%	12.2%	20.5%	12.2%	15.4%
Personnel (average)	2,737	2,805	2,698	2,760	2,713

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

*) Number of shares outstanding, treasury shares excluded

COMPONENTS FOR ALTERNATIVE KEY FIGURES

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

Items affecting comparable EBIT

Group total	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
Divestments, changes in Group structure	-0.1	-	-0.1	-	-0.1
Personnel related	-0.1	-0.2	-0.1	-0.5	-0.5
Costs on withdrawn Russian factory investment	-	-1.8	-	-1.8	-1.8
Impairment losses	-1.4	-	-1.4	-	-0.1
Total	-1.5	-2.0	-1.5	-2.3	-2.5

SBU West	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
Divestments, changes in Group structure	-	-	-	-	-0.1
Personnel related	0.0	0.0	0.0	-0.1	-0.1
Impairment losses	-0.2	-	-0.2	-	-0.1
Total	-0.2	0.0	-0.2	-0.1	-0.3

SBU East	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
Divestments, changes in Group structure	-0.1	-	-0.1	-	-
Personnel related	-0.1	-0.3	-0.1	-0.3	-0.3
Costs on withdrawn Russian factory investment	-	-1.8	-	-1.8	-1.8
Impairment losses	-1.2	-	-1.2	-	-
Total	-1.3	-2.1	-1.3	-2.1	-2.0

Tikkurila common	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
EUR million					
Divestments, changes in Group structure	-	-	-	-	-
Personnel related	-	0.0	-	-0.2	-0.2
Impairment losses	-	-	-	-	-
Total	-	0.0	-	-0.2	-0.2

	Jun 30, 2020	Jun 30, 2019	Dec 31, 2019
Interest-bearing net liabilities			
EUR million			
Interest-bearing non-current liabilities	72.5	66.3	75.1
Interest-bearing current liabilities	125.2	119.7	50.2
Interest-bearing liabilities, total	197.7	186.0	125.4
Cash and cash equivalents	100.8	34.2	47.0
Interest-bearing net liabilities	96.9	151.8	78.4

Net working capital

Inventories	78.9	89.5	85.5
Non-current receivables	6.4	7.6	7.0
Excluding loan receivables and financing items in receivables	-4.3	-4.6	-4.5
Current trade receivables and other non-interest-bearing receivables	188.4	193.8	96.7
Excluding interest and other financing items in receivables	-0.2	-0.3	-0.1
Other non-current liabilities	0.0	0.0	0.0
Current trade payables and other non-interest-bearing payables	151.3	145.1	101.0
Excluding interest and other financing liabilities	-12.4	-7.4	-0.1
Net working capital	130.4	148.1	83.6

Return on capital employed (ROCE), %

Operating result + share of profit or loss of equity-accounted investees ¹⁾	56.8	34.8	44.2
Capital employed ²⁾	276.4	286.1	287.3
Return on capital employed (ROCE), %	20.5%	12.2%	15.4%

¹⁾ from a rolling 12-month period

²⁾ 12 months, in average

DEFINITIONS OF KEY FIGURES

Earnings per share (EPS), basic

Net result of the period attributable to the owners of the parent

Shares on average

Earnings per share (EPS), diluted

Net result of the period attributable to the owners of the parent

Weighted average number of shares, adjusted for dilutive effect

Equity per share

Equity attributable to the owners of the parent at the end of the reporting period

Number of shares at the end of the reporting period

Cash flow from operations / per share

Cash flow from operations

Shares on average

Equity ratio, %

Total equity x 100

Total assets - advances received

Gearing, %

Interest-bearing net liabilities x 100

Total equity

Operating result (EBIT)

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

Items affecting comparability

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

Adjusted operating result

Operating result (EBIT) - items affecting comparability.

Interest-bearing net liabilities

Interest-bearing liabilities - money market investments - cash and cash equivalents.

Gross capital expenditure

Increases in intangible assets, property, plant and equipment, right-of-use assets as well as increases in other shares and equity-accounted investees.

Net working capital

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

Capital employed

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

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

Operating result + share of profit or loss of equity-accounted investees x 100

Capital employed **

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

** 12 months, in average

SEGMENT INFORMATION BY QUARTER

Revenue by segment EUR million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020
SBU West	97.2	107.5	97.3	68.0	96.9	119.4
SBU East	32.0	62.2	59.7	39.9	36.0	52.4
Eliminations	-	0.0	0.0	0.0	-	-0.1
Total	129.1	169.7	157.1	107.9	133.0	171.8

EBIT by segment EUR million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020
SBU West	10.5	14.8	12.7	-7.6	10.4	25.0
SBU East	-0.7	7.7	11.1	1.8	-0.9	9.7
Tikkurila common	-2.0	-1.3	-1.3	-1.9	-0.9	-1.6
Eliminations	-	0.0	-	-	-	-
Total	7.9	21.2	22.5	-7.7	8.5	33.1

Items affecting comparable EBIT by segment EUR million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020
SBU West	-0.1	0.0	-0.1	-0.1	-	-0.2
SBU East	0.0	-2.1	0.0	0.1	-	-1.3
Tikkurila common	-0.2	0.0	-	0.0	-	-
Eliminations	-	-	-	-	-	-
Total	-0.3	-2.0	-0.1	-0.1	-	-1.5

Adjusted operating result by segment	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020
EUR million						
SBU West	10.6	14.8	12.8	-7.5	10.4	25.3
SBU East	-0.7	9.8	11.2	1.7	-0.9	11.0
Tikkurila common	-1.8	-1.3	-1.3	-1.9	-0.9	-1.6
Eliminations	-	-	-	-	-	-
Total	8.2	23.2	22.6	-7.6	8.5	34.7

Non-allocated items:							
Total financial income and expenses		1.8	-0.4	-0.9	-0.5	-3.8	1.0
Share of profit or loss of equity-accounted investees		0.1	0.1	0.1	0.0	0.1	0.1
Profit / loss before taxes		9.7	20.9	21.7	-8.1	4.8	34.3

Assets by segment	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020
EUR million						
SBU West	350.5	363.2	362.1	343.1	364.0	396.0
SBU East	80.6	91.4	112.4	98.0	84.2	97.8
Assets, non-allocated to segments	52.7	96.5	37.2	31.4	67.8	104.8
Eliminations	-13.4	-20.8	-39.4	-35.4	-29.5	-36.8
Total assets	470.3	530.3	472.3	437.1	486.5	561.8