



TIKKURILA

Annual Review 2020



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This Annual Review 2020

provides an overview of Tikkurila's business operations and includes Financial Statements and the Corporate Governance Statement for 2020.

The Sustainability Report 2020,

including Tikkurila's approach and the reported GRI (Global Reporting Initiative) Sustainability Reporting Standards disclosures, is published as a separate report.

Tikkurila in brief

WE PAINT A COLOURFUL TOMORROW

We Paint a Colourful Tomorrow through our premium brands Tikkurila, Alcro and Beckers in decorative paints – to preserve life of a surface, of a colour, of a bridge or even of a human being.

This guides all we do: every service and solution we develop. But above all, it means that we are ready today for the needs of tomorrow.

This is our value proposition which differentiates us from our competitors.

NORDIC QUALITY FROM START TO FINISH SINCE 1862

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 embrace our market-leading brands and pride ourselves on innovation that is rooted in tradition but looks far into the future.

Tikkurila's products are available in more than 40 countries.

FACTS ABOUT TIKKURILA

- Established in 1862
- Listed on Nasdaq Helsinki
- Around 2,400 dedicated professionals in 11 countries
- 7 production facilities in 6 countries
- Products available in more than 40 countries
- Largest markets: Russia, Sweden, Finland, Poland and the Baltic countries
- Revenue 2020: EUR 582.0 million
- Operating result 2020: EUR 61.1 million
- Adjusted operating result 2020: EUR 63.8 million

THREE PREMIUM BRANDS IN DECORATIVE PAINTS.



Tikkurila is a leader in North Eastern Europe

We offer an extensive range of products for protecting and decorating surfaces for consumers, professionals and industrial customers.

Our largest markets are Russia, Sweden, Finland, Poland and the Baltic countries. We have seven production units in six countries. Our products are available in more than 40 countries.

Our business units are organized in two Strategic Business Units, SBU West and SBU East.

The SBU West's markets are Sweden, Finland, Poland, Baltic countries, Denmark and Norway. The main brands are Tikkurila, Alcro and Beckers in decorative paints. The SBU East's markets are Russia, Central Asian Countries and China. SBU East is also responsible for exports. The main brands include Tikkurila and Teks.

Our products are distributed through building supply stores, retailers, wholesalers, professional stores and directly to customers.



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.

84%

decorative
paints



CONSUMERS

- Renovators
- Decorators
- Gardeners
- Home and garden builders



PROFESSIONALS

- Contractors
- Designers and Architects
- Investors
- Other influencers

16%

industry
paints



INDUSTRY

- Wood industry
- Original Equipment Manufacturers (OEM)
- Protective coatings
- Other pre-treated surfaces

The Covid-19 pandemic has changed the dynamics of the decorative paint market:

consumers have turned back to **Do-It-Yourself** (DIY) from **Do-It-For-Me** (DIFM) trend.

Key distribution channels

Specialized paint stores
(E.g. RTV, Happy Homes, Colorama)

Own stores
Tikkurila's own pro shops

Big boxes
(E.g. K-Rauta, Bauhaus, Leroy Merlin)

Distributors

Tikkurila's estimate.

A LEADER FOR DECORATIVE PAINTS



Source: In decorative paints Finland (VTY), Sweden (SVEFF) and Poland (GfK Poland), 2020. Russia (Chem Courier) 2019. Baltic countries 2020, Tikkurila's estimate.

Our profitability improved significantly

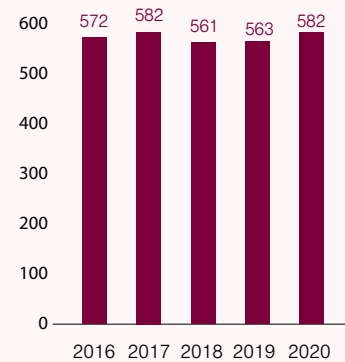
In 2020, Tikkurila continued to successfully implement its strategic action plan to improve profitability and efficiency in all functions. Tikkurila focused on the company's key premium brands and products, as well as further increasing the sustainability and functionality of its offering.

During the last years, Tikkurila has made a successful turnaround.

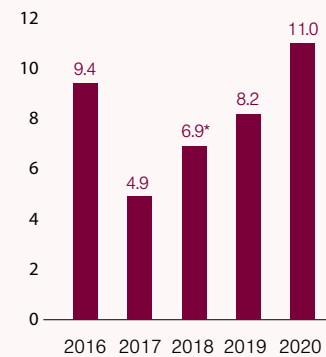
We increased sales of our quality brands, improved our operational and commercial excellence and focused on efficiency in all operations.

Elisa Markula, CEO

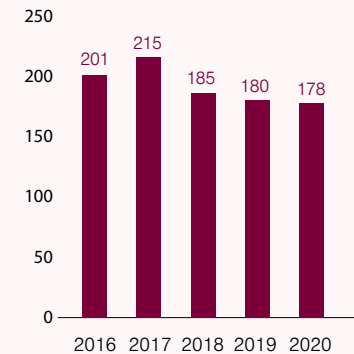
REVENUE
(EUR million)



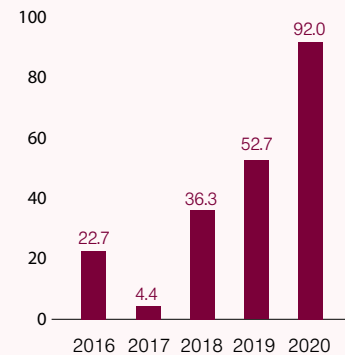
**ADJUSTED OPERATING
PROFIT MARGIN (%)**



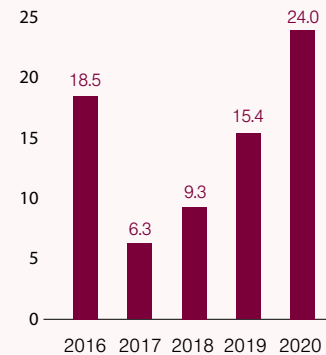
FIXED COSTS
(EUR million)



**CASH FLOW AFTER CAPITAL
EXPENDITURE (EUR million)**



**RETURN ON CAPITAL EMPLOYED
(%)**



CEO's review

The year 2020 was two-fold for Tikkurila. When the Covid-19 pandemic began in March-April, the business environment quickly changed and the demand for paint products declined. However, already from May onwards there was a rapid recovery in the demand for decorative paints as home improvement activities took off. The positive development continued from this on throughout 2020. At the same time, Tikkurila decisively implemented its strategic action plan, which aims at improving efficiency in all functions. For Tikkurila, 2020 turned out to be a successful year in terms of increased sales and improved profitability.

During 2020, Tikkurila's revenue grew by 3.2 percent to EUR 582 million and adjusted operating result increased by 37.5 percent to EUR 63.8 million compared to the previous year. Furthermore, cash flow from operations was very strong, and Return on Capital Employed (ROCE) significantly improved to 24 percent. Tikkurila's solid performance was driven both by the decisive execution of strategic actions and exceptionally high consumer demand due to home improvement activities during the pandemic. The growth was driven by our premium brands – Tikkurila, Alcro and Beckers in decorative paints.

Tikkurila experienced strong revenue growth particularly in Sweden and Finland, and revenue increased also in Poland. The revenue grew in Sweden almost 11 percent year-on-year. In Russia, excluding the impact of the weakening Ruble, our paint sales grew by 6 percent due to the growing sales of premium products. In Finland, the revenue growth was approximately 7 percent and in Poland 4 percent, respectively. Additionally, on all our main markets, the sales mix continued to improve as the sales of premium brands increased.

THE PANDEMIC DROVE PEOPLE INTO HOME IMPROVEMENT ACTIVITIES

At the beginning of the Covid-19 pandemic, we firstly faced a notable drop in sales in March-April due to the restrictions imposed by local authorities in our operating countries. At that



Tikkurila's solid performance was driven both by the decisive execution of strategic actions and exceptionally high consumer demand due to home improvement activities.

CEO Elisa Markula

Keep going. Blue skies ahead.

Y354 CUMULUS
COLOR OF THE YEAR 2021
#COLORNOW2021

time, we in Tikkurila immediately focused on ensuring the safety of our employees. The close cooperation with customers, partners and suppliers enabled us to adjust our operations in the situation. Also, temporary cuts in costs were made to safeguard cashflow. We experienced a rapid consumer-led recovery from May onwards. This strong development lasted throughout 2020.

As more than 80 percent of our revenue is coming from decorative paints, Tikkurila clearly benefited from the market trend, where people stayed at home and spent their excessive spare time renovating their homes and other premises. Due to the pandemic, customers turned more and more to DIY (Do-it-yourself) from DIFM (Do-it-for-me) sales channels. Furthermore, customers started to search for inspiration and even to choose colours online. In response, Tikkurila launched several digital consumer applications, such as the Colour App. On the other hand, as expected, the professional and industry businesses were negatively impacted by Covid-19 throughout the year, but eventually the decline in both businesses remained only slightly below the previous year's level.

In November, we launched the Colour of the Year for 2021, Cumulus, which is a beautiful light blue colour embracing a collective feeling of hope.

DECISIVE ACTIONS TO IMPROVE EFFICIENCY DELIVERED CONCRETE RESULTS

The successful execution of our strategic action plan defined already in 2018 to boost profitability and efficiency in Tikkurila, continued to deliver results throughout 2020 despite the pandemic. For example, we further streamlined our product portfolio by decreasing the number of labels by 50 percent compared to 2016, improve the product mix for premium products and centralize the

Supply Chain and Logistics Planning. The efforts continued with a focus on further improving collaboration between R&D, product portfolio management and raw material sourcing.

Furthermore, to enhance the focus on leading sales, increasing efficiency and meeting the needs of the two versatile business areas, Tikkurila's Sales function was split into two divisions, Strategic Business Units West and East, based on their geographical location. In addition to this, we decided to start developing the land area owned by Tikkurila in Vantaa, where the company's current facilities are located. Tikkurila signed a cooperation agreement related to the development of the land area with the city of Vantaa in November.

VALUE-BASED CULTURE AT THE HEART OF OUR BUSINESS

Towards the end of the year, we introduced our new value proposition, "We create a Colourful Tomorrow", with which we celebrate our colour heritage and inspire people through continuous innovation in colours and design. In Tikkurila, as a company that has a long heritage in colours, our aim is to innovate by combining sustainability and functionality and creating safe, efficient and durable protection for all weathers and conditions. Throughout last years, we have been building a common and strong value-based culture based on our values - Trustworthy, Innovative and Professional - which steer our everyday work and operations as well as support sustainable activities. As a company, we continued our journey towards "One Tikkurila", with one unified working culture.

STEPS TAKEN ON SUSTAINABILITY ROADMAP

During the year, we also took important steps in the implementation of Tikkurila's sustainability roadmap. The share of wa-

”

I am very pleased with and proud of our committed employees and how together we have succeeded during these exceptional times.

CEO Elisa Markula

ter-borne products in our offering further increased corresponding to almost 84 percent of the value of all products. [In September, a small solvent-borne industrial paint production unit was closed in St. Petersburg, Russia, as Tikkurila continued to focus on water-borne paints.] Furthermore, new bio-based products were introduced to the markets. Improving the safety and sustainability of our offering is about specific actions in our daily work.

EXCEPTIONAL YEAR-END FOR TIKKURILA

This exceptional year also ended exceptionally. In December, PPG Industries Inc. and Tikkurila entered into a combination agreement, according to which PPG commenced a voluntary recommended public cash tender offer for all shares in Tikkurila in January 2021.

Tikkurila has made a successful turnaround and improved its performance significantly during the last three years thanks to our clear strategic action plan and personnel highly committed to targets. Furthermore, we have increased sales of our premium quality brands, improved our operational and commercial excellence and focused on the efficiency of all operations. Tikkurila is a leader for decorative paints in Russia, Sweden, Finland and the Baltics. I see great potential in Tikkurila, and I consider the tender offer as an evidence of the good progress we have made.

I am very pleased with and proud of our committed employees and how together we have succeeded during these exceptional times. I want to thank all our employees for the hard work they have done for our customers. Likewise, I want to thank our partners, customers, and shareholders for their continued support.

Elisa Markula
CEO

We are committed to creating sustainable value for all our shareholders

WE INNOVATE FOR TOMORROW

We promise that our colorful surfaces last longer – this is the essence of the word Tomorrow. We are proud of our proven life cycle sustainability and being the leader in wood protection.

In our innovation we are combining sustainability and functionality creating safe, efficient and durable protection in all weathers and conditions. We foster the future by innovating in energy efficiency, air quality and clean surfaces.

Our value proposition is:
“We paint a Colourful Tomorrow”.





Input

Resources

- Binders, pigments, fillers, solvents and additives
- Packaging materials
- Water
- Energy

Infrastructure

- 7 production units in 6 countries
- 11 training centers
- 4 R&D centers

Human capital

- 2,422 employees

Intellectual capital

- Premium brands with high preference
- Versatile professional and consumer services
- Extensive distribution network

Financial capital

- Equity EUR 181.4 million (2019: 171.9)
- Assets EUR 441.6 (2019: 437.1)
- Interest-bearing net debt EUR 12.1 million (2019: 78.4)

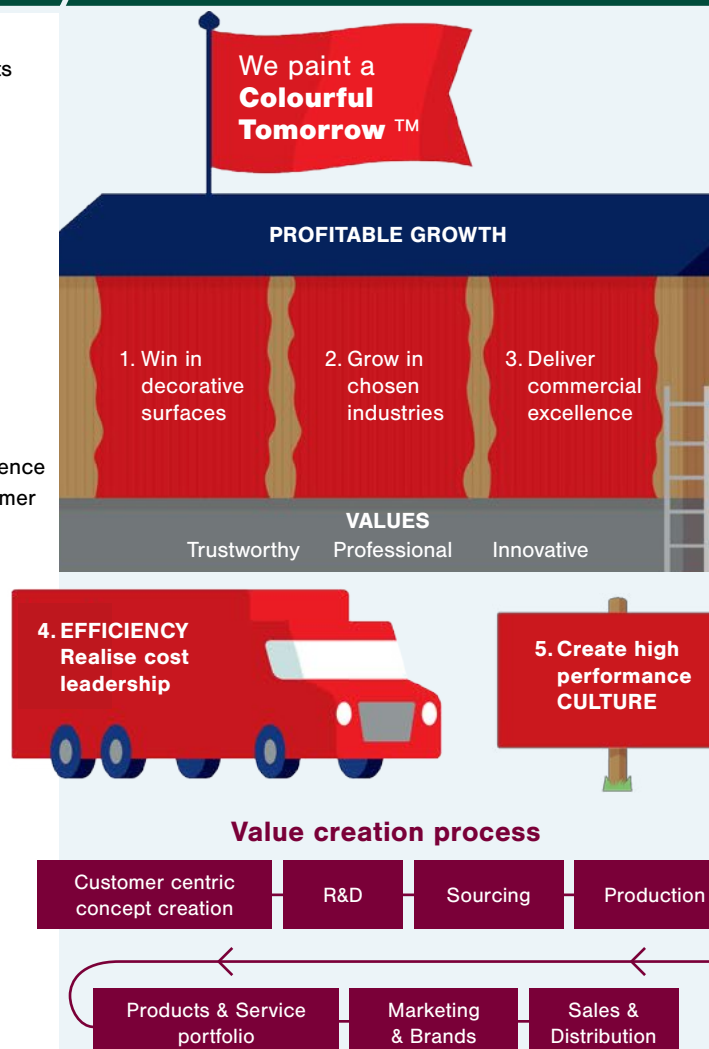
Investments

- Increasing the share of sustainable products
- Increasing investments on R&D

Community and relationship

- Customers and consumers
- Owners
- Partners

Business



Output

Surface treatment solutions

- 83.5% water-borne paints (gross sales from total group offering, decorative products)
- 38% eco-labeled products (gross-sales of water-borne, eco-labeled decorative products which have classified for international or national eco-label, allergy or asthma label or M1 classification)

Services

- Instore concepts to support inspiration and choice
- Tikkurila Pro Club & Academy for professional and partner network
- Colour services & tools
- Technical services for B2B customers
- Customer service channels – hotlines, chatbots

Waste and emissions

- Total waste 7,234 tns (2019: 6,753)
- Direct CO₂ emissions 3,851 tn (2019: 4,596)

Impact

Value for customers

- Successful and durable end-results, high quality, sustainable surfaces
- High customer satisfaction and brand preference

Value for owners and investors

- Due to the ongoing tender offer process, the Board proposes that Tikkurila's AGM decides that no dividend be paid on the decision of the AGM from the financial year 2020. (2019: EUR 0.50)

Impact on the community

- Employment: wages and benefits EUR 105.1 million (2019: 99.3)
- Gross taxes EUR 13.5 million (2019: 12.4)
- 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



Financial information

2020

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Board of Directors' Report

In 2020, strong demand for decorative paints continued in all Tikkurila's main markets especially in the second half of 2020 despite the global Covid-19 pandemic. In industrial paints, sales decreased but less than anticipated.

Financially, Tikkurila performed well both in terms of revenue and profitability. In 2020, Tikkurila's revenue increased by 3.2 percent, and by 7.3 percent excluding currency effects, divestments and closures. Tikkurila's adjusted operating result improved by 37.5 percent to EUR 63.8 million. Growth was driven particularly by

our premium brands. At the end of the year, gearing was down to 6.7 percent, and ROCE had climbed to 24 percent.

In 2020, Tikkurila kept strict focus on its strategic action plan to improve efficiency and to support growth. In December, Tikkurila entered into a combination agreement with PPG Industries, Inc.

FINANCIAL PERFORMANCE

Full year 2020 EUR million	Revenue			Operating result (EBIT)			Adjusted operating result		
	1-12/2020	1-12/2019	Change %	1-12/2020	1-12/2019	Change %	1-12/2020	1-12/2019	Change %
Consolidated Group	582.0	563.8	+3.2%	61.1	43.9	+39.1%	63.8	46.4	+37.5%
Excl. FX, divestments and closures		+41.4	+7.3%						
SBU West	398.0	370.0	+7.5%	49.0	30.4	+60.9%	49.2	30.7	+60.3%
Excl. FX, divestments and closures		+31.3	+8.5%						
SBU East	184.1	193.8	-5.0%	20.4	20.0	+2.0%	21.8	22.0	-1.1%
Excl. FX, divestments and closures		+10.2	+5.2%						
Group common and eliminations	-0.1	0.0	-508.4%	-8.3	-6.5	-27.3%	-7.2	-6.3	-13.4%

Tikkurila's total revenue in 2020 was EUR 582.0 (563.8) million, which is an increase of 3.2 percent on the previous year. In comparable terms, revenue increased by 7.3 percent in local currencies, excluding the impact of divestments and closures.

During the full year, revenue increased driven by growth in SBU West, whereas SBU East revenue decreased. Currency fluctuations impacted revenue negatively, mainly driven by the devaluating Russian Ruble. In local currencies revenue increased also in SBU East.

Operating result increased by 39.1 percent, driven by a positive volume development in decorative paints, improved sales mix and a couple of million euros temporary cost savings during Q2. In the second half of 2020 the fixed costs gradually stabilized back into normal levels enabling targeted investments to address growth and efficiency improvement opportunities.

Adjusted operating result increased by 37.5 percent. In 2020, items affecting comparability were mainly related to the small Russian production site closure and costs related to public tender offer process. During the comparison period, items affecting comparability mainly related to the cancellation of Russian greenfield factory project.

Earnings per share (EPS) were EUR 0.98 (0.75) for the review period.

Effects of various factors on revenue for the Group	Full year (1–12)	
	EUR million	%
Revenue in 2019	563.8	
Volume	12.5	+2.2%
Price/mix	28.9	+5.1%
Currencies	-23.2	-4.1%
Divestments and closures	-0.0	-0.0%
Revenue in 2020	582.0	+103.2%

Increased volumes during the year were driven by growth in decorative, particularly in exterior paints. Tikkurila continued to focus on value over volume. While sales of premium brands increased, sales of private labels and cheaper economy paints declined. This was mainly a result of the company's decisive strategy to focus on core premium brands. In industry paints, volumes full year grew slightly.

The positive effect from price/mix changes was driven by favorable product mix, as well as the increasing share of premium products.

The overall impact of currencies on revenue was negative in 2020. The impact was clearly negative in Russia, Poland, slightly negative in Norway, China and Kazakhstan and slightly positive in Sweden.

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. From 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 2020 and 2019.

SBU West

EUR million	1–12/2020	1–12/2019	Change %
Revenue	398.0	370.0	+7.5%
Excl. FX, divestments and closures		+31.3	+8.5%
Operating result (EBIT)	49.0	30.4	+60.9%
Operating result (EBIT) margin, %	12.3%	8.2%	+4.1%-p
Adjusted operating result	49.2	30.7	+60.3%
Adjusted operating result margin, %	12.4%	8.3%	+4.1%-p
Capital expenditure	11.7	12.6	-7.1%

Revenue in key countries

EUR million	1–12/2020	1–12/2019	Change %
Sweden	131.3	118.7	+10.6%
Finland	97.9	91.1	+7.4%
Poland	92.6	89.4	+3.6%

SBU West's total revenue in 2020 was EUR 398.0 (370.0) million, which is an increase of 7.5 percent on the previous year. In comparable terms, revenue increased by 8.5 percent in local currencies, excluding the impact of divestments and closures.

In Sweden, revenue increased both in decorative and industry paints. Growth was driven by continued strong consumer demand for all paints, but especially for exterior paints.

In Finland, revenue increased in decorative paints, driven both by interior and exterior paints. Revenue decreased slightly in industrial paints.

In Poland, revenue increased in decorative paints, driven by interior paints. Revenue decreased slightly in industry paints.

Operating result increased by 60.9 percent to EUR 49.0 (30.4) million.

Adjusted operating result increased 60.3 percent to EUR 49.2 (30.7) million in 2020.

Effects of various factors on revenue in SBU West	Full year (1–12)	
	EUR million	%
Revenue in 2019	370.0	
Volume	17.6	+4.8%
Price/mix	13.7	+3.7%
Currencies	-3.4	-0.9%
Divestments and closures	-	-
Revenue in 2020	398.0	107.5%

In 2020, **volumes** grew in Finland, Poland, and Sweden, despite the negative impact of Covid-19 restrictions in Q2.

Positive effect from **price/mix changes** was driven by a favorable product mix development across SBU West.

The overall impact of **currencies** on revenue was negative in 2020, mainly driven by the weakening of the Polish Zloty, slightly offset by the strengthening of the Swedish Crown towards the end of the year.

SBU East

EUR million	1–12/2020	1–12/2019	Change %
Revenue	184.1	193.8	-5.0%
Excl. FX, divestments and closures		+10.2	+5.2%
Operating result (EBIT)	20.4	20.0	+2.0%
Operating result (EBIT) margin, %	11.1%	10.3%	+0.8%-p
Adjusted operating result	21.8	22.0	-1.1%
Adjusted operating result margin, %	11.8%	11.4%	+0.5%-p
Capital expenditure	2.0	3.7	-46.2%

Revenue in key countries

EUR million	1–12/2020	1–12/2019	Change %
Russia	133.6	143.6	-7.0%

SBU East's total revenue in 2020 was EUR 184.1 (193.8) million, which is a decrease of 5.0 percent on the previous year. In comparable terms, revenue increased by 5.2 percent in local currencies.

In **Russia**, full year revenue development was negative due to the heavily weakened Russian Ruble. Revenue was negatively impacted in Q2 due to the Covid-19 restrictions closing stores across Russia, but demand recovered in the second half of 2020, especially in exterior paints. Industry paint revenue declined due to the strategic decision to focus on certain product categories and premium industrial products in conjunction of closing a small industrial paint production unit in St. Petersburg, Russia in Q3.

Operating result increased by 2.0 percent to EUR 20.4 (20.0) million, despite negative revenue development, thanks to effective margin and cost management.

Adjusted operating result decreased by 1.1 percent to 21.8 (22.0) million. Items affecting comparability in 2020 relate to closure of a small production site St. Petersburg, Russia. In the comparison period of 2019, items affecting comparability included an expense of approximately EUR 2.0 million relating to cancellation of greenfield factory project in Russia.

Effects of various factors on revenue in SBU East	Full year (1–12)	
	EUR million	%
Revenue in 2019	193.8	
Volume	-5.0	-2.6%
Price/mix	15.2	+7.8%
Currencies	-19.9	-10.3%
Divestments and closures	-0.0	-0.0%
Revenue in 2020	184.1	95.0%

Volumes were negatively impacted by Covid-19 restrictions in Q2, but decorative paint demand recovered in second half of the year. Industry paint volumes decreased in line with a strategic decision to exit certain product categories and focus on premium industrial products.

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

The overall impact of **currencies** on revenue was heavily negative in 2020, due to the weak Russian Ruble.

STRATEGY ACTION PLAN PROGRESSED

The execution of Tikkurila's strategy action plan, aimed to boost profitability and efficiency, continued to deliver results in 2020 despite the pandemic.

The strategy actions were based to improve performance 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 2020

In 2020, Tikkurila continued to proceed with the execution of the strategy action plan to boost profitability and efficiency. Key improvements are described in more detail as follows.

Optimize portfolio: During the year Tikkurila prioritized profitability and focused on premium brands and products as well as on developing more and more sustainable and functional products. Product portfolio was streamlined by reducing the complexity of the product portfolio by decreasing the number of sales articles, manufacturing formulas and raw materials. By the end of 2020, the company reached its goal to reduce the number of sales articles by 50 percent compared to 2016, including the impacts of the divestments of business operations.

Grow in decorative paints and selected industry segments: During 2020 new products were successfully launched on various market areas to support sales growth. The share of new products out of revenue increased following the product launches in all end-customer segments, for consumers, professionals, and industry customers. Also, multiple new services (e.g. Colour App and a new concept for Wet samples) were introduced to make the buying of products easier for customers. Marketing campaigns were carried out in all main markets to support the changed customer needs ("Stay at home"), while consumers showed an increasing online activity for product information as well as inspiration due to the Covid-19 lockdowns.

Improve sales performance management: Tikkurila successfully continued to focus on increasing the share of premium products and improving the product mix. Price increases were implemented in selected markets and products. In September, Tikkurila's Sales function was split in two divisions based on geographical location (West and East divisions) in order to increase the efficiency and focus on leading sales.

Increase efficiency in operations: Tikkurila continued to outline the future Supply Chain footprint and optimize logistics. The new Tikkurila Business Steering process (TBS) was rolled-out to integrated Sales & Operations Planning. Logistics and Supply Chain Planning were centralized to improve efficiency and service. In Q3, a small solvent-borne industrial paint production unit was closed in St. Petersburg, as Tikkurila continued to focus on water-borne paints. In November, Tikkurila Oyj and the City of Vantaa signed a cooperation agreement related to the development of Tikkurila's land area in Vantaa, Finland. The city planning by the city of Vantaa and the design and construction process of a potential new production plant will take several years, during which manufacturing will continue in the current units. Tikkurila envisages that the land area encompassing the current operations could be sold in phases by year 2035. The company further expects that the proceeds from the sale of the land area will be sufficient to clearly cover the cost of the relocation from the current site.

Save in fixed costs, centralize indirect sourcing: Fixed costs continued to develop positively. In total, the fixed costs decreased by one percent to EUR 178.1 million in 2020 corresponding to 30.6 percent of revenue (EUR 180.4 million and 32.0 percent). During the first half of 2020, Tikkurila implemented temporary savings in response to the Covid-19 pandemic, but the fixed costs normalized by autumn as investments in marketing and promotion activities were restarted to support sales growth. During the second half, the focus was shifted from cost savings to active cost management, while enabling targeted investments to address growth and efficiency improvement opportunities.

Increase efficiency in direct materials and indirect sourcing: A significant number of planned cost reduction actions identified in 2019 and throughout 2020 were implemented as planned. Commercial renegotiations for 2020 were executed and delivered expected positive results. Efforts to improve efficiency continued with a focus on further improving collaboration between R&D, product portfolio management and raw material sourcing.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

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

Cash flow from operations in January–December totaled EUR 97.6 (61.4) million.

In financial year 2020, cash flow from operations was improved by favorable development in profitability and lower level of the net working capital. Due to Covid-19 pandemic, governments in some of Tikkurila's operating countries granted various subsidies and allowed companies to defer some indirect employee costs, indirect taxes, and payments of corporate income taxes. These deferred payment times improved operating cash flow during first half of the year, but this impact was evened out on second half of the year, thus having no material impact on cash flow in January–December.

In addition, the direct subsidies in relation to personnel costs and governments' decisions to decrease contribution rates of obligatory employee expenses during Covid-19 pandemic had a minor impact on profitability decreasing personnel expenses by approximately EUR 1.1 million in 2020.

The decrease in net working capital during January - December was primarily driven by higher level of trade payables but was also supported by favorable development in trade receivables. At the end of the review period, net working capital totaled EUR 55.6 (83.6) million. The net cash flow from investing activities was EUR -5.7 (-8.6) million. Cash flow after capital expenditure totaled EUR 92.0 (52.7) million at the end of the review period.

Interest-bearing debt amounted to EUR 104.1 (125.4) million at the end of the review period, of which EUR 17.3 (22.6) million were lease liabilities. Net debt amounted to EUR 12.1 (78.4) million, and net debt excluding lease liabilities was EUR -5.2 (55.7) million. At the end of the review period, cash and cash equivalents amounted to EUR 92.0 (47.0) million. Short-term interest-bearing debt totaled EUR 34.0 (50.2) million, including the company's issued commercial papers for a total nominal amount of EUR 27.0 (43.0) million, and short-term lease liability of EUR 7.1 (7.3) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 70.1 (75.1) million including lease liability of EUR 10.3 (15.3) million. At the end of December, the Group had a total of EUR 109.8 (110.2) million unused committed credit facilities or credit limits.

The Group's net financial expense was EUR -6.6 (-0.0) million, of which net interest expenses totaled EUR -1.4 (-1.2) million including interest expenses related to lease liabilities EUR -0.9 (-1.1) million, and other financing expenses EUR -0.5 (-0.6) million. The average capital-weighted interest rate of interest-bearing debt was 1.4 (1.4) percent. The net profit was negatively affected by a total of EUR -4.7 (+1.7) million due to the realized and unrealized exchange rate differences recognized during the review period. The main negative impact was related to the Russian ruble nominated internal loan. 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 exchange rate 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 41.1 (39.3) percent and gearing 6.7 (45.6) percent. Gearing excluding lease liabilities was -2.9 (32.4) percent. Tikkurila's financing arrangement includes a covenant that is based on Group's gearing.

CAPITAL EXPENDITURE

In 2020, gross capital expenditure amounted to EUR 13.7 (16.3) million, of which EUR 4.8 (5.1) million are IFRS 16 related investments in right-of-use assets.

The Group's depreciation, amortization and impairment losses amounted to EUR 24.4 (24.2) million in 2020, including a EUR 7.7 (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 77.7 (79.3) million in 2020, which accounts for 13.3 (14.1) percent of revenue.

Tikkurila is a leader in the company's core market areas with its strong premium brands. Tikkurila's products are well known and receive high Net Promoter Scores from customers. In 2020, the focus on premium brand portfolio (Tikkurila, Alcro and Beckers in decorative paints) was further strengthened, and sales of all three strategic brands increased.

Tikkurila develops high-quality, user-friendly, and environmentally sustainable solutions and trains its stakeholders in the durable use of its products. In 2020, the company continued to focus on R&D to accelerate new product development and shorten time-to-market. The number of premium novelties and revenue from novelties was above the previous year's levels. Tikkurila launched new products in industry wood and metal business areas as well as in decorative paints. In the R&D, Tikkurila focuses on combining sustainability and functionality creating safe, efficient, and durable protection in all weather conditions. With regards to sustainability, Tikkurila has the highest number of eco-labelled products in our core markets, and we continued to innovate with a special focus on energy efficiency, air quality and clean surfaces. With regards to functional products, Tikkurila continued the roll-out of the fire-retardant paint portfolio for wooden surfaces in all relevant markets, and the company also introduced an intumescent paint for steel surfaces in industry business area.

Portfolio optimization work continued and by year-end Tikkurila reached its target to reduce sales articles (SKU) by 50 percent compared to the level in 2016 - including the impact of the divestments. While this has helped to reduce complexity and increase efficiency in sales and marketing as well as operations, the reduction in SKU's did not have negative impact on sales. Tikkurila also continued to further reduce the number of raw materials as well as paint formulas; continuously improving efficiency in R&D, sourcing, and production.

In addition to the activities related to the product portfolio and efficiency, Tikkurila introduced multiple new services to make buying products easier. During the Covid-19 pandemic, there was a clear increase in the need for digital services. Tikkurila opened several e-comms channels to make us more responsive to customer needs during the Covid-19 restrictions. Digital services for professionals were developed, e.g. "Pro Club", a VIP club for small and mid-sized contractor companies. To offer tailor-made colour solutions for any surface needed and to make choosing colours easier, Tikkurila introduced the "Colour App", a digital colour selection tool, as well as a concept for "Wet paint" samples. Tikkurila's brand colour collection was also renewed with fresh upgraded colour styles.

During 2020, the Sales function was split in two: SBU East and SBU West, in order to increase the efficiency and focus on leading sales.

RESEARCH, DEVELOPMENT AND INNOVATION

In 2020, Tikkurila's research and development expenses were EUR 9.8 (9.6) million, which accounts for 1.7 (1.7) percent of revenue. At the end of year, the R&D unit employed 183 (182) people. Tikkurila's R&D units are in Finland, Poland, Russia, Sweden, and Estonia.

R&D 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 2020, the focus of R&D was on the successful implementation of new product launches and the development of new environmentally friendly paints and functional features. The most important decorative paint launches were new biobased products. In Sweden and Finland, a series of new interior wall paints and new biobased terrace oils were launched. In Russia, a new decorative solvent-free colorant range (Avatint Plus) was launched. In the industrial paint business, new launches included protective coatings, OEM solutions as well as intumescent coatings.

The product development organization was strengthened with new recruitments. Efforts to streamline R&D operations also continued by finalizing the optimization of indoor paint formulas as well as the harmonization of all decorative paint formulas to decrease the number of raw materials used while maintaining high quality standards. At the same time R&D ensured that Tikkurila meets all the demands of the new biocide regulation and regulation on EU Poison Centers.

HUMAN RESOURCES AND COMPANY MANAGEMENT

At the end of December 2020, the Tikkurila Group employed 2,422 (2,607) people. The average number of employees in January–December was 2,628 (2,713). The decrease was driven by divestments, as well as restructuring.

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.

Wages and salaries in 2020 totaled EUR 80.7 (76.8) million.

	Q1/2020	Q2/2020	Q3/2020	Q4/2020	Q1/2019	Q2/2019	Q3/2019	Q4/2019
SBU West	1,583	1,706	1,594	1,576	1,575	1,701	1,566	1,550
SBU East	1,085	1,066	954	829	1,133	1,130	1,063	1,041
Group functions	17	17	18	17	15	15	16	16
Total	2,685	2,789	2,566	2,422	2,723	2,846	2,645	2,607

SHARES AND SHAREHOLDERS

At the end of 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 2020, Tikkurila held 2,371 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had 18,793 (18,449) shareholders on December 31, 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>. 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 24.95. In January–December, the volume-weighted average share price was EUR 16.69, the lowest price EUR 9.36 and the highest price EUR 24.95. At the end of December, the market value of Tikkurila Oyj's shares was EUR 1.1 billion. During January–December, a total of 18.2 million Tikkurila shares, corresponding to approximately 41.2 percent of the number of shares, were traded on Nasdaq Helsinki Ltd. The value of the traded volume was EUR 303.1 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

During the reporting period, Tikkurila received the following notifications pursuant to the Finnish Securities Markets Act on changes in holdings of significant shareholders.

On **2 January 2020**, Tikkurila received a notification from **FMR LLC** that with effect from 1st January 2020 Fidelity Management & Research Company had changed its name to Fidelity Management & Research Company LLC. FMR Co., Inc, FIMM, and SelectCo had also merged into Fidelity Management & Research Company LLC. At the time of the announcement, the holdings under the management of FMR LLC amounted to 4,337,873 shares, which corresponded to 9.83 percent of the total amount of shares and voting rights.

On **26 June 2020**, Tikkurila received a notification from **Varma Mutual Pension Insurance Company** that their holdings in Tikkurila Oyj's shares had decreased below the 5% threshold. Following the announcement, the holdings of Varma Mutual Pension Insurance Company in Tikkurila Oyj amounted to 1,693,525 shares, which corresponded to 3.84 percent of the total amount of shares and voting rights.

On **22 September 2020**, Tikkurila received a notification from **Oras Invest Oy** that their holdings in Tikkurila Oyj's shares had increased above the 20% threshold. Following the announcement, the holdings of Oras Invest Oy in Tikkurila Oyj amounted to 8,828,051 shares, which corresponded to 20.01 percent of the total amount of shares and voting rights.

On **23 September 2020**, Tikkurila received a notification from **Intrinsic Value Investors (IVI) LLP** that the holding of the funds and accounts managed by them in shares of Tikkurila Oyj had decreased below the 5% threshold. Following the announcement, the indirect holdings of Intrinsic Value Investors (IVI) LLP in Tikkurila Oyj amounted to 2,203,071 shares, which corresponds to 4.99 percent of the total amount of shares and voting rights.

On **14 October 2020**, Tikkurila received a notification from **Marathon Asset Management LLP** that the holding of the funds and accounts managed by portfolio managers under their control in shares of Tikkurila Oyj had decreased below the 5% threshold. Following the announcement, the holdings of the previously mentioned entities in Tikkurila Oyj amounted to a total of 2,018,006 shares, which corresponds to 4.58 percent of the total amount of shares and voting rights.

On **2 December 2020**, Tikkurila received a notification from **Bestinver Gestion, S.A. SGIIC** that the holding of the funds and accounts managed by Bestinver Gestion, S.A. SGIIC in shares of Tikkurila Oyj has decreased below the 5% threshold due to trades executed on December 1, 2020. Following the announcement, the indirect holdings of Bestinver Gestion, S.A. SGIIC in Tikkurila Oyj amount to 2,182,610 shares, which corresponds to 4.948 percent of the total amount of shares and voting rights.

Share-based incentive plans

Tikkurila Oyj has a long-term share-based incentive scheme consisting of the performance periods 2018-2020, 2019-2021 and 2020-2022 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.

The long-term incentive scheme, consisting of three performance period, includes approximately 20 key employees, including Group management team members. The potential reward from the performance periods will be based on Tikkurila Group's average EBITDA and net debt based intrinsic values of each performance period. 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. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment.

In December 2020, the Board of Directors made a decision, pursuant to the combination agreement made with PPG Industries Inc., that the Company will resolve, in case the tender offer is completed, and the transaction is closed, to settle in cash all outstanding awards to be paid for the performance periods under the share-based incentive plan. Change in settlement as cash will lower the result of financial year 2021. The amount of the reward payment shall be resolved by the Company's Board of Directors, taking into account, among other things, the proportion of the time of the completion of the Tender offer.

Insider holdings and management transactions

Information on the holdings of the Board of Directors and Management Team at the end of the reporting period are available on the Corporate Governance Statement's Chapter "4. More detailed information about the members of the Board of Directors and of Tikkurila Management Team".

Managers' transactions during the reporting period have been published as stock exchange releases and they are available on Tikkurila'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 March 4, 2021 at the latest, at <https://www.tikkurilagroup.com/investors>.

THE NOMINATION BOARD

The Nomination Board is responsible for preparing and presenting proposals to the Annual General Meeting for the number, composition, the chairman and vice chairman as well as remuneration of the Board of Directors.

On 4 September 2020, the Shareholders' Nomination Board of Tikkurila Oyj was appointed. The members of the Nomination Board are:

- Annika Paasikivi, President & CEO, Oras Invest Ltd
- Hanna Kaskela, Director, Responsible Investment (Varma Mutual Pension Insurance Company)
- Patrick Lapveteläinen, CIO (Sampo plc), Chairman of the Board of Directors (Mandatum Life)
- Jari Paasikivi, Chairman of the Board of Directors, Tikkurila Oyj (expert member of the Nomination Board)

Annika Paasikivi was elected as the Chairman of the Nomination Board.

The Shareholders' Nomination Board of Tikkurila is an organ established by the General Meeting consisting of shareholders or representatives of shareholders to annually prepare and present proposals for the General Meeting concerning the number of the members, composition, the chairman and vice chairman, as well as remuneration of the Board of Directors.

On April 30, 2020, Tikkurila's three largest shareholders in the shareholders' register maintained by Euroclear Finland Ltd were Oras Invest Ltd, Varma Mutual Pension Insurance Company and Mandatum Life Insurance Company Ltd.

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, West Division
- Roman Ivashko, Senior Vice President, Sales, East Division (as of September 1, 2020)

In July, Tikkurila announced to further increase the efficiency and focus on leading sales as the sales function was to be split into two divisions: West and East. The divisions represent the company's external reporting segments. The former SVP Sales, Oskari Vidman, took over the West division. Roman Ivashko was appointed as SVP, Sales, East division, as of September 1, 2020.

DECISIONS BY THE ANNUAL GENERAL MEETING 2020

The Annual General Meeting (AGM) was held on June 9, 2020 in Vantaa, Finland. The AGM approved the Financial Statements for 2019, discharged the members of the Board of Directors and the CEO from liability for the financial year 2019 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.

In the combination agreement dated December 18, 2020 with PPG Industries, Inc, Tikkurila has committed not to use the authorization to transfer or issue new shares.

Dividend

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 on 18 June 2020 to shareholders who were recorded in the Company's shareholders' register maintained by Euroclear Finland Ltd on the record date for the dividend payment, 11 June 2020. Additionally, 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 would be possible to make a more reliable estimate on the impacts of the coronavirus pandemic to the company's business. On 28 October 2020, the Board of Directors decided on the payment of the second dividend trench (EUR 0.25 per share) which was paid out on 6 November 2020 to shareholders based on their holdings on the record date, 30 October 2020.

Remuneration of the Board of Directors

The Annual General Meeting decided that the annual remuneration of the members of the Board of Directors would stay at the current level. The annual remuneration to the members of the Board of Directors is 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 is paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares were acquired directly on behalf of the Board members within two weeks from the publication of the half year 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) is 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 is EUR 600. Travel expenses are paid according to the travel policy of the company.

Members of the Board of Directors

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.

Election of the auditor and their remuneration

Authorized public accountants Ernst & Young Finland Oy continued 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.

The minutes of the Annual General Meeting are available on Tikkurila's website <http://www.tikkurilagroup.com/agm>.

Composition of the committees of Tikkurila's Board of Directors

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.

ANNUAL GENERAL MEETING 2021

Tikkurila Oyj's Annual General Meeting was planned to be held on March 25, 2021. Due to the ongoing tender offer process, the company's Board of Directors has decided to postpone the meeting until a date to be announced later.

SUSTAINABLE TIKKURILA

REPORTING ON NON-FINANCIAL INFORMATION

Tikkurila is a Nordic paint company whose products are manufactured of carefully selected raw materials that meet the highest quality and safety standards. As a pioneer of safe and sustainable paints, surface treatments, and colors, Tikkurila is committed to taking concrete actions to ensure that it produces and offers to its customers solutions that are of excellent quality and increasingly sustainable.

Further information on Tikkurila's sustainability approach can be found in a separate sustainability report, which will be published in March 2021 on Tikkurila's website at <http://www.tikkurilagroup.com/sustainability>. This report has been externally audited. Risks relating to non-financial information as well as risk management, are described in the Risk section of this Board of Directors' Report.

Business model and value creation

Tikkurila is a paint and coatings manufacturer that offers paint and coating products and solutions for decorating both interior and exterior surfaces for consumers, professionals, and industrial customers. Up in the value chain, there are suppliers of raw material and packaging, and followed by retailers, industry customers, and consumers. Tikkurila's product and service portfolio include colours and tinting, painting instructions, as well as expert and training services.

The most important added value that Tikkurila contributes to the value chain of coated surfaces is its ability to create optimal paint formulas, dissolve them in an optimal manner, and under optimal conditions – resulting in the efficient delivery of safe, competitive, and high-quality products to customers and consumers. In the core of Tikkurila's business model are strong brands generated by with high-quality long-term development work and significant marketing investments. Tikkurila has seven paint manufacturing facilities in six countries, and by the end of 2020 employed 2,422 people.

Sustainability of materials

For Tikkurila, sustainability entails identifying and addressing of social, ethical, and ecological issues and impacts, without compromising financial ambition and commitments. Sustainability issues are not static and require constant monitoring. Tikkurila relies on established contacts and an active dialogue with stakeholders, to identify and analyze relevant sustainability aspects. In addition, applicable legal and regulatory framework are reviewed including the likely future changes and development. Likewise, Tikkurila examines the regional and local customer and market trends, insight into consumer behavior, competitor analyses, and all other knowledge and insight gathered by the organization; and where necessary, specific studies. This process is supported by specifically conducted interviews and workshops between Tikkurila's management and its experts representing different countries and areas of operation.

Significant sustainability issues have been identified based on feedback from internal and external stakeholders, changes to laws and regulations, knowledge of market and customer trends, and issues identified by our externally certified quality, OHS and environmental management systems. The importance and priority ranking assigned to sustainability actions are influenced by variables such as, mandatory requirements, non-compliance risks, business and eco-efficiency potential, customer needs, concerns or requests, direct and indirect environmental impacts, occupational health, and safety risks, as well as medium and long-term market trends. The topics and consequent activities addressing these topics

are allocated to the appropriate sustainability team in line with the sustainable development governance model:

- Sustainability of sourcing, Supplier corporate social responsibility performance evaluation and assessment including packaging and energy.
- Sustainability of operations, occupational health and safety, production eco-efficiency of operations, responsible company,
- Sustainable development for products, product R&D and innovation, high quality, and durable sustainable solutions

These sustainability aspects and actions are included in the Group's strategy and implementation roadmap.

Practices and principles

Tikkurila conducts its business in compliance with high ethical standards, legislation, and with its company practices and Code of Conduct. Regardless of the market area, it fully adheres to internationally recognized principles of social responsibility concerning human rights, employment relations, freedom of association, anti-discrimination, working time and conditions, occupational health, and safety, as well as environmental protections and the business ethics. It also strives to ensure that its business partners adhere to these principles.

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

Tikkurila's values – Trustworthy, Innovative, and Professional – steer our operational activities and support sustainable business practices. These values are present in the company's everyday operations and in all business situations, both on a small and large scale. Tikkurila also committed to the UN's Sustainable Development Goals, from which were selected the following four focus areas as the central goals for Tikkurila's operations: (8) - decent work and economic growth, (11) - sustainable cities and (12) - communities, responsible consumption, and production, as well as (13) - climate action.

Our Code of Conduct define the fundamental requirements of our business: establishing professional business relationships, avoiding conflicts of interest, protecting company assets, fair competition, human rights and equality, health and safety, environmental protections, as well as trust and data protection. 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.

Employees as well as other stakeholders are able to report potential misconduct, violations of business policies, or the Code of Conduct, and any other illegal or unethical business practices, anonymously through the feedback system. The objective of the system is to ensure that Tikkurila's daily operations comply with the principles of good corporate governance and business practices, and that any violations of the principles and other illegalities are reported.

In addition to Tikkurila's Code of Conduct, daily work and operations are guided by a variety of practices, principles, procedures, and requirements that complement the applicable legislation such as:

- Corporate Governance Code for listed companies
- Authorization policy
- Anti-corruption guidelines
- Competition Law Enforcement practices
- Trade compliance policy
- Privacy policy and the company's GDPR processes
- Risk Management policy
- Health, Safety and Environmental guidelines
- Sourcing principles
- Disclosure policy
- Related party policy
- Insider policy

Certified operations

Tikkurila relies on internationally recognized and standardized management systems, for creating a systematic management culture of environmental, occupational, and health & safety aspects and in creating a comprehensive management culture for these issues. Management systems provide a framework for environmental, health, and safety work and support continuous improvement efforts. This provides transparency of risks and improvement opportunities and supports Tikkurila's continuous efforts to be eco-efficient and ensure high quality health and safety management.

Tikkurila has several management systems in place: ISO 14001 for environmental management, ISO 45001 or OHSAS 18001 for occupational health and safety, and ISO 9001 for quality management. These are externally audited for our main sites and main stand-alone warehouses.

Environmental matters

Tikkurila's primary sustainability aspects, including social and ethical aspects, relate to the environmental impacts of its products and their manufacture.

Environment and products

When looking at the life cycle of a treated surfaces, environmental impacts typically result from the raw materials of the paints as well as from the surface materials to which our products being applied. In the life cycle of a treated surface, regardless of the environmental impact category, the manufacture of paints and coatings has only a minor impact over the entire life cycle.

Data and scientific information are crucial for improving the environmental performance of Tikkurila's products. Comprehensive information can be used to ensure that the net impact of products on the environment during their life cycle is genuinely improved through product development, rather than the environmental impact simply shifting to another stage of the treated surfaces life cycle or between different environmental impact categories.

Tikkurila has several third-party approved environmental certificates and other accreditations, such as the Nordic Swan ecolabel.

During the 2020 reporting period, Tikkurila had zero non-compliance issues regarding product safety or product regulatory requirements nor any non-compliance issues for product regulatory requirements and/or voluntary codes of conduct regarding marketing communications, such as advertising, promotion, and sponsorship. As a result, Tikkurila received no fines, penalties, or warnings during the year for non-compliance regarding the regulatory requirements of its products or marketing.

Environment and operations

The key environmental factors in the production of paints relate to water and energy consumption, volatile compounds, emissions, and waste. At Tikkurila, occupational health and safety has also been included as a key aspect of the sustainability.

In 2020, Tikkurila invested EUR 0.0 (0.4) million in environmental protection at its facilities, and environment-related operating expenses totaled EUR 2.7 (2.1) million. No significant spills were recorded during the reporting period.

Sourcing and sustainability

Tikkurila's sourcing management system was reformed with improved operating model and focusing operations more on cross country activities and synergies. These changes have improved our ways of working and enabled the team to focus more in evaluating and managing suppliers.

Tikkurila only cooperates with suppliers who meet our criteria and cooperation principles. We aim to find reliable suppliers, who can provide a balance between price competitiveness, high business standards, and help to develop our product range to be more sustainable. We have around 500 local and international suppliers of raw materials and packaging. Agreements are signed on the Group level with major suppliers. There is not significant change in Tikkurila's supplier portfolio, though purchased products may vary as the raw materials can be changed, for example to meet new regulations.

Tikkurila regularly monitors its suppliers through internal evaluation and audit processes. Due to the Covid-19 situation audits on our suppliers' production units were not possible to make but we created a model for remote audit and did one audit remotely. However, during this difficult situation, we made 18 corporate social responsibility (CSR) related corrective action request for our suppliers. A significant step forward to creating better supply chain assessment was taken in the spring, when Tikkurila introduced the EcoVadis CSR platform for independent supplier CSR / sustainability performance assessment. In 2020 Tikkurila reached its first-year target and 63 percent of direct spend was sourced from CSR assessed suppliers.

OCCUPATIONAL HEALTH AND SAFETY

For those working in production, Tikkurila monitors goal setting, performance management, and individual development in accordance with country-specific practices.

Social and employee matters

Social responsibility is taken into account in all stages of operations, from the selection of raw materials and the management of suppliers to production and the use and disposal of products. All this is done in collaboration with a variety of stakeholders. The social impact of operations has been studied, and relate in particular to the supply chain, occupational health and safety, employee satisfaction, as well as other operational factors.

Employees

At the end of the reporting period, the number of employees was 2,422 (2,607), of which 96 (95) percent were in full-time employment. 37 (36) percent of employees were women, and of these 78 (79) percent were office workers. The corresponding share for men was 63 (64) of all employees, and of these 58 (58) percent were office workers. More than 95 percent of employees had a permanent contract; the figure was slightly lower for women, 93 (93) percent, and 97 (97) percent for men.

At Tikkurila, employees and their supervisors hold annual goal and development discussions based on the Group-wide Tikkurila Drive model. Tikkurila Drive covers all white-collar employees working in Tikkurila's operating countries. In the 2020, according to Tikkurila's Employee Survey, Pulse, conducted in October 76 percent of the respondents said they had had development discussions.

Employee satisfaction and commitment

Normally Tikkurila would conduct an annual Tikkurila Spirit employee survey with the help of an external partner. The survey measures commitment, leadership, and performance throughout the company. Based on survey results, action plans are drawn up and carried out at the team, operations, and company level. During 2020, the coronavirus pandemic altered plans and the Tikkurila Spirit survey was postponed till early 2021. Instead Tikkurila opted for a short Pulse survey, which was conducted during the autumn, focusing on topical issues such as the impact of working from home.

Work safety

Safety is always a priority for Tikkurila's operations. In addition to the safety culture and safe working methods, Tikkurila's safety work focuses on preventive measures, such as risk assessment, safety training, discussions, and inspections, reporting of health and safety observations and related notifications, as well as internal and external audits. Preventive safety work impacts cost-effectiveness and provides ways to improve efficiency and reduce sick leave. Tikkurila's occupational health and safety (OHS) complies with the ISO 45001 or the OHSAS 18001 management system standard. 62 (63) percent of all Tikkurila employees are covered by a certified occupational health and safety management system.

Tikkurila has defined annual, mid-term occupational health and safety targets, with the ultimate goal being zero accidents.

In 2020, Tikkurila's lost time incident frequency (LTIF) was 4.1 (3.5). The main goal of safety work has been to better understand human error. It is extremely important to ensure a safe workplace for every Tikkurila employee, contractor, and partner; and to continue developing workplace safety.

Respect for human rights

Tikkurila honors international human rights principles, such as the UN Guidelines on Business and Human Rights. In addition, Tikkurila understands that a diverse work community is advantageous for business and strives to provide equal opportunities for all.

Compliance with anticorruption, bribery, and competition laws

Tikkurila has several policies in place guide the company's and its partner's operations in relation to corruption, bribery, and compliance with competition rules. Tikkurila regularly organizes training on codes of conduct, anti-corruption principles, and compliance with competition rules in order to adhere to these principles. All supplier partners are required to commit to Tikkurila's business principles.

OBJECTIVES AND RESULTS

As part of the company's strategic development, Tikkurila, together with key personnel, has defined concrete targets for sustainable development for the years 2021-2023.

These targets guide Tikkurila's sustainability initiatives and support the development of the company's business from a sustainability perspective.

- Sourcing Sustainability: Supplier CSR/Sustainability performance assessment, recycled packaging material and renewable energy.
- Operations Sustainability: Safety first and improving operational eco-efficiency.
- Product/Offering sustainability: Increasing the share of sustainable products sales and continuing the shift towards water-borne products.
- Operating as a responsible and active player in local communities

The share of water-borne products is increasing. In 2020, the share of water-borne decorative products from the sales volumes was already 87.3 percent (86.8).

In addition to these promises, Tikkurila is committed to the UN's Sustainable Development Goals, from which the company have selected the following four focus areas as the central goals for Tikkurila's operations:

1. Decent work and economic growth
2. Sustainable cities and communities
3. Responsible consumption and production
4. Climate action

NEAR-TERM RISKS AND UNCERTAINTIES

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

Risks related to the industry

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

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

Raw material risks

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

Operational and restructuring risks

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

Customer credit risks

Even though Tikkurila has not encountered major credit losses, the potential realization of credit risks may hinder Tikkurila's business operations or cause losses. Relatively concentrated customer base in some markets may increase the risk of credit losses. In order to mitigate this risk, Tikkurila follows internal controls on credit limits, has in certain cases collateral arrangements, and in Poland also credit insurance coverage in place. Regardless of the fact, that bad debt provisions are applied and 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.

Risks related to the Covid-19 pandemic

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, sales, 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.

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 2020 Consolidated Financial Statements (Note 33).

MARKET REVIEW

By the end of the year, a general decline in GDP due to the Covid-19 pandemic was evident in many countries. That said, the decorative paint industry has so far proven to be one of the beneficiaries as a consequence of the trend driven by increased consumer demand and preferences. The demand for decorative paints has strengthened as consumers have increasingly focused on home improvement. In industrial paints, the pandemic has led to a weaker demand, but the impacts vary significantly between various segments of the paint industry, as well as regionally.

The decorative paints account for the clear majority of Tikkurila's total revenue, including consumer and professional customers. The pandemic has also changed the dynamics of the decorative paints market: during the lockdowns, consumers have temporarily turned into Do-It-Yourself (DIY) from Do-It-For-Me (DIFM). Also, consumers have also shifted towards online activities. In the construction sector, use for professional painters in the industry has depended on the number of construction projects as well as the availability of construction workers. In the professional business, the recent trends differ both per geographic region and customer segment. In general, the visibility in the market is short as customers place their orders at a relatively short notice.

Industry paints represent the minority of Tikkurila's revenue (below 20%). During the pandemic, the demand for industrial paints has suffered from the indirect implications of Covid-19 on the customers' businesses. Following the decreased production activity of OEM (original equipment manufacturers) customers, demand for metal industry paints has declined. At the same time, demand for wood industry paints has remained more stable.

Raw material and packaging material prices have remained relatively stable. That said, volatility in market prices has increased and therefore price trends differ significantly between different raw materials, and overall, they remain at a relatively high level, following the significant inflation during the past few years.

The majority of Tikkurila's revenue comes from outside the Euro-zone, and hence currency fluctuations are expected to continue to have an impact on Tikkurila's revenue. Of the currencies relevant to Tikkurila's business areas, the Russian Ruble weakened significantly in 2020, the Polish Zloty weakened slightly compared to previous year's levels while the Swedish Krona has strengthened slightly.

Overall, Tikkurila is well-positioned to provide its customers with high-quality goods and services in all subsegments of its business. Tikkurila is a leader for decorative paints in Russia, Sweden, Finland, and the Baltics. In Poland, Tikkurila is among the main players in decorative paints.

Sources:

Markets & Markets, Euromonitor, Oxford Economics, Chem Courier, GfK, SVEFF and VTY.

COMBINATION AGREEMENT WITH PPG INDUSTRIES INC.

On December 18, 2020 Tikkurila and PPG Industries Inc. entered into a combination agreement according to which PPG Industries, Inc. commenced a Tender Offer for all issued and outstanding shares in Tikkurila Oyj in January. The members of the Board of Directors who participated in the decision-making unanimously decided to recommend that the shareholders of the company accept the Tender Offer. Read more about the Tender Offer by PPG Industries Inc. below.

EVENTS AFTER THE REPORTING PERIOD

Tender Offer by PPG Industries Inc.

On January 15, PPG Industries, Inc. commenced a Tender Offer for all issued and outstanding shares in Tikkurila Oyj. The Tender Offer commenced based on the combination agreement, which was announced on December 18, 2020 and amended on January 5, 2021, pursuant to which the PPG Industries Inc. would make a voluntary recommended public cash tender offer for all the issued and outstanding shares in the company that are not held by the company or any of its subsidiaries. The Offer Price was amended to EUR 27.75 per share by PPG Industries Inc. on January 5, 2021 (previously EUR 25.00 per share). The offer period commenced on January 15, 2021.

The Offeror sees significant value and potential in Tikkurila and accordingly expects to make substantial investments in Tikkurila's technology, infrastructure and people, as well as provide Tikkurila access to PPG's global diversified paints, coatings and specialty coatings offerings on which Tikkurila will be able to build and further deepen its customer relationships, develop lateral products and access additional geographies.

The completion of the Tender Offer is not expected to have any immediate material effects on the operations or the position of the management or employees of the Company.

The members of the Board of Directors of the Company, who participated in the decision-making, have unanimously decided to recommend that the shareholders of the Company accept the Tender Offer.

Certain major shareholders of Tikkurila, i.e. Oras Invest Oy, Varma Mutual Pension Insurance Company, Mandatum Life Insurance Company Limited and Kaleva Mutual Insurance Company, representing in the aggregate approximately 29.39 per cent of the shares and votes in the Company, have irrevocably undertaken to accept the Tender Offer, subject to certain customary conditions.

As announced in January 15, 2021, the completion of the Tender Offer is subject to certain customary conditions being fulfilled or waived by PPG on or by the date of PPG's announcement of the final result of the Tender Offer. These include, among others, obtaining all necessary regulatory approvals and acceptance of the Tender Offer with respect to Shares representing, together with Shares otherwise held by PPG prior to the announcement of the final result of the Tender Offer, on a fully diluted basis, more than ninety (90) percent of the Shares and voting rights in the Company calculated in accordance with Chapter 18, Section 1 of the Finnish Companies Act (624/2006, as amended) governing the right and obligation to commence redemption proceedings.

More information regarding the initial Tender Offer by PPG Industries Inc. can be found on the related stock exchange releases.

PPG's increase of the Offer price to EUR 34.00 per share and amendments to the combination agreement

On February 4, 2021, PPG Industries Inc. ("PPG") announced to an increase in the Offer Price to EUR 34.00 per share and amended certain other terms of the offer. Further, PPG and Tikkurila had agreed on an amendment to the combination agreement.

Certain major shareholders of Tikkurila, Varma Mutual Pension Insurance Company, Mandatum Life Insurance Company Limited and Kaleva Mutual Insurance Company, representing in the aggregate approximately 9.32 per cent of the shares in the Company, unconditionally agreed to sell their Shares to the Offeror. In addition, Oras Invest Oy agreed to an unconditional irrevocable undertaking to accept the Improved Tender Offer and has also unconditionally agreed to sell its Shares to the PPG upon the receipt by PPG of the necessary regulatory approvals. In total, the Shares subject to sale to the PPG represent in the aggregate approximately 29.34 per cent of the shares in the Company.

The Offeror expects that the Improved Tender Offer can close as early as March in accordance with the original preliminary time schedule set forth in terms and conditions of the Tender Offer or early in the second quarter of 2021. Regulatory approvals are progressing in line with this schedule.

PPG has changed the condition for completion in the Improved Tender Offer concerning the minimum acceptance level by lowering the relevant threshold from more than 90 per cent to more than 66.7 per cent.

Following extensive review and discussions and after having regarded factors such as deal certainty for the Company and its shareholders, timeline to closing, including the fact that the regulatory process for PPG's Improved Tender Offer is well advanced, and potential disruption for the Company and its employees and other stakeholders, and after consultation with its financial and legal advisors, the Board of Directors has assessed PPG's Improved Tender Offer in comparison with AkzoNobel's Potential Competing Offer. The Board of Directors concluded that following the significant increase in the Offer Price by PPG, together with the other amended terms and conditions of the Improved Tender Offer and deal certainty aspects related to the timing in obtaining required approvals from the regulatory authorities, the Improved Tender Offer by PPG is more beneficial for the Company, its shareholders and other stakeholders compared to the Potential Competing Offer received from AkzoNobel. Therefore, the members of the Board of Directors who participated in the decision-making have unanimously decided to recommend that the shareholders of the Company accept the Improved Tender Offer.

In addition, PPG agreed to provide additional undertakings for the obtaining of the regulatory approvals in order to ensure completion of the Improved Tender Offer. In connection with the significant increase in the Offer Price and enhancements to deal certainty, and to reflect the costs incurred, PPG requested that Tikkurila increases the termination fee payable to PPG in the event the Combination Agreement is terminated due to certain reasons specified in the Combination Agreement, such as the Board of Directors withdrawing, modifying or changing its recommendation regarding PPG's Improved Tender Offer.

Binding conditional proposal from Akzo Nobel N.V.

On January 28, 2021 Tikkurila received a binding proposal from Akzo Nobel to acquire all issued and outstanding shares of Tikkurila, subject to the Board of Tikkurila recommending the proposal and Oras Invest undertaking to accept the proposal. The binding proposal was made following AkzoNobel's announcement on non-binding conditional proposal on January 18, 2021 to acquire all issued and outstanding shares of Tikkurila at an offer price of EUR 31.25 per share, which represents a premium of 113 percent to Tikkurila's volume weighted average share price for the three-month period ending December 17, 2020 and was 12.6

percent higher than the unanimously recommended offer by PPG Industries Inc. of then EUR 27.75 per share, published on January 5, 2021.

The making of the binding proposal was subject to the following conditions: Tikkurila's Board of Directors withdrawing its recommendation to the Company's shareholders to accept PPG Industries Inc.'s tender offer, announced on December 18, 2020, and recommending AkzoNobel's tender offer; and Akzo Nobel obtaining an irrevocable undertaking from Oras Invest Oy to accept AkzoNobel's tender offer.

Tikkurila's Board of Directors sought to give AkzoNobel an equal possibility to make a binding proposal for the shares of the Company and after AkzoNobel's proposal published on January 18, 2021, the company provided AkzoNobel with an opportunity to conduct due diligence and access to the Company's management in line with the process complied with PPG.

The completion of Akzo Nobel's binding proposal dated January 28, 2021, would have been subject to customary conditions substantially similar to those included in the current tender offer document published by PPG, dated January 14, 2021, including among others reaching a 90 percent acceptance level and obtaining required regulatory approvals. In order to obtain merger clearance and ensure deal certainty for Tikkurila and its shareholders, AkzoNobel stated that it had agreed with Hempel A/S ("Hempel") the key terms for the sale of assets, including the sale of decorative paints business of AkzoNobel in the Nordics and the Baltics, to be completed after closing of the transaction between AkzoNobel and Tikkurila. On February 8, 2021, Akzo Nobel announced that it no longer intends to pursue the acquisition of Tikkurila.

Major Shareholder Announcements

On **January 8**, 2021 Lannebo Fonder AB's holding in Tikkurila decreased to 4.08 percent. The holding of the funds and accounts managed by Lannebo Fonder AB in shares of Tikkurila Oyj decreased below the 5% threshold, after Lannebo Fonder decreased its holding in Tikkurila Oyj by 1,121,965 shares due to trades executed on January 7, 2021. Following the announcement, the total holdings of Lannebo Fonder in Tikkurila Oyj amount to 1,800,000 shares, which corresponds to 4.08 percent of Tikkurila's total amount of shares and voting rights.

On **January 13**, 2021 J.P. Morgan J.P. Morgan Chase & Co.'s indirect holding in Tikkurila increased to 5.21 percent. The indirect holding of the funds and accounts managed by J.P. Morgan Chase & Co. in the shares and financial instruments of Tikkurila Oyj increased above the 5% threshold and was 5.21 percent as a consequence of the trades executed on January 8, 2021. The number of shares owned by the funds managed by J.P. Morgan Chase & Co. was 96,335, corresponding to 0.22 percent, and the financial instruments according to SMA 9:6 (equity swap) corresponding to 2,202,912 shares, 4.99 percent of all shares in Tikkurila.

On **January 15**, 2021 J.P. Morgan J.P. Morgan Chase & Co.'s indirect holding in Tikkurila decreased below 5 percent. The indirect holding of the funds and accounts managed by J.P. Morgan Chase & Co. in the shares and financial instruments of Tikkurila Oyj fell below 5% threshold, as a consequence of the trades executed on January 12, 2021. Following the announcement, the ownership of J.P. Morgan Chase & Co. is below the minimum threshold.

On **January 19**, 2021 Sand Grove Capital Management's holding in Tikkurila increased to 5.06 percent. The holding of the funds and accounts managed by Sand Grove Capital Management in the shares of Tikkurila Oyj has increased above the 5% threshold to 5.06 percent, after Sand Grove Capital Management increased its holding in Tikkurila Oyj by 2,230,000 shares due to the trades executed on January 18, 2021.

On **January 27** and 28, 2021 Tikkurila received a notification from FMR LLC that its indirect holding in Tikkurila had fallen below 5 percent. The total indirect holding of the funds and accounts managed by FMR

LLC in the shares of Tikkurila Oyj after the notification is 4.94 percent, as a consequence of the trades executed on 26 and 27 January 2021.

On **February 4**, Tikkurila received a notification from PPG Industries Inc. regarding share purchase agreements corresponding to an acquisition of 9.32% of shares in Tikkurila, and, the acquisition of 20.01% of shares in Tikkurila owned by Oras Invest Oy, the completion of which is subject to the receipt of certain regulatory approvals. On February 8, Tikkurila received a notification from PPG industries Inc. that the share trades regarding the acquisition of the 9.32% of Tikkurila's shares had been completed.

On **February 9**, Tikkurila received a notification from Sand Grove Capital Management LLP. According to the notification, the holding of the funds and accounts managed by Sand Grove Capital Management in the shares of Tikkurila had decreased to 0 percent, due to the trades executed on February 8, 2021.

On February 11, Tikkurila received a notification according to which J.P. Morgan Chase & Co.'s indirect holding of the funds and accounts managed by J.P. Morgan Chase & Co. in the shares and financial instruments of Tikkurila Oyj increased above the 5% threshold and was 6.01% as a consequence of the trades executed on February 8, 2021.

Nomination Board

The Nomination Board of Tikkurila proposes to Tikkurila's Annual General Meeting, which is planned to be held at a later date, that the number of Board members would be seven and that the present members Lars Peter Lindfors, Riitta Mynttinen, Jari Paasikivi, Andrey Pantyukhov, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund would be re-elected. All the nominees have given their consent to the position.

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

The Nomination Board proposes to the Annual General Meeting that the remuneration of the members of the Board of Directors would remain unchanged and that the annual remuneration would be as follows: EUR 64,000 for the Chairman, EUR 40,000 for the Vice Chairman of the Board of Directors and the Chairman of the Audit Committee, and EUR 32,000 for other members of the Board of Directors.

The annual remuneration is paid fully in cash and the payment will take place either within two (2) weeks of the publication of the business review from January 1 to March 31, 2021, and if the term of office of the members of the Board of Directors ends earlier, within two (2) weeks of the end of the term.

Furthermore, the Nomination Board proposes that a meeting fee paid to the members of the Board of Directors for each meeting of the Board and its Committees (excluding decisions without a meeting) would remain unchanged and be paid as follows: EUR 600 for meetings held in the home state of a Board member and EUR 1,200 for meetings held outside the home state of a Board member. If a member participates in a meeting via telephone or video connection, the fee would be EUR 600. Travel expenses are proposed to be paid according to the travel policy of the Company. The members of the Tikkurila Nomination Board are presented in this report under "Nomination Board".

Other information

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

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's distributable equity totaled EUR 154.4 million on December 31, 2020: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 114.4 million when including the 2020 net result.

Due to the ongoing tender offer process, the Board proposes that Tikkurila's Annual General Meeting decides that no dividend be paid based on the decision of the Annual General Meeting from the financial year 2020. The Board would like to remind the shareholders that according to the terms of the tender offer, any eventual dividend paid would be reduced from the Offer price.

TIKKURILA'S LONG-TERM FINANCIAL TARGETS

Tikkurila has at the end of 2020 updated its mid-term strategic plan 2021-2023 and restated its previously communicated strategic financial targets: faster than home market growth and an EBIT margin of 12 percent. Based on the updated strategy Tikkurila plans to invest in growth during 2021-2022 and to reach the targeted EBIT margin towards the end of the period.

The long-term financial targets 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 2021

- Revenue is expected to remain at previous level excluding currency effect and adjusted operating result to remain on, or slightly below previous year's level when excluding costs in connection with implementing the public tender offer. (2020: EUR 582 million and EUR 63.8 million).

Vantaa, February 11, 2021

TIKKURILA OYJ
BOARD OF DIRECTORS

Group key figures

KEY PERFORMANCE INDICATORS

Statement of comprehensive income and profitability	2020	2019	2018
Revenue, EUR thousand	581,974	563,831	561,470
Foreign operations, EUR thousand	484,123	472,684	467,114
Operating result, EUR thousand	61,083	43,923	26,534
% of revenue	10.5	7.8	4.7
Share of profit or loss of equity-accounted investees, EUR thousand	383	281	293
Financial expenses (net), EUR thousand	6,579	19	5,780
% of revenue	1.1	0.0	1.0
Result before tax, EUR thousand	54,886	44,185	21,047
% of revenue	9.4	7.8	3.7
Net result for the period, EUR thousand	43,077	33,241	14,584
Return on investment (ROI), %	22.0	18.0	10.4
Return on equity (ROE), %	24.4	20.6	8.8
Return on capital employed (ROCE), %	24.0	15.4	9.3
Research and development expenses, EUR thousand	9,827	9,603	9,234
% of revenue	1.7	1.7	1.6

Cash flows	2020	2019	2018
Cash flow from operations, EUR thousand	97,650	61,387	47,600
Disposals of businesses, PPE* and intangible assets, EUR thousand	1,865	1,641	552
Capital expenditure, EUR thousand	8,062	11,076	12,229
% of revenue	1.4	2.0	2.2
Cash flow after capital expenditure, EUR thousand	91,983	52,742	36,267
Cash flow return on investment (CFROI), %	29.9	19.3	15.2

* Property, plant and equipment

Statement of financial position and solvency	2020	2019	2018
Non-current assets, EUR thousand	176,968	198,356	179,824
Shareholders' equity (attributable to the owners of the parent), EUR thousand	181,358	171,924	150,132
Shareholders' equity including non-controlling interest, EUR thousand	181,358	171,924	150,132
Liabilities, EUR thousand	260,252	265,137	249,853
Total assets, EUR thousand	441,610	437,061	399,985
Interest-bearing liabilities, EUR thousand	104,109	125,378	121,004
Interest-bearing net liabilities, EUR thousand	12,131	78,370	85,518
Equity ratio, %	41.1	39.3	37.6
Gearing %	6.7	45.6	57.0
Interest-bearing net liabilities / EBITDA	0.1	1.2	1.8

Personnel	2020	2019	2018
Personnel (average)	2,628	2,713	2,908
of whom in Finland	552	548	562

Exchange rates		2020	2019	2018
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	91,4671	69.9563	79.7153
Swedish Krona	EUR/SEK	10,0343	10.4468	10.2548
Polish Zloty	EUR/PLN	4,5597	4.2568	4.3014

As of January 1, 2019, Tikkurila applied IFRS 16 -standard. Comparison years financial data were not restated. Due to adoption, net debt in year 2019 slightly increased from previous year, and gearing percentage without effect from lease liabilities was 32.4%.

Share performance indicators	2020	2019	2018
Earnings per share, EUR, basic	0.98	0.75	0.33
Earnings per share, EUR, diluted	0.97	0.75	0.33
Dividend per share, EUR ¹⁾	-	0.50	0.33
Dividend payout ratio, % ¹⁾	-	66.3	99.8
Dividend yield, % ¹⁾	-	3.5	2.7
Equity attributable to owners of the parent per share, EUR	4.11	3.90	3.40
Weighted average number of shares (1,000)	44,105	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)	44,286	44,186	44,121
Number of shares at the end of period, adjusted for dilutive effect (1,000)	44,348	44,202	44,131
Equity attributable to owners of the parent, EUR thousand	181,358	171,924	150,132
Price per earnings per share (P/E) ratio	25.5	19.1	36.4
Share price, end of period, EUR	24.95	14.36	12.02
Share price, year high, EUR	24.95	15.58	18.96
Share price, year low, EUR	9.36	12.00	11.70
Share price, volume-weighted year average, EUR	16.69	13.86	15.04
Market capitalization at the end of period, EUR million	1,100.4	633.4	530.2
Number of shares traded (1,000)	18,157	5,401	8,607
%, of weighted average number of shares	41.2	12.2	19.5

¹⁾ 2020 the proposal of the Board of Directors to Annual General Meeting.

COMPONENTS FOR ALTERNATIVE KEY FIGURES

Tikkurila presents some alternative performance measures 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. According to Tikkurila Management's opinion presenting these APMs provide management, investors, and other stakeholders with significant additional information. Alternative performance measures are also used criteria in Management remuneration plans.

Alternative performance measures (APM) should not be viewed in isolation or as a substitute to the IFRS financial measures. APM are not defined or named in IFRS standards. Those formulas are disclosed in Annual Review of Tikkurila under header Definition of key figures.

Comparable revenue is defined as revenue for a period excluding currency effects as well as effects of acquisitions, divestments and closures. Comparable revenue is used to show the organic development of revenue.

Calculation of alternative performance measures Adjusted operating result and Adjusted operating result margin % are excluding items affecting comparability. The purpose of this is to improve the comparability of

those KPIs and thus underlying business from period to period when only the expenses of normal course of business are included. The KPIs, Adjusted operating result and Adjusted operating result margin % are used to measure performance for the company and are used in segment reporting key performance indicator together with revenue.

With the Gearing %, the management monitors the ratio between the equity invested by the owners of the company and the interest-bearing liabilities borrowed from financial institutions. Gearing is an important performance measure in assessing the financial position of a company.

Return on capital employed (ROCE), % measures capital efficiency and profitability on capital employed to business.

Equity ratio % is a KPI by which the management can monitor the level of capital used in operations

Cash flow after capital expenditure represents the Group's cash generating capability to pay dividends and repay its debt to financial institutions.

Adjusted operating result

EUR thousand	2020	2019	2018
Operating result	61,083	43,923	26,534
Items affecting comparability:			
Divestments and changes in group structure	17	66	2,013
Personnel related	472	540	6,884
Cost on withdrawn Russian factory investment	-	1,757	-
Cost related to public tender offer	896	-	-
Impairment losses	1,344	110	3,409
Items affecting comparability total	2,729	2,474	12,306
Adjusted operating result	63,812	46,397	38,840
% of revenue	11.0%	8.2%	6.9%

Adjusted EBITDA

EUR thousand	2020	2019	2018
Operating result	61,083	43,923	26,534
Depreciation, amortization and impairment losses	24,401	24,206	21,578
EBITDA	85,484	68,129	48,112
Items affecting comparability in EBITDA	1,385	2,364	8,897
Adjusted EBITDA	86,869	70,493	57,009
% of revenue	14.9%	12.5%	10.2%

Adjusted net result

EUR thousand	2020	2019	2018
Net result for the period	43,077	33,241	14,584
Items affecting comparability	2,729	2,474	12,306
Related tax effect	-473	-104	-2,609
Adjusted net result	45,333	35,611	24,281

Interest-bearing net liabilities

EUR thousand	2020	2019	2018
Interest-bearing non-current liabilities	70,136	75,135	49,998
Interest-bearing current liabilities	33,973	50,243	71,006
Interest-bearing liabilities, total	104,109	125,378	121,004
Cash and cash equivalents	91,979	47,008	35,486
Interest bearing net liabilities	12,131	78,370	85,518

Return on capital employed (ROCE), %

	2020	2019	2018
Operating result + share of profit or loss of equity-accounted investees ¹⁾	61,465	44,204	26,827
Capital employed ²⁾	256,625	287,346	289,838
Return on capital employed (ROCE), %	24.0%	15.4%	9.3%

¹⁾ from a rolling 12-month period²⁾ 12 months, in average

Capital employed 12 months, in average

EUR thousand

	2020	2019	2018
Net working capital, 12 months, in average			
Inventories	81,309	87,061	91,699
Trade and other non-interest-bearing receivables	133,325	140,576	143,299
Non-current interest-free liabilities	-80	-44	-40
Current interest-free liabilities	-121,592	-119,046	-113,081
Net working capital, in average	92,962	108,547	121,878
Intangible assets ready for use	84,261	89,109	94,354
Property, plant and equipment ready for use	60,262	66,382	73,070
Right-of-use assets	18,714	22,862	-
Equity-accounted investees	426	446	536
Capital employed 12 months, in average	256,625	287,346	289,838

Capital employed at end of financial period

EUR thousand

	Note	2020	2019	2018
Net working capital at end of financial period				
Inventories		80,412	85,478	78,842
Non-current receivables		5,692	7,042	8,872
Excluding loan receivables and financing items in receivables ¹⁾	21	-3,389	-4,521	-6,635
Current trade and other non-interest-bearing receivables		88,324	96,655	95,788
Excluding interest and other financing items in receivables ¹⁾	23	-121	-139	-183
Other non-current liabilities		247	43	107
Current trade payables and other non-interest-bearing payables		115,270	100,986	95,685
Excluding interest and other financing items in liabilities ¹⁾	29	-166	-138	-78
Net working capital		55,569	83,624	80,970
Intangible assets ready for use		82,556	87,524	90,646
Property, plant and equipment ready for use		57,403	65,544	67,494
Right-of-use assets		16,778	22,224	-
Equity-accounted investees		295	282	393
Capital employed at end of financial period		212,601	259,198	239,503

¹⁾ Interest and other financial items are not included in net working capital.

Key indicators' formulas

COMPARABLE REVENUE

Revenue converted with exchange rates of comparison year excluding effects of acquisitions, divestments and closures.

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 as well as items related to public tender offer. 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

EBITDA

Operating result + depreciation, amortization and impairment losses

INTEREST-BEARING NET LIABILITIES

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

GEARING, %

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

EQUITY RATIO, %

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

Advances received - see note 29.

RETURN ON INVESTMENT (ROI), %

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

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

ADJUSTED NET RESULT

Net result for the period +/- items affecting comparability, net of tax

ADJUSTED EBITDA

Operating result + depreciation, amortization and impairment losses
+/- items affecting comparability

OPERATING RESULT, %

$$\frac{\text{Operating result}}{\text{Revenue}} \times 100$$

INTEREST-BEARING NET LIABILITIES / EBITDA

$$\frac{\text{Interest-bearing net liabilities}}{\text{Operating result} + \text{depreciation, amortization and impairment losses}}$$

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON EQUITY (ROE), %

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

CASH FLOW AFTER CAPITAL EXPENDITURE

Total cash flow from operations + Net cash used in investing activities

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

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

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

EARNINGS PER SHARE (EPS), DILUTED

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

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 financial year

Consolidated statement of comprehensive income (IFRS)

EUR thousand	Note	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Revenue		581,974	563,831
Other operating income	6	2,654	3,290
Change in inventories of finished goods and work in progress		-2,358	5,893
Materials and services		-290,866	-297,759
Personnel expenses	7	-105,092	-99,349
Depreciation, amortization and impairment losses	8	-24,401	-24,206
Other operating expenses	9	-100,828	-107,777
Operating result		61,083	43,923
Financial income	11	2,542	6,920
Financial expenses	11	-9,122	-6,939
Share of profit or loss of equity-accounted investees	18	383	281
Result before tax		54,886	44,185
Income tax	12	-11,809	-10,944
Net result for the period		43,077	33,241
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		189	-7
Remeasurements on defined benefit plans		-489	-3,886
Income taxes relating to items that will not be reclassified to profit or loss		-87	831
Total items that will not be reclassified to profit or loss		-387	-3,062
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		-12,981	5,455
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		-12,981	5,455
Total comprehensive income for the period		29,709	35,634
Net result attributable to:			
Owners of the parent		43,077	33,241
Non-controlling interest		-	-
Net result for the period		43,077	33,241
Total comprehensive income attributable to:			
Owners of the parent		29,709	35,634
Non-controlling interest		-	-
Total comprehensive income for the period		29,709	35,634
Earnings per share of the net result attributable to owners of the parent			
Basic earnings per share (EUR)	13	0.98	0.75
Diluted earnings per share (EUR)	13	0.97	0.75

Consolidated statement of financial position (IFRS)

Assets

EUR thousand	Note	Dec 31, 2020	Dec 31, 2019
Non-current assets			
Goodwill	16, 17	69,096	70,188
Other intangible assets	16	13,476	18,244
Property, plant and equipment	14	60,109	69,293
Right-of-use assets	15	16,778	22,224
Equity-accounted investees	18	295	282
Other investments	20	745	734
Non-current receivables	21, 23	5,692	7,042
Defined benefit pension and other long-term employee benefit assets	30	88	83
Deferred tax assets	25	10,690	10,266
Total non-current assets		176,968	198,356
Current assets			
Inventories	19	80,412	85,478
Interest-bearing current assets	22	1,597	742
Trade and other non-interest-bearing receivables	23	88,324	96,655
Current tax assets		1,121	7,373
Cash and cash equivalents	24	91,979	47,008
Non-current assets held for sale	5	1,209	1,449
Total current assets		264,642	238,705
Total assets		441,610	437,061

Equity and liabilities

EUR thousand	Note	Dec 31, 2020	Dec 31, 2019
Equity			
Share capital	26	35,000	35,000
Other reserves	26	42	42
Fair value reserve	26	94	1
Reserve for invested unrestricted equity	26	40,000	40,000
Treasury shares	26	-30	-42
Translation differences	26	-53,495	-40,514
Retained earnings		159,747	137,437
Equity attributable to owners of the parent		181,358	171,924
Non-controlling interest		-	-
Total equity		181,358	171,924
Non-current liabilities			
Interest-bearing non-current liabilities	27	70,136	75,135
Other non-current liabilities	29	247	43
Defined benefit pension and other long-term employee benefit liabilities	30	30,421	28,728
Provisions	31	1,673	1,584
Deferred tax liabilities	25	3,081	3,645
Total non-current liabilities		105,558	109,135
Current liabilities			
Interest-bearing current liabilities	28	33,973	50,243
Trade and other non-interest-bearing payables	29	115,270	100,986
Provisions	31	425	1,528
Current tax liabilities		5,026	3,245
Liabilities classified as held for sale	5	-	-
Total current liabilities		154,694	156,002
Total equity and liabilities		441,610	437,061

Consolidated statement of cash flows (IFRS)

Cash flow from operating activities

EUR thousand

	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Net result for the period	43,077	33,241
Adjustments for:		
Non-cash transactions		
Depreciation, amortization and impairment	24,401	24,206
Employee benefits	2,174	876
Change in provisions	-186	-1,372
Gain on sale of PPE* and intangible assets	-349	-427
Loss on sale of PPE* and intangible assets	311	54
Other items	7,128	5,990
Dividend income	-3	-6
Interest expenses and other financial expenses	2,603	2,554
Interest income and other financial income	-721	-836
Share of profit or loss of equity-accounted investees	-383	-281
Exchange rate differences of financing	4,701	-1,694
Income tax for the period	11,809	10,944
Funds from operations before change in net working capital	94,562	73,249
Change in net working capital		
Change in inventories	-6,628	-7,973
Change in trade and other receivables	236	2,222
Change in trade and other payables	19,419	3,261
Change in net working capital	13,027	-2,490
Interest and other financial expenses paid	-3,794	-2,742
Interest and other financial income received	437	1,817
Income tax paid	-6,582	-8,447
Total cash flow from operations	97,650	61,387

* Property, plant and equipment

Cash flow from investing activities

EUR thousand	Note	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Acquisition of property, plant and equipment		-7,099	-9,336
Acquisition of intangible assets		-963	-1,740
Disposal of subsidiaries, net of cash disposed of	5	516	1,246
Proceeds from sale of other investments		169	3
Proceeds from sale of property, plant and equipment		1,349	373
Proceeds from sale of intangible assets		-	22
Repayments of loan receivables (+)		-	426
Loan receivables, increase (-)		-	-
Dividends received		361	360
Net cash used in investing activities		-5,667	-8,646
Cash flow before financing		91,983	52,742

Cash flow from financing activities

EUR thousand	Note	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Proceeds from non-current borrowings (+)		-	60,000
Repayments of non-current borrowings (-)		-	-50,000
Current financing, increase (+)		193,707	200,783
Current financing, decrease (-)		-209,727	-228,740
Payment of lease liabilities (-)		-7,465	-7,260
Dividends paid		-22,049	-14,555
Acquisition of own shares		-208	-
Net cash used in financing activities		-45,742	-39,772
Net change in cash and cash equivalents		46,241	12,970
Cash and cash equivalents at Jan 1	24	47,008	35,486
Effect of exchange rate fluctuations on cash held		1,270	1,448
Cash and cash equivalents transferred in assets held for sale	5	-	-
Cash and cash equivalents at Dec 31	24	91,979	47,008
Net change in cash and cash equivalents		46,241	12,970

* Property, plant and equipment

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, 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

Equity at Jan 1, 2020		35,000	42	1	40,000	-42	-40,514	137,437	171,924	-	171,924
Total comprehensive income for the period	26	-	-	93	-	-	-12,981	42,597	29,709	-	29,709
Acquisition of treasury shares		-	-	-	-	-208	-	-	-208	-	-208
Share-based compensation		-	-	-	-	220	-	1,763	1,983	-	1,983
Dividends paid		-	-	-	-	-	-	-22,050	-22,050	-	-22,050
Equity at Dec 31, 2020		35,000	42	94	40,000	-30	-53,495	159,747	181,358	-	181,358

Distributable equity of the parent (FAS)

EUR thousand	2020	2019
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	91,911	85,757
Net result for the period	22,530	28,411
Total	154,441	154,168

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 2020 financial year, Tikkurila Group's revenue amounted to EUR 582.0 million and the average number of personnel was 2,628. 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, 2021. 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, 2020. 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, 2020, which affect the reported data or data that will be reported in the future:

- 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 did not have any material impact on Group's 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 did not have impact on Group's 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 did not have any material impact on the 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 did not have any impact on Group's financial statements.
- Amendments to IFRS 16 Leases Covid 19-Related Rent Concessions (effective on June 1, 2020). Due to Covid 19 pandemic rent concessions granted to lessees. Option that qualifying concessions arising direct consequence of the covid-19 pandemic are not treated as lease modifications i.e. result in accounting the concessions to be treated as variable lease payments in period they are granted. This did not have any impact on the 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, 2020, 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 2020 or 2019.

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 2020 nor in year 2019.

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 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 reward from the share plan 2018-2019 was accrued in cash and was accounted as liability in the consolidated statement of financial position 2019. In spring 2020, rewards based on this plan were paid in cash. 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 2020 nor 2019. 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 2020 or 2019, 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 2020 or 2019, 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's 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.

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 2020 and 2019, 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 RESULT

IAS 1 Presentation of Financial Statements does not specify the concept of operating result. Tikkurila Group has defined it as follows: 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

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. In financial year 2020, items related to public tender offer were also disclosed as items affecting comparability. 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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for financial years beginning on or after January 1, 2021). Amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with and alternative nearly risk-free interest rate (RFR). This is not expected to have any material impact on Group's forthcoming financial statements.

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

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before intended use (effective for financial years beginning on or after January 1, 2022). This prohibits an entity from deducting from the costs of an item of PPE any proceeds received from selling item produced while the entity preparing the asset for its intended use. These amendments is not expected to have any impact on the Group's forthcoming financial statements.
- IFRS 17 Insurance Contracts (effective for financial years beginning on or after January 1, 2023). This standard replaces IFRS 4-standard. Standard applies to insurance contracts and their measurement. This is not expected to have impact on Group's forthcoming financial statements.
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current (effective for financial years beginning on or after January 1, 2023). As to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date i.e. the receipt of a waiver or a breach of covenant. This also clarify what IAS 1 means when it refers to the settlement of a liability. The amendments are not expected to have any impacts on the Group's forthcoming financial statements.

- Amendments to IFRS 3 Reference to the Conceptual Framework (effective for financial years beginning on or after January 1, 2022). Amendment add an exception to the recognition principle of IFRS 3 for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent assets and Interpretation 21 Levies. The amendment also clarifies that contingent assets do not qualify for recognition at the acquisition date. These is not expected to have any significant impact on the Group's forthcoming financial statements.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts – Cost of Fulfilling a Contract (effective for financial years beginning on or after January 1, 2022). The amendment clarifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments are not expected to have any material impact on the Group's forthcoming financial statements.
- Annual Improvements to IFRS Standards 2018-2020 (effective for financial years beginning on or after January 1, 2022). In improvements were amended the following standards: IFRS 9 Financial Instruments, IFRS 16 Leases, IFRS 1 First-time Adoption of International Financial reporting standards and IAS 41 Agriculture. These improvements are not expected to have any material impacts on Group's forthcoming 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 has on sales and cost level in Group's business. 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.

When determining future cash flows for impairment test the revenue development by operating areas reflect how the Covid-19 pandemic has affected to business operations during the financial year in each operating area. In Area East where strict restrictions were imposed temporarily decreasing revenue that was earlier expected to reach, towards the end of financial year demand picked and revenue normalised. On the other hand, in Area Scandinavia, particularly, revenue increased as per increased consumer demand. Overall Covid-19 pandemic has had limited impact on future cash flow projections.

In financial year 2020, impairment losses recognized on intangible assets and goodwill related to Group's decision to close-down operations of a small solvent-borne paint production entity in Russia. An impairment loss on them was recognized EUR 1.1 million. Impairment losses recognized in financial year 2020 on property, plant and equipment related to a building of German production unit, classified as held for sale

assets, as well as in Finland to several asset groups due to revised value in use. Impairment losses on property, plant and equipment amounted to a total of EUR 0.3 million.

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, 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. The impairments have been presented in the Note 8. Depreciation, amortization, and impairment losses.

In impairment testing the management needs 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. The Covid-19 pandemic has not had influence to carrying amounts to non-current assets.

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. During the financial year the changes in demand has been monitored closely to adjust the inventory levels of raw-materials and finished goods to the present demand.

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. In Spring increased uncertainty due to Covid – 19 pandemic implications to economics of Tikkurila operating countries impacted temporarily paint demand due to increasing restrictions imposed by authorities. That subsequently increased uncertainty on the customers' ability to settle their debts on time. As a result, the development of customers' payment behavior and trend in trade receivables has been under special monitoring during the pandemic and Tikkurila has applied stricter internal controls manage receivables. At the end of 2020, the share of past due trade receivables of the total balance in the Group was lower than at the end of 2019. Over longer-term 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 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 need be revalued. In year 2020, it was decided to close-down one small production unit 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. Group Board of Directors decided in spring 2019 to cease the project to build production facility and recognized costs incurred (EUR1.8 million) on profit or loss in financial year 2019.

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 2020 and 2019 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. A real estate located in Germany is classified as non-current assets held for sale. In financial year 2020 an impairment of EUR 0.2 million was recognized. A delay on completion of soil research and increased uncertainty during pandemic reflected to investing activity as well as to local real estate market, and have therefore prolonged the expected time of disposal of the real estate. There was negative price development in the local real estate market of this real estate during year 2019 and therefore an impairment loss of EUR 0.1 million was recognized 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.

In December 2020, pursuant to combination agreement signed with PPG in line with PPG's recommended voluntary tender offer, the Board of Directors of Tikkurila Oyj decided on treatment of share-based incentive plans in case the tender offer and the subsequent transaction are closed. Based on the decision, in case the tender offer is completed, and the transaction is closed, Tikkurila Oyj will settle in cash all outstanding rewards to be paid for the performance periods under the Performance Share Plan in accordance with the terms and conditions of the Performance Share Plan. The amount of reward payment shall be resolved by the Tikkurila Oyj's Board of Directors, taking into account, among other things, the proportion of time elapsed of a performance period (pro rata) and the achievement of the performance requirement at the time of the transaction closing.

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, 2020, the provisions amounted to EUR 2.1 million. The corresponding figure in the 2019 financial statements was EUR 3.1 million. The amount of provision decreased by EUR 1.0 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 accordance with 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 for uncertain tax treatment consists of EUR 0.8 (0.8) million at the end of year 2020.

In year 2020, provisions recorded due to uncertainty over income tax treatment in accordance with the interpretation of IFRIC 23, are presented in "Current tax liabilities" in consolidated statement of financial position. In comparison year thus provisions were recorded in current provisions.

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 2020 financial statements was EUR 10.7 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 0.4 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, Tikkurila's management has based 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 of 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 2020

EUR thousand

	SBU West	SBU East	Tikkurila common	Eliminations	Total
External revenue	397,956	184,070	-	-51	581,974
Depreciation, amortization and impairment losses	16,141	8,131	129	-	24,401
Operating result	48,969	20,397	-8,283	-	61,083
Items affecting comparable EBIT by segment	-245	-1,360	-1,125	-	-2,729
Adjusted operating result by segment	49,214	21,757	-7,159	-	63,812
Non-allocated items					
Financial income					2,542
Financial expenses					-9,122
Share of profit or loss of equity-accounted investees					383
Result before tax					54,886
Segment assets	372,654	86,971	5,264	-23,279	441,610
Investments in equity-accounted investees					295
Capital expenditure	11,667	1,993	-	-	13,660

Reportable segments 2019

EUR thousand	SBU West	SBU East	Tikkurila common	Eliminations	Total
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
Result 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

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 2019, after closing the activities of Tikkurila's German subsidiary, Germany has belonged to export and is presented in SBU East. However the expenses related to German company are still recognized in SBU West.

Reportable segments 2020

EUR thousand	SBU West	SBU East	Tikkurila common	Eliminations	Total
Operating result by segment	48,969	20,397	-8,283	-	61,083
Items affecting comparable EBIT by segment					
Divestments and changes in group structure	31	-48	-	-	-17
Personnel related	-36	-207	-229	-	-472
Cost related to public tender offer	-	-	-896	-	-896
Impairment losses	-240	-1,104	-	-	-1,344
Total	-245	-1,360	-1,125	-	-2,729
Adjusted operating result by segment	49,214	21,757	-7,159	-	63,812

Reportable segments 2019

EUR thousand	SBU West	SBU East	Tikkurila common	Eliminations	Total
Operating result 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
Cost on withdrawn Russian factory investment	-	-1,757	-	-	-1,757
Impairment losses	-110	-	-	-	-110
Total	-265	-2,010	-199	-	-2,474
Adjusted operating result by segment	30,707	22,000	-6,310	0	46,397

Personnel by segments during the period, average	2020	2019
SBU West	1,606	1,598
SBU East	1,005	1,100
Tikkurila common	17	15
Total	2,628	2,713

Revenue by product group and by segment in 2020

EUR thousand	Decorative paints	Industrial coatings
SBU West	333,671	64,285
SBU East	156,090	27,980
Eliminations	-51	-
Total	489,710	92,264

Revenue by product group and by segment in 2019

EUR thousand	Decorative paints	Industrial coatings
SBU West	304,791	65,255
SBU East	162,625	31,168
Eliminations	-8	-
Total	467,408	96,423

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 2020 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 to 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 2020 and 2019 and EUR 0.1 million at the end of financial years 2020 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 end of the financial year 2020 amounted to EUR 0.3 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 0.7 million at the end of financial year 2020 and corresponding figure was EUR 0.9 million in comparison year.

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 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	2020	2019
Russia	133,581	143,627
Sweden	131,324	118,723
Finland	97,852	91,147
Poland	92,591	89,359
Other countries	126,626	120,975
Total	581,974	563,831

Non-current assets by geographical location *)

EUR thousand	2020	2019
Russia	17,618	28,207
Sweden	81,498	83,668
Finland	26,483	29,609
Poland	18,502	19,915
Other countries	15,652	18,832
Total	159,753	180,231

*) 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

Tikkurila had no acquisitions or disposals of businesses during the financial year 2020 or 2019.

Acquisition and disposal of subsidiaries and businesses

EUR thousand	2020	2019
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	-	-
Cash inflow from the previous years' disposals	516	1,246
Recognized as receivable at the date of disposal	-	-
Cash and cash equivalents in disposed companies	-	-
Net cash effect	516	1,246

5. Non-current assets held for sale

In financial year 2020, the Group recognized impairment loss of EUR 240 thousand for the real estate located in Germany. This held for sale asset is presented in West in segment reporting. Expected timing of disposal is delayed and has been affected by the uncertainty reflected to investing activities during the Covid-19 pandemic as well as delay on completion of soil research. The recorded value of the real estate was EUR 1,209 thousand in consolidated statement of financial position.

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.

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	2020	2019
Gains on sale of non-current assets	349	428
Insurance compensation	187	202
Rental income	415	390
Income on services provided to joint venture	999	977
Other income from operations	704	1,293
Total	2,654	3,290

In financial year 2020, most of the gains on sales of non-current assets consists of a sale of a separate land plot in Poland. In addition, it consists some minor gains on sale of machinery and equipment.

Majority of gains on sales of non-current assets in financial year 2019 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.

7. Personnel expenses

EUR thousand	2020	2019
Wages and salaries	-80,721	-76,797
Share-based payments	-2,196	-765
Pension expenses for defined contribution plans	-10,741	-10,815
Pension expenses for defined benefit plans	-955	-999
Other personnel expenses	-10,479	-9,973
Total	-105,092	-99,349

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	2020	2019
Personnel in Finland, average	552	548
Personnel outside Finland, average	2,076	2,165
Total	2,628	2,713
Personnel at year-end	2,422	2,607

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

8. Depreciation, amortization and impairment losses

EUR thousand	2020	2019
Depreciation and amortization		
Intangible assets	-4,224	-4,224
Property, plant and equipment		
Buildings and constructions	-2,264	-2,428
Machinery and equipment	-8,095	-7,757
Other property, plant and equipment	-668	-1,501
Right-of-use assets		
Land areas	-89	-122
Buildings and premises	-5,908	-6,351
Machinery and equipment	-41	-48
Vehicles	-1,657	-1,665
Total	-22,947	-24,096
Impairment losses		
Intangible assets		
Other intangible assets	-640	-
Goodwill	-463	-
Property, plant and equipment		
Machinery and equipment	-26	-
Buildings and constructions	-318	-110
Other property, plant and equipment	-7	-
Total	-1,454	-110
Total depreciation, amortization and impairment losses	-24,401	-24,206

In financial year 2020, Tikkurila announced its decision to close a small production unit in Russia. Due to this closure, the Group recognized impairment on goodwill and intangible assets. Recorded impairment losses on property, plant and equipment are related to real estate located in Germany and in Finland to several asset groups due to revised value in use.

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 is classified as non-current assets held for sale. 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.

9. Other operating expenses

EUR thousand	2020	2019
Rents	-2,193	-2,897
Other voluntary personnel expenses	-3,187	-3,945
Sales and marketing	-20,670	-21,178
Repair and maintenance	-7,873	-8,965
IT and communication	-4,402	-4,833
Freights for goods sold	-17,346	-16,434
Professional fees	-4,251	-5,951
Transportation and travel	-4,541	-7,667
Energy, heating and water	-4,341	-4,707
Insurances excl. personnel insurances	-1,055	-984
Office expenses	-1,097	-1,317
Representation and membership fees	-1,306	-2,678
External services	-21,837	-19,462
Authority fees and environmental tax	-1,207	-1,079
Credit losses	-33	-881
Other expenses	-5,489	-4,799
Total	-100,828	-107,777
Audit fees: ¹⁾		
EY	-477	-420
KPMG (2019)	-	-76
Other audit firms	-14	-17
Tax advisory, EY	-17	-3
Other services, EY	-55	-
Other services, KPMG (2019)	-	-6
Total	-563	-522

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

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	2020	2019
Expenses		
Wages and salaries	-375	-495
Other personnel expenses	-27	-18
Defined benefit and contribution pension expenses	-69	-99
Other	-914	-1,752
Impairment losses:		
Goodwill	-463	-
Other intangible assets	-640	-
Property, plant and equipment	-240	-110
Total	-2,729	-2,474

In financial year 2020, "Other" items affecting comparability mostly comprise of consulting expenses related to tender offer.

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

10. Research and development expenses

EUR thousand	2020	2019
Research and development expenses total	-9,827	-9,603

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

11. Financial income and expenses

Financial income		
EUR thousand	2020	2019
Dividend income	3	6
Interest income from loans and other receivables	718	828
Other interest income	3	5
Exchange rate gains		
Exchange rate gains from loans and other receivables	1,746	6,040
Exchange rate gains from financial liabilities measured at amortized cost	72	38
Other financial income	-	3
Total	2,542	6,920
Financial expenses		
EUR thousand	2020	2019
Interest expenses from financial liabilities measured at amortized cost	-1,263	-903
Interest on lease liabilities	-863	-1,086
Other interest expenses	-7	-4
Exchange rate losses		
Exchange rate losses from loans and other receivables	-6,286	-4,152
Exchange rate losses from financial liabilities measured at amortized cost	-233	-232
Other financial expenses	-501	-608
Change in loss allowance of financial assets measured at amortized cost	31	46
Total	-9,122	-6,939
Total financial income and expenses	-6,580	-19

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 changed during the financial years 2020 and 2019.

	2020	2019
Net financial expenses as a percentage of revenue	1.1	0.0
Net interests as a percentage of revenue	0.2	0.2
Exchange rate gains and losses in financing items		
EUR thousand	2020	2019
Realized	-3,751	2,073
Unrealized	-950	-379
Total	-4,701	1,694
Exchange rate gains and losses in operating result		
EUR thousand	2020	2019
Revenue	-7	-13
Materials and services	-2,695	208
Total	-2,702	195

12. Income taxes

EUR thousand	2020	2019
Current income tax charge	-13,508	-12,826
Adjustments for prior years	97	434
Deferred taxes	1,602	1,448
Total	-11,809	-10,944

Income taxes recognized in other comprehensive income

EUR thousand	2020	2019
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	-50	831
Changes of equity instruments	-37	-
Total tax items that will not be reclassified to profit or loss	-87	831
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	-87	831

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

EUR thousand	2020	2019
Tax at parent's tax rate	-10,977	-8,837
Effect of different tax rates in foreign subsidiaries	56	101
Tax-exempt income	65	37
Non-deductible expenditure	-906	-1,597
Effect of changes in tax rates	4	0
Used tax losses, previously unrecognized	-	-
Current year losses for which no deferred tax asset was recognized	-263	-133
Taxes from previous financial years	97	434
Changes of deferred taxes related to previous years and current year temporary difference which no deferred taxes were recognized	4	-40
Effect of result of equity-accounted investees	82	60
Other items	30	-969
Total taxes in the statement of comprehensive income	-11,808	-10,944

The effective tax rate of the Group is 21.5% (24.8%).

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 was further decreased to 20.6% as of January 2021. In financial

statements 2020, the tax rate of 20.6% was applied to measure deferred taxes. In financial statements 2019 the Swedish deferred taxes were measured by using the corporate tax rate (21.4%).

The Norwegian corporate tax rate decreased from 23% to 22% as of January 2019.

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 to the terms and conditions of the plans.

In accordance with the decision of the Board of Directors, the group has a matching share plan 2017-2019 which consists of one vesting period. The rewards based on this plan were paid in May 2020.

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. 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. In December 2019, the Board of Directors of Tikkurila Oyj decided on the details of the performance period 2020-2022. This performance period has no time-based reward.

Share plan 2018-2019 includes one performance period, calendar years 2018 and 2019. In December 2019, the Board of Directors of Tikkurila Oyj decided to pay the potential rewards in cash. These rewards were paid in March-April 2020.

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.

	2020	2019
Result for the period attributable to the owners of the parent, EUR thousand	43,077	33,241
Weighted average number of ordinary shares (1,000)	44,105	44,106
Basic earnings per share (EUR / share)	0.98	0.75
Result for the period attributable to the owners of the parent, EUR thousand	43,077	33,241
Weighted average number of ordinary shares (1,000)	44,105	44,106
Effect of share-based incentive plan (1,000)	181	80
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	44,286	44,186
Diluted earnings per share (EUR / share)	0.97	0.75

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 2020, and at the end of previous year 44,108,252. The Group held 2,371 treasury shares on December 31, 2020. At the end of year 2019 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	2020 Total
Acquisition cost at Jan 1, 2020	5,104	107,452	187,364	13,405	3,749	317,074
Other increases	-	798	3,340	452	3,335	7,925
Other decreases	-349	-2,070	-3,060	-	-33	-5,512
Transfer to held for sale assets	-	-	-	-	-	-
Other changes	-	-	21	1	-1	21
Reclassifications	-	241	4,782	-1,215	-3,808	0
Exchange rate differences	-123	-4,937	-4,989	-1,882	-537	-12,468
Cost at Dec 31, 2020	4,632	101,484	187,458	10,761	2,705	307,040
Accumulated depreciation and impairment losses at Jan 1, 2020	-122	-77,271	-160,813	-9,576	-	-247,781
Accumulated depreciation relating to decreases and transfers	47	1,318	2,901	-	-	4,266
Depreciation during the financial year	-	-2,264	-8,095	-668	-	-11,027
Impairment losses	-	-318	-26	-7	-	-351
Transfer to held for sale assets	-	240	-	-	-	240
Other changes	-	-	-12	-	-	-12
Exchange rate differences	17	2,324	3,915	1,478	-	7,734
Accumulated depreciation and impairment losses at Dec 31, 2020	-58	-75,971	-162,130	-8,773	-	-246,931
Net carrying amount at Jan 1, 2020	4,982	30,181	26,551	3,830	3,749	69,293
Net carrying amount at Dec 31, 2020	4,574	25,513	25,328	1,989	2,705	60,109

*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.

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
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
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

*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 2020 most of the prepayments and non-current assets under construction related to maintaining and upgrading of production, research and development premises as well as production technology in Group's main production sites.

In financial year 2019 such investments were related to expansion of warehouses, maintenance and upgrading of production buildings and production technology in the Group's main production sites.

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's 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	2020 Total
Acquisition cost at Jan 1, 2020	1,856	23,997	110	4,006	29,969
Increases	1	2,993	2	1,776	4,772
Other decreases	-60	-2,341	-42	-783	-3,226
Other changes	-	-	-	-24	-24
Exchange rate differences	-124	-917	-5	-97	-1,142
Cost at Dec 31, 2020	1,673	23,732	65	4,878	30,349
Accumulated depreciation and impairment losses at Jan 1, 2020	-106	-6,265	-43	-1,331	-7,745
Accumulated depreciation relating to decreases and transfers	14	761	41	648	1,464
Depreciation during the financial year	-89	-5,908	-41	-1,658	-7,696
Other changes	-	-	-	12	12
Exchange rate differences	9	347	2	36	393
Accumulated depreciation and impairment losses at Dec 31, 2020	-173	-11,065	-41	-2,293	-13,571
Net carrying amount at Jan 1, 2020	1,750	17,732	67	2,675	22,224
Net carrying amount at Dec 31, 2020	1,501	12,667	24	2,586	16,778

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

Group's commitments related to leases that have not yet commenced 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	2020	2019
Non-current	10,275	15,310
Current	7,065	7,315

Amounts relating to leases recognized in the consolidated statement of comprehensive income

EUR thousand	2020	2019
Depreciations of right-of-use assets	-7,696	-8,186
Interest expenses on lease liabilities, included in financial expenses	-863	-1,086
Expenses relating to leases of short-term leases, included in other operating expenses	-1,485	-2,172
Expenses relating to leases of low-value assets included in other operating expenses	-366	-369

In year 2020 the total cash flow on leases amounted to EUR 8,341 thousand.

Total cash flows on leases amounted to EUR 8,270 thousand in year 2019.

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	2020	2019
Within one year	215	205
Between 1–2 years	170	122
Between 2–3 years	117	108
Between 3–4 years	92	92
Between 4–5 years	92	92
Later than 5 years	90	181
Total	776	800

16. Intangible assets

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	2020 Total
Acquisition cost at Jan 1, 2020	72,515	72,184	908	145,607
Other increases	-	73	890	963
Other decreases	-	-	-	-
Other changes	-	-15	-1	-16
Reclassifications	-	1,777	-1,777	-
Exchange rate differences	-618	-1,401	-4	-2,023
Cost at Dec 31, 2020	71,897	72,618	16	144,531
Accumulated amortization and impairment losses at Jan 1, 2020	-2,327	-54,848	-	-57,175
Accumulated amortization relating to decreases and transfers	-	-	-	-
Amortization during the financial year	-	-4,224	-	-4,224
Impairment losses	-463	-640	-	-1,103
Exchange rate differences	-11	554	-	543
Accumulated amortization and impairment losses at Dec 31, 2020	-2,801	-59,158	-	-61,959
Net carrying amount at Jan 1, 2020	70,188	17,336	908	88,432
Net carrying amount at Dec 31, 2020	69,096	13,460	16	82,573

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
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

The carrying amount of equity-accounted investees in 2020 or 2019 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2020 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 2.8 million (2019: EUR 4.9 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 0.1 million (2019: EUR 0.2 million). Other intangible assets include also carrying amount of software in total of EUR 10.6 million (2019: EUR 12.2 million).

There were no capitalized borrowing costs in 2020 or 2019.

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

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. Tikkurila does not own intangible assets with indefinite lifetime. In financial year 2020, an impairment loss on goodwill and intangible rights was recognized related to a small manufacturing company of solvent-borne paints in Russia as per the closure of its operations. In addition to that, an impairment loss was recognized on non-current asset held for sale in Germany and in Finland property, plant and equipment as per revaluation. In financial year 2019, an impairment loss on non-current asset held for sale in Germany was recognized.

Impairment testing is performed by comparing the carrying amount of those cash-generating units (CGU) that include goodwill with their expected recoverable amount. 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: Finland, Scandinavia, Central Europe (CE), East and South-East Europe (SEE). At the end of financial year, goodwill has been allocated to the following cash-generating units: Scandinavia and East.

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

Cash-generating units

EUR thousand	2020		2019	
	Carrying amount	of which Goodwill	Carrying amount	of which Goodwill
Scandinavia	97,128	66,991	106,900	66,889
East	44,656	2,105	59,344	3,299

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. Tikkurila's goal is in its operating areas to grow revenue faster than the growth rate of the respective market area. The strategic analysis takes into account in addition to the information of the previous realized development the information on 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. 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 (one percent in 2019) of nominal growth rate in year 2020.

The discount rate used in 2020 varied between 6.7% - 10.6% 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 to the calculation of cost of equity.

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). The significant assumptions relating to the discount rate are risk-free interest, capital structure and risk premiums which reflects the risk levels.

The revenue in Area Scandinavia for year 2020 exceeded clearly the revenue which was estimated in the previous forecasting period from 2020 to 2022 for year 2020. This was mainly because the Covid-19 pandemic increased decorative paint demand by consumers as pandemic increased their time spent at home, in summer house and garden. The increased demand of decorative paints was at first specially of exterior paints. The consumer enthusiasm for decorating continued also after outdoor painting season. In the forecasting period from 2021 to 2023 for cash generating unit Area Scandinavia, it has been expected that the development of revenue for year 2021 would be steady and close to the amount of year 2020 realized revenue and continue its positive development from year 2022 on. In year 2020 impairment test, for the forecasting period from 2021 to 2023, the revenue was expected to grow absolutely the fastest pace in Area East even though the revenue of Area East didn't reach the estimated level of year 2020 in the previous forecasting period from 2019 to 2022. This was caused by the collapse of oil price, currency fluctuation, and strict Covid-19 restrictions imposed by the local government in Russia. Such restrictions were among others, curfews in major cities and that most shops were closed until end of May. In the

impairment test in 2020 for the period from 2021 to 2023, the revenue development of operating area East is estimated reach the level of realized revenue in year 2019 during the forecasting year 2022. It is assumed that currency rates would remain at 2020 levels. The prices of the main raw materials are estimated to remain on year 2020 level in EU area. In Russia is forecasted less than one percent price increases for raw materials.

Operating result is expected to grow with help of group's already completed measures to improve profitability and efficiency as well as, in the later years of forecasting period, also by efficiency measures presently under process. Such measures are among others harmonizing the product portfolio and raw materials in use as well as reducing fixed cost by making indirect sourcing more efficient.

In year 2019 impairment test, for the forecasting period from 2020 to 2022, the revenue was 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 pace of growth was revised to be more moderate for all cash generating units towards the 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 the disagreement between USA and China in trade including the uncertainty in trade negotiations which all could have had multiple effects for development of European economy. Locally anticipated slowing down of economy growth and deteriorated activity of construction business, especially in operating area Scandinavia could be detected in revenue forecasted. The pace for price increases of raw and packaging materials had continued to slow down to some extent in 2019. For year 2020 was forecasted that price increases would further slow-down, and to some single products prices might remain flat or be even lower. In Russia, there was anticipated still some price increases for raw materials. In financial year 2018, some cost cutting actions had been implemented like a dismiss of a significant number of personnel due to reorganizing operations by eliminating overlaps of operations. In addition, decision-making and responsibilities had 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 had been estimated to boost profitability in the future. During the financial year 2019 had been concentrated to implement the actions into practices.

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 2019 to year 2020 occurred in the operating area South-East Europe. Discount rates for all tested cash generating units have decreased and it is mainly caused by the decrease of the risk-free interest rate to be even negative figure for most of the cash generating units. Also, market risk premium decrease has influenced to the decrease of discount rate.

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 including goodwill in the year:

	Scandinavia		East	
	2020	2019	2020	2019
Estimated parameters used				
Relative operating result before depreciation, amortization and impairment, average (EBITDA), %	13.8	13.1	17.7	17.7
Discount rate, pre-tax, %	6.7	7.3	10.6	11.6
Growth post forecast period, %	1.0	1.0	1.0	1.0

The Group estimates that no change that could be considered likely in the key assumptions below would cause to any tested cash generating unit the recoverable amount to decrease equaling to the amount of carrying amount.

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

	Scandinavia		East	
	2020	2019	2020	2019
Change in key assumptions				
Change in the relative operating result before depreciation, amortization and impairment, average (EBITDA %), % -units	-6.2	-4.5	-11.3	-10.4
Change in pre-tax discount rate, % -units	10.2	6.4	40.5	30.4
Change in growth post forecast period, % -units	-12.1	-7.0	-212.6	-80.9

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	2020	2019
Carrying amount at Jan 1	282	393
Share of profit or loss of equity-accounted investees	383	281
Dividends	-374	-359
Other comprehensive income	-26	-29
Exchange rate differences	30	-4
Carrying amount at Dec 31	295	282

ASSOCIATES

During year 2020 or 2019 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 2020 or 2019, 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	2020	2019
Non-current assets	1,284	1,213
Current assets excluding cash and cash equivalents	651	713
Cash and cash equivalents	825	558
Total assets	2,760	2,484
Other non-current liabilities	1,072	921
Current liabilities	1,098	998
Total liabilities	2,170	1,919

EUR thousand	2020	2019
Net assets	590	565
Group's share of net assets (50%)	295	282
Revenue	8,607	8,201
Depreciation and amortization	-	-
Interest income	6	4
Interest expenses	-	0
Income taxes	-210	-160
Result for the period	800	569
Other comprehensive income	-49	-57
Total comprehensive income for the period	751	512
Group's share of total comprehensive income for the period	376	256
Dividends received by Group	374	359
Personnel during the period, average	10	9
Group's share of net assets at Jan 1	282	393
Group share of net result	383	281
Dividends received	-374	-359
Other comprehensive income	-26	-29
Translation differences	30	-4
Carrying amount at Dec 31	295	282

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

19. Inventories

EUR thousand	2020	2019
Materials and supplies	23,639	26,364
Work in progress	2,278	2,268
Finished goods	54,477	56,845
Prepayments	18	1
Total	80,412	85,478

Inventory write-downs amounting to EUR 8.4 million (EUR 5.4 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 2020, also reversals of inventory write-down amounting to EUR 1.3 million were recognized (EUR 2.2 million). The amount of cost recognized as expense was EUR 290.9 million (EUR 297.8 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 2020 was EUR 1.4 million (EUR 1.5 million).

In the Group the value of the right-to-return goods including in inventory value is EUR 0.2 (0.1) million.

20. Other investments

EUR thousand	2020	2019
Carrying amount at Jan 1	734	744
Disposals	-95	-11
Change in valuation	117	-
Exchange rate differences	-11	1
Carrying amount at Dec 31	745	734

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. Majority of 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 2020, EUR 73 (EUR 7 thousand loss) thousand gain on sale of these shares is recognized in other comprehensive income.

21. Non-current receivables

EUR thousand	2020	2019
Loan receivables	3,217	4,289
Prepayments	229	210
Accrued income and deferred expenses	239	245
Other receivables	2,007	2,298
Total non-current assets	5,692	7,042

Non-current accrued income and deferred expenses include EUR 172 (232) thousand other financial items.

Other receivables

Trade receivables and hire-purchases	853	998
Other non-current non-interest-bearing receivables	1,154	1,300
Total other receivables	2,007	2,298

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 1.1 (1.2) million.

22. Current interest-bearing receivables

EUR thousand	2020	2019
Loan receivables	1,597	742
Total interest-bearing receivables	1,597	742

23. Trade and other non-interest-bearing receivables

EUR thousand	2020	2019
Trade receivables	79,396	88,272
Accrued income and deferred expenses	4,116	4,615
Other receivables	4,811	3,768
Total current non-interest-bearing receivables	88,324	96,655

Trade receivables and loan receivables are classified as financial assets at amortized cost. Accrued income and deferred expenses include EUR 121 (139) thousand financing related items. Other receivables include VAT receivables amounting to EUR 4.2 million (EUR 3.2 million).

Accrued income and deferred expenses

EUR thousand	2020	2019
Items related to net revenue and purchases	795	1,694
Employee benefit expenses	270	169
Insurances	292	187
Leases	800	760
Interests	60	78
Other financing items	233	293
Other	1,905	1,679
Total	4,355	4,860

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	2020	2019
Cash	91,979	47,008
Cash equivalents (bank deposits, maturity less than 3 months)	-	-
Total cash and cash equivalents	91,979	47,008
Cash and cash equivalents according to cash flow		
Cash	91,979	47,008
Cash equivalents (bank deposits, maturity less than 3 months)	-	-
Bank overdrafts	-	-
Total cash and cash equivalents	91,979	47,008

25. Deferred tax assets and liabilities

2020 EUR thousand	Net balance at Jan 1, 2020	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, 2020		
								Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	171	-11	-160	-	-	-	-	-	-	-
Defined benefit pension plans	2,890	120	-	-57	-	-	-	2,953	2,953	-
Provisions	294	-8	99	-	-	-	-	385	385	-
Leases	201	-19	53	-	-	-	-	235	235	0
Inventory profit	1,000	-82	213	-	-	-	-	1,131	1,131	-
Cumulative depreciation difference	-1,678	71	-217	-	-	-	-	-1,824	115	-1,939
Fair value measurement of PPE* and intangible asset in business combinations	-1,099	182	276	-	-	-	-	-641	-	-641
Other temporary differences	4,841	-786	1,338	-23	-	-	-	5,370	5,871	-501
Net tax liabilities (assets)	6,619	-533	1,602	-80	-	-	-	7,608	10,690	-3,081

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	-	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

* 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 0.7 million at December 31, 2020 (EUR 0.1 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 45 (11) percent of the tax losses. Tax losses with the limited right expire in 2023–2025.

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.

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, 2019	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
Acquisition of treasury shares	-	-17	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	17	-
Total at Dec 31, 2020	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, 2020 (EUR 35 million) and it is fully paid. On December 31, 2020, the number of shares was 44,108,252 including 2,371 treasury shares. At the end of year 2019, 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 2020 Tikkurila purchased 17,000 or disposed 17,090 treasury shares without any consideration.

At the year-end 2020, Tikkurila Oyj held 2,371 treasury shares, equaling a total cost of EUR 30 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.

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.

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 0.50 per share, totaled EUR 22,050 thousand, was distributed in year 2020 in two equal installments, in June and in November. In year 2019, dividend of EUR 0.33 per share, totaled EUR 14,555 thousand was distributed in two equal installments, in April and in November.

After the respective reporting date, The Board of Directors proposes that no dividend will be paid based on the decision of the Annual General Meeting from the financial year 2020.

Other comprehensive income 2020 EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non- controlling interest	Total
Items that will not be reclassified to profit or loss:						
Changes in equity investments - gain / loss on disposals	116	-	73	189	-	189
Remeasurements on defined benefit plans	-	-	-456	-456	-	-456
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-33	-33	-	-33
Income taxes relating to items that will not be reclassified to profit or loss	-23	-	-71	-94	-	-94
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	7	7	-	7
Total items that will not be reclassified to profit and loss, net of tax	93	-	-480	-387	-	-387
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	-12,992	-	-12,992	-	-12,992
Foreign currency translation differences for equity-accounted investees	-	11	-	11	-	11
Total items that may be reclassified subsequently to profit or loss, net of tax	-	-12,981	-	-12,981	-	-12,981
Other comprehensive income 2020, net of tax	93	-12,981	-480	-13,368	-	-13,368

Other comprehensive income 2019 EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non- controlling interest	Total
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

27. Non-current interest-bearing liabilities

EUR thousand	2020	2019
Loans from financial institutions	59,861	59,825
Lease liabilities	10,275	15,310
Total non-current interest-bearing liabilities	70,136	75,135
Liabilities that matures later than five years		
Lease liabilities	1,536	1,917

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

28. Current interest-bearing liabilities

EUR thousand	2020	2019
Loans from financial institutions	1	12
Commercial paper program	26,907	42,916
Lease liabilities	7,065	7,315
Other interest-bearing current liabilities	-	-
Total interest-bearing current liabilities	33,973	50,243

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans in year 2020 was 1.4% (1.4%).^{*)}

Interest-bearing liabilities by currency (in euro)

EUR thousand	2020	2019
EUR	89,324	105,493
SEK	6,784	7,737
RUB	1,696	3,867
NOK	2,238	2,691
PLN	1,972	2,193
DKK	1,729	2,070
CNY	128	1,327
KZT	239	-
Total	104,109	125,378

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

29. Trade and other non-interest-bearing payables

EUR thousand	2020	2019
Non-current accrued expenses and deferred income	247	43
Other non-current interest-free liabilities	-	-
Total other non-current liabilities	247	43
Trade payables	48,653	43,008
Other non-interest-bearing payables	6,297	7,829
Advances received	292	135
Accrued expenses and deferred income	60,028	50,015
Total current non-interest-bearing payables	115,270	100,986
Accrued expenses and deferred income		
Share-based payments	327	218
Employee benefit expenses	20,559	13,872
Items related to revenue and purchases	35,699	32,545
Interests	139	109
Other financial items	27	29
Other	3,524	3,285
Total	60,275	50,058

At the end of financial year 2020, line "Other" includes accruals of other expenses like consulting, IT, marketing and property related expenses.

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

The line "Items related to revenue and purchases" includes liabilities from contracts with customers (contract liabilities): EUR 85 (58) thousand of an accrual on unredeemed customer loyalty points, EUR 411 (89) thousand of refund liability on sale with a right of return and EUR 28.1 (25.1) million of different types of discounts, rebates and refunds related to customer contracts. In addition, item consists EUR 0.7 (0.9) 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	2020	2019
Interest-bearing non-current liabilities	70,136	75,135
Interest-bearing current liabilities	33,973	50,243
Cash and cash equivalents		
Cash	-91,979	-47,008
Cash equivalents (bank deposits, maturity less than 3 months)	-	-
Total	12,131	78,370

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 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.

Defined benefit pension obligations

EUR thousand	2020	2019
Defined benefit pension obligations (net)	29,369	27,658
Other long-term employee benefits including social costs	964	987
Pension obligations and other long-term employee benefits	30,333	28,645

	2020	2019
Items recognized in the statement of financial position		
Present value of funded obligations	2,115	2,048
Present value of unfunded obligations including Swedish payroll tax liability	29,457	27,742
Fair value of plan assets	-2,203	-2,132
Net defined benefit liability	29,369	27,658

EUR thousand	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2020	2019	2020	2019	2020	2019
Balance at Jan 1	27 171	25,202	-2,132	-1,970	25,040	23,232
Included in profit or loss: ¹⁾						
Current service cost	625	503	-	-	625	503
Interest expense (/income)	406	570	-41	-48	365	522
Plan amendments	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-
	1,031	1,073	-41	-48	990	1,025
Included in other comprehensive income: ²⁾						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from						
Experience adjustment	145	120	-	-	145	120
Demographic assumptions	-	-	-	-	-	-
Financial assumptions	360	3,006	-	-	360	3,006
Return on plan assets, excluding amounts included in interest expense/(income)	-	-	-166	-61	-166	-61
Effect of movements in exchange rates	918	-389	124	-17	1,042	-406
	1,424	2,737	-42	-78	1,382	2,659
Other						
Contributions paid by						
Employer	-	-	-48	-101	-48	-101
Payments from the plans:						
Benefits payments	-879	-885	60	66	-819	-819
Obligations transfers and other changes	0	-956	-	-	0	-956
Balance at Dec 31	28,747	27,171	-2,203	-2,132	26,545	25,040

¹⁾ In addition, the Swedish payroll tax related defined benefit pension is included as expenses of defined benefit pensions EUR -35 thousand (EUR -26 thousand) in profit or loss.

²⁾ Loss of EUR 117 thousand (loss of EUR 785 thousand) on Swedish payroll tax is recognized in other comprehensive income.

In addition, actuarial loss of EUR 26 thousand (actuarial loss EUR 29 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

EUR thousand	2020	2019
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	623	3,910
Return on plan assets, excluding amounts included in interest expense (/income)	-166	-61
Change in income taxes related to remeasurements for defined benefit plans	-57	-823
Actuarial gains / losses recognized from equity-accounted investees, net of tax	26	29
Total	426	3,055
Plan assets include		
Assets in insurance companies ^{*)}	2,203	2,132
Total	2,203	2,132

^{*)} 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 0.9 million of contributions into the defined benefit plans during the year 2021.

The significant actuarial assumptions

	2020	2019
Discount rate	1.0-1.7%	1.4-2.3%
Inflation	1.5%	1.8%
Forthcoming increases in wages and salaries	2.0-2.3%	2.3%
Forthcoming increases in pensions	0.0 %	0.5%

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 26,633 thousand (EUR 25,121 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 2,825 thousand (EUR 2,618 thousand) at year-end 2020. The most significant actuarial assumptions regarding this plan were as following: discount rate 1.10% (1.40%), inflation 1.50% (1.75%), to which development the pension level has been in practice linked to, as well as life expectancy and forthcoming increases in salaries 2.0% (2.3%). The life expectancy for a 65-year-old woman is 24 years and for a 65-year-old man, 22 years.

At December 31, 2020, the weighted-average duration of the defined benefit pension obligation was 18.5 years (2019: 18.5 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).

Effect in EUR thousand	Impact on defined benefit obligation			
	Dec 31, 2020		Dec 31, 2019	
Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	-2,986	3,411	-2,823	3,228

Sensitivity analyses on Group's most significant plan, Swedish defined benefit pension plan	Dec 31, 2020		Dec 31, 2019	
	Increase	Decrease	Increase	Decrease
One-year change in life expectancy	1,495	-1,474	1,405	-1,385
Inflation (0.5% movement)	2,695	-2,410	2,530	-2,263

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 2019.

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	2020	2019
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	790	790
Social costs	174	197
Liability of long-service benefit plan including social costs	964	987
Balance		
Other long-service benefit obligation at Jan 1	790	799
Included in profit or loss:		
Current service cost	64	61
Interest cost	2	8
Actuarial losses (gains) arising from		
Experience adjustment	8	-45
Demographic assumptions	-	-
Financial assumptions	13	25
Curtailement of the other long-service benefit plan	-2	-
	85	50
Other		
Payments from the plans:		
Benefits payments	-85	-60
Long-service benefit obligation at Dec 31	790	790

	2020	2019
Actuarial assumptions		
Discount rate	0,0%	0.3%
Inflation	1,0%	1.1%
Forthcoming increases in wages and salaries	1,4%	1.5%
Employee turnover	3.0%	3.0%

Tikkurila Oyj expects to pay EUR 60 thousand of contributions into the long-service benefit plan during the year 2021.

At December 31, 2020, the weighted-average duration of the long-service benefit obligation was 8 years (2019: 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).

Effect in EUR thousand	Impact on long-service benefit plan obligation			
	Dec 31, 2020		Dec 31, 2019	
	Increase	Decrease	Increase	Decrease
Change in assumption				
Discount rate (0.5% movement)	-32	35	-31	34
Salary growth rate (0.5% movement)	34	-32	33	-31

31. Provisions

EUR thousand	Environmental provisions	Restructuring	Other provisions	2020 Total
2020				
Non-current provisions				
Balance at Jan 1, 2020	-	67	1,517	1,584
Exchange rate differences	-	-	-32	-32
Provisions made during the period	-	22	251	273
Provisions used during the period	-	-	-	-
Provisions reversed during the period	-	-	-	-
Reclassifications	-	-60	-93	-153
Non-current provisions at Dec 31, 2020	-	29	1,644	1,673
Current provisions				
Balance at Jan 1, 2020	-	553	975	1,528
Exchange rate differences	-	0	-2	-1
Provisions made during the period	-	186	21	207
Provisions used during the period	-	-548	-91	-639
Provisions reversed during the period	-	-42	-	-42
Reclassifications	-	60	-688	-628
Current provisions at Dec 31, 2020	-	210	215	425

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 released 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

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

In comparison year 2019, current provision for cost related to clean up and rehabilitate the land amounted EUR 118 thousand in the beginning of year. 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 2020, these provisions amounted to EUR 112 (232) thousand, from which the EUR 82 (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 2020 the provision amounted to EUR 56 (282) thousand. Costs for which provision is recognized is expected to be realized during the year 2020.

A restructuring provision for closing of a Danish production unit was fully used as by end of the year 2020. At end of financial year 2019, EUR 105 thousand was recognized as a current provision.

During the financial year 2020, Tikkurila announced to closedown the small production entity in Russia. The Group recorded approximately EUR 0.2 million provision related to personnel and shutdown of production facility. Related to this closedown EUR 71 thousand is recognized as current provisions at the end of the financial year 2020.

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 was 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 2020, the provision in relation of this obligation amounted to EUR 940 (1,125) thousand, of which 93 (91) thousand is recognized as current provisions.

In financial year-end 2019, the provision of EUR 0.8 million related to uncertain tax positions was recognized in current provisions. In according to Management's judgment some of items recorded as deductible expenses in taxation consist uncertainty of interpretation of tax authorities. In year 2020, provisions recorded due to uncertainty over income tax treatment in accordance with the interpretation of IFRIC 23, are presented in "Current tax liabilities" in consolidated statement of financial position.

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 2020 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. Status of these legal matter is unchanged in the financial year 2020.

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
2020									
Financial assets measured at fair value									
Non-current financial assets									
Other investments	20	-	-	745	745	-	-	745	745
		-	-	745	745	-	-	745	745
Financial assets not measured at fair value									
Non-current receivables	21								
Loan receivables		-	3,217	-	3,217	-	3,217	-	3,217
Other receivables		-	853	-	853	-	853	-	853
Current financial assets									
Interest-bearing receivables	22	-	1,597	-	1,597				
Cash equivalents	24	-	91,979	-	91,979				
Trade and other non-interest-bearing receivables	23	-	79,473	-	79,473				
		-	177,119	-	177,119	-	4,070	-	4,070
Financial liabilities not measured at fair value									
Non-current financial liabilities									
Lease liabilities	27	-	10,275	-	10,275	-	10,275	-	10,275
Loans from financial institutions	27	-	59,861	-	59,861	-	59,999	-	59,999
Current financial liabilities									
Current interest-bearing liabilities	28	-	26,908	-	26,908				
Lease liabilities	28		7,065	-	7,065				
Trade payables	29	-	48,653	-	48,653				
		-	152,762	-	152,762	-	70,274	-	70,274

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									
Loan receivables	21	-	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									
Finance 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

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 0.80%. In year 2019 the discount rate used was 0.90%.

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

	2020	2019
	Other investments	Other investments
Carrying amount at Jan 1	734	744
Translation differences in other comprehensive income	-11	1
Change in valuation	117	-
Disposals	-95	-11
Carrying amount at Dec 31	745	734

In year 2020, EUR 73 (EUR 7 loss on sale) thousand gain on sale of equity instruments as fair value through other comprehensive income is recognized.

In financial year 2020 or 2019, no impairment loss was recognized on equity instruments as fair value. In financial year 2020, EUR 117 thousand revaluation was recognized on them.

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. Majority of the 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 2020 and 2019 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 2020 such country was China in Tikkurila Group and China held cash and cash equivalents EUR 7,190 thousand. At the year-end 2019 the corresponding amount of cash and cash equivalents held by Tikkurila in China amounted to EUR 3,867 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, 2020 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. The depreciation of the Russian ruble has adversely affected Group revenue and operating profit during 2020. 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 2020 and 2019 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.

Transaction risk position

EUR thousand	KZT	SEK	NOK	DKK	PLN	RUB	CNY	Other
Dec 31, 2020								
Bank accounts	-373	-13,036	3,279	3,414	4,438	2,588	-	281
Loans and deposits	1,529	-	-	-	292	8,637	3,739	-
Trade receivables and payables	1,727	435	338	1,363	3,897	13,991	3,562	-138
Open position	2,883	-12,601	3,617	4,777	8,627	25,216	7,301	143

Transaction risk position

EUR thousand	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

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 result before tax based on items in statement of financial position December 31

	2020					2019				
EUR thousand	RUB	SEK	CNY	KZT	PLN	RUB	SEK	CNY	KZT	PLN
Impact of 10% weakening of currency	-2,292	1,146	-664	-262	-784	-2,566	87	-513	-348	-388
Impact of 10% strengthening of currency	2,802	-1,400	811	320	959	3,124	-106	627	426	475

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, 2020					
Equity	35,975	8,815	42,425	5,024	5,425
Impact of 10% strengthening of currencies on equity	3,997	979	4,714	558	603
Impact of 10% weakening of currencies on equity	-3,270	-801	-3,857	-457	-493

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

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2020 and/or 2019:

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
- long-term loans from banks
- short-term loans from banks
- 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, 2020	Dec 31, 2019
Fixed rate		
Financial assets *)	261	277
Financial liabilities	-43,386	-64,951
Net	-43,125	-64,673
Floating rate		
Financial assets	4,553	4,754
Financial liabilities	-60,723	-60,427
Net	-56,169	-55,674

*) Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 12.1 (78.4) million net debt position on December 31, 2020, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.8 (-0.9) 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 2021 would be at the average level of 2020, calculated as the average of actual month-end balances, and consequently would equal about EUR 6.1 (112) million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2021 by about EUR 1.2 (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 8% (6%) of revenue in 2020 took place using advance payments.

Credit insurance is used in Poland where about 81% (74%) of trade receivable as of December 31, 2020 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.

Maximum credit risk relating financial assets at the end of reporting period

EUR thousand	Note	Dec 31, 2020	Dec 31, 2019
Financial assets at fair value through profit or loss	23, 33	-	-
Loans and other receivables	21, 22, 23, 24	177,043	141,308
Total		177,043	141,308

Loans and other receivables by currency in euros at December 31

EUR thousand	Dec 31, 2020	Dec 31, 2019
EUR	57,825	45,960
SEK	23,832	17,170
RUB	32,655	33,776
PLN	36,076	27,393
DKK	9,629	4,398
CNY	9,580	8,390
Other	7,446	4,221
Total	177,043	141,308

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. Tikkurila Group applies IFRS 9 simplified approach to measure expected credit losses. 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.

Dec 31, 2020	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	0.04–1.36%	0.6%–4.9%	1.2%–18.3%	50.0%	100.0%	
Gross carrying amount- trade receivables	83,495	-2,421	77	-52	3,813	84,912
Loss allowance	-301	-230	-37	-91	-4,005	-4,664

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

MOVEMENT OF ALLOWANCE FOR IMPAIRMENT OF TRADE RECEIVABLES

EUR thousand	Dec 31, 2020	Dec 31, 2019
Balance at beginning of year	6,034	5,216
Amounts restated through opening retained earnings	-	-
Exchange rate differences	-830	403
Additions	1,248	2,044
Realized	-552	-384
Decreases, unused amount	-1,237	-1,244
Total	4,664	6,034

THE AGEING OF LOANS AND OTHER RECEIVABLES AT DECEMBER 31

EUR thousand	Carrying amount Dec 31, 2020	Carrying amount Dec 31, 2019
Not past due	179,988	138,411
Past due 1–90 days	-2,650	2,166
Past due 91–180 days	40	606
Past due 181–365 days	-143	140
Past due over 365 days	-192	-15
Total	177,043	141,308

Tikkurila Group's loan receivables are classified as financial assets at amortized cost according to IFRS 9. 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. There was no indication in credit risks for the Group's loan receivables during the financial year 2020 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, 2020	Dec 31, 2019
Loss allowance at beginning of year	259	304
Amounts restated through opening retained earnings	-	-
Increase / decrease in the allowance recognized in profit or loss during the period	-31	-45
Loss allowance at the year end	228	259

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 September 2020 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 150 signed October 2015 million commercial paper program.

At the end of 2020, Tikkurila had unused a EUR 100 (100) million revolving credit facility and EUR 10 (10) million committed credit facilities. A total of EUR 27 (43) 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 92 (47) 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 2020. 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, 2020**

EUR thousand	Carrying amount	Contractual cash flows	2021	2022	2023	2024	2025	>2025
Loans from financial institutions	59,862	61,801	553	487	487	60,274	-	-
Commercial papers	26,907	27,000	27,000	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Lease liabilities	17,340	19,144	7,622	4,707	2,874	1,323	410	2,208
Trade payables	48,653	48,659	48,659	-	-	-	-	-
Guarantees	1,627	1,627	1,627	-	-	-	-	-
Total	154,389	158,230	85,461	5,194	3,360	61,597	410	2,208

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	-	-	-	-	-	-	-	-
Finance 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

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

The Group holds a small number of unlisted shares that are of business supportive nature and personnel's recreational activities related long-term investments. Majority of 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. Thus, shares are measured at cost or at cost less impairment if value has been impaired below the costs.

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. Due to the ongoing tender offer process, the Board proposes that Tikkurila's Annual General Meeting decides that no dividend will be paid based on the decision of the Annual General Meeting from the financial year 2020.

EUR thousand	Dec 31, 2020	Dec 31, 2019
Equity	181,358	171,924
Non-controlling interest	-	-
Total	181,358	171,924
Non-current interest-bearing liabilities	70,136	75,135
Current interest-bearing liabilities	33,973	50,243
Cash and cash equivalents	91,979	47,008
Interest-bearing net liabilities	12,131	78,370
Gearing, %	6.7%	45.6%
Equity ratio, %	41.1%	39.3%
EBITDA	85,483	68,129
Interest-bearing net liabilities / EBITDA	0.14	1.15
Capital employed		
Goodwill	69,096	70,188
Investments in equity-accounted investees	295	282
Property, plant and equipment ready for use and intangible assets ready for use (excluding goodwill)	70,864	82,880
Right-of-use assets	16,778	22,224
Net working capital	55,569	83,624
Total capital employed	212,602	259,198

Reconciliation of liabilities arising from financing activities EUR thousand	Cash flows						Dec 31, 2020
	Dec 31, 2019	Proceeds and repayments	Foreign exchange rates	Other non-cash changes	Reclassification to held for sale asset and liabilities	New leases	
Non-current borrowings from financial institutions	59,825	0	-	36	-	-	59,861
Current borrowings from financial institutions	12	-11	-	-	-	-	1
Lease liabilities	22,625	-7,465	-903	-	-	3,083	17,340
Commercial papers	42,916	-16,009	-	-	-	-	26,907
	125,378	-23,485	-903	36	-	3,083	104,109

Reconciliation of liabilities arising from financing activities EUR thousand	Cash flows						Dec 31, 2019
	Dec 31, 2018	Proceeds and repayments	Foreign exchange rates	Other non-cash changes	Reclassification to held for sale asset and liabilities	New leases ¹⁾	
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	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

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	2020	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	300	317
On behalf of others	1,307	1,285
Other obligations on own behalf	-	-
Rent obligations	20	149
Total contingent liabilities	1,627	1,751

Group's commitments related to leases that have not yet commenced are disclosed in the above table in line rent obligations in year 2019 and in year 2020.

CONTRACTUAL COMMITMENTS

Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 0.6 million (EUR 1.4 million in 2019) at the end of financial year 2020. Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 0.0 million) at the end of year 2020.

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.

Tikkurila has granted its customers certain guarantees related to its products in connection to its supply agreements. If, in connection with these guarantees, the Group would incur payment obligations, the realization of which would be probable and their amount of could be reliably estimated, 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 in certain markets especially industrial and professional products are sold directly to end-customers. Group companies have various - frame, delivery and other - agreements with its customers. At the end of financial year 2020, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2020, 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.

In year 2017, 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's actions. The proceedings are pending in the 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 legal 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 did not 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.

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.

OOO Tikkurila has started proceedings regarding an illegal decision of Russian authority "Rosspotrebnadzor" on adjustment of the sanitary protection zone of Utkin production site of OOO Tikkurila in Saint Petersburg. The claim was denied by the courts of the first and the second instance, and the decisions were appealed in cassation court. Cassation court returned the matter to the court of 1st instance because Tikkurila's evidence had been neglected in the proceedings. The case is pending

The Swedish Competition Authority (SCA) is investigating a possible antitrust infringement involving an employee of Tikkurila Sverige AB. In a chain of correspondence dating from December 2019, employees of several different companies had participated in a discussion which, in SCA's view, could be seen as calling for a boycott against a certain supplier. Tikkurila Sverige AB has provided its report on the matter to SCA, and the matter is pending.

Tikkurila has received customer claims related to certain products with quality problems sold in Finland and in Baltics. Tikkurila's management has estimated possible payment obligations are likely to incur and has recognized approximately EUR 0.4 million as liabilities.

In October 2020 Tikkurila has received a reclamation from its customer for defective paint the customer has used for a project in the amount of appr. EUR 0.1 million. The final amount the customer might claim may further rise in case the project's end customer demands more extensive correction painting.

In December 2020 OOO Tikkurila has sent a pre arbitration claim to a former distributor for the return of tinting equipment, due to the fact, that the distributor illegally holds them. OOO Tikkurila is claiming EUR 160 thousand as fixed compensation for the equipment.

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 2020	Financial year 2019
Shares, pcs	7,662	6,136
Purchase price of the shares, EUR thousand	109	96

In 2020 there were altogether seven Board members to whom the shares were granted – in 2019 there were six 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 2016-2020 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 2016-2018. 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.

In December 2020, pursuant to combination agreement signed with PPG in line with PPG's recommended voluntary tender offer, the Board of Directors of Tikkurila Oyj decided on treatment of share-based incentive plans in case the tender offer and the subsequent transaction are closed. Based on the decision, in case the tender offer is completed, and the transaction is closed, Tikkurila Oyj will settle in cash all outstanding rewards to be paid for the performance periods under the Performance Share Plan in accordance with the terms and conditions of the Performance Share Plan. Change in settlement as cash will lower the result of financial year 2021. The amount of reward payment shall be resolved by the Tikkurila Oyj's Board of Directors, taking into account, among other things, the proportion of time elapsed of a performance period (pro rata) and the achievement of the performance requirement at the time of the transaction closing.

PERFORMANCE SHARE PLAN 2015-2019

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 was calculated with the same intrinsic value formula based on the Tikkurila Group's average EBITDA and net debt. The range varied for performance periods. In addition, the Company would 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 was 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 maximum rewards for the performance period 2019-2021 will amount to approximately 130,000 Tikkurila Oyj shares. Based on the original terms of the Performance Share Plan, the potential performance-based rewards would 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. In June 2020, the first tranche of time-based reward was paid amounting to a total of EUR 0.3 million.

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. According to the original terms of the Performance Share Plan, the potential performance-based rewards would be paid partly in the company's shares and partly in cash in 2023.

However, according to Tikkurila Oyj Board of Directors' decision in December 2020 and pursuant to combination agreement signed with PPG in line with PPG's recommended voluntary tender offer, in case the tender offer is completed, and the transaction is closed, Tikkurila Oyj will settle in cash all outstanding

rewards to be paid for all open performance periods (2018–2020, 2019–2021, 2020–2022) under the Performance Share Plan in accordance with the terms and conditions of each Performance Share Plan. The amount of reward payment shall be resolved by the Tikkurila Oyj's Board of Directors, taking into account, among other things, the proportion of time elapsed of a performance period and the achievement of the performance requirement (intrinsic value) at the time of the transaction closing.

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 consisted of less than 20 employees. The plan included one performance period. 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 was conditional to that a participant was employed at the time of the payment. The rewards were paid in March–April 2020 in cash amounting to a total of EUR 0.2 million.

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.

For Matching Share Plan 2017–2019 the rewards were paid in May 2020 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.

Share based incentives during the reporting period Jan 1, 2020 – Dec 31, 2020

Plan	Matching Share Plan 2017–2019	Performance Share Plan 2015–2019	Performance Share Plan 2018–2022		
Type	Matching share, Initial investment	Share	Share		
Instrument	MSP 17-19	PSP 17-19	PSP 18-20	PSP 19-21	Time-based period I 19-21
Grant dates	May 30, 2017	May 30, 2017	Jun 26, 2018	Feb 8, 2019	Feb 8, 2019
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	Jan 1, 2017	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019	Jan 1, 2019
End of earning period	Mar 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Jun 30, 2020
Vesting conditions	Share ownership	Average Intrinsic Value	Average Intrinsic Value	Average Intrinsic Value	
	Employment until the end of the ownership period	Employment until the end of the restriction period	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, 2020	May 31, 2020	May 31, 2021	May 31, 2022	Jun 30, 2020
Maximum contractual life, years	3,4	3,4	3,4	3,4	1,5
Remaining contractual life, years	0,0	0,0	0,4	1,4	0,0
Number of persons at Dec 31, 2020	0	0	6	20	0

Plan	Performance Share Plan 2018–2022	
Type	Share	
Instrument	Time-based period II 19-21	PSP 20-22
Grant dates	Feb 8, 2019	Feb 24, 2020
Payment method	Cash & Equity	Cash & Equity
Beginning of earning period	Jan 1, 2019	Jan 1, 2020
End of earning period	May 31, 2022	Dec 31, 2022
Vesting conditions	Average Intrinsic Value	
	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	May 31, 2023
Maximum contractual life, years	3,4	3,4
Remaining contractual life, years	1,4	2,4
Number of persons at Dec 31, 2020	20	21

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	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	May 30, 2017	Apr 28, 2016	May 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	Share ownership	Average Intrinsic Value	Average Intrinsic Value	Average Intrinsic Value	Cumulative Adjusted EBIT and Revenue
	Employment until the end of the ownership period	Employment until the end of the ownership period	Employment until the end of the restriction period	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	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

Changes during the period 2020	MSP 17–19	PSP 18–20	PSP 19–21	Time-based period I 19–21	Time-based period I 19–21	PSP 19–21
Jan 1, 2020						
Outstanding at the beginning of the reporting period, pcs	3,500	72,000	82,740	13,790	13,790	-
Changes during the period						
Granted	-	-	-	-	-	-
Awarded	-	-	-	-	-	-
Forfeited	3,500	-	-	13,590	-	150,000
Expired	-	-	1,200	200	200	2,000
Dec 31, 2020						
Outstanding at the end of the period	-	72,000	81,540	-	13,590	148,000

Changes during the period 2019	MSP 17–19	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

FAIR VALUE DETERMINATION

Valuation parameters for instruments granted during period 2020

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 2020 was determined by the following inputs and had the following effect:

	PSP 20–22
Share price at grant, EUR	13.82
Share price at reporting period end, EUR	24.95
Expected dividends (discounted), EUR	1.82
FMV of equity component, EUR	12.00
Cost of equity, %	8.2
Fair value Dec 31, 2020, EUR thousand	3,060

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

Effect of share-based incentives on the result and financial position during the period

EUR thousand	2020	2019
Expenses for the financial year, share-based payments	2,321	824
Expenses for the financial year, share-based payments, equity-settled	2,061	765
Liabilities arising from share-based payments December 31	324	84

Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	6,043
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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 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.

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
2020					
Joint ventures	5,513	1,044	-	475	38
2019					
Joint ventures	5,138	990	-	468	44

The dividends received from joint ventures amounted to EUR 358 thousand (EUR 354 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 2020 or 2019.

Management employee benefits ¹⁾

EUR thousand	2020	2019
Wages, salaries and other short-term employee benefits	2,344	2 073
Benefits related to termination of employment	0	77
Post-employment benefits	363	325
Share-based incentive plan	269	-
Total	2,976	2 475

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 cash basis. Share-based incentive plan include share awards measured by the share price at the date of disposal as well as cash portion to cover taxes arising from the reward to the participants.

Share-based incentive plan is disclosed in Note 35.

EXECUTIVE REMUNERATION

EUR thousand	2020	2019
CEO		
Elisa Markula		
Fixed salary (fringe benefits included)	382	407
Bonuses	143	55
Share-based incentive plan	73	0
Total	598	463
Statutory pension expenses	88	79
Other Management Team members		
Fixed salary (fringe benefits included)	1,212	1,159
Bonuses	258	145
Benefits related to termination of employment	0	77
Share-based incentive plan	196	-
Total	1,666	1,381
Statutory pension expenses	275	247
Board compensation		
Board members ¹⁾		
Jari Paasikivi, Chairman of the Board	74	72
Petteri Walldén, Vice chairman of the Board	50	48
Andrey Pantyukhov, member of the Board as of June 9, 2020	38	-
Pia Rudengren, member of the Board, until April 11, 2019	-	4
Lars Peter Lindfors, member of the Board as of April 11, 2019	45	40
Riitta Mynttinen, member of the Board	48	51
Harri Kerminen, member of the Board until April 11, 2019	-	2
Catherine Sahlgren, member of the Board	42	39
Heikki Westerlund, member of the Board	53	51
Total	349	307

¹⁾ 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 109 (96) thousand in year 2020 and included in figures presented above.

Elisa Markula, CEO of Tikkurila 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.

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 2020 for the Tikkurila Management Team consist two bonus criteria: The Tikkurila Group adjusted operating profit and revenue for the 2020 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 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.

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 %
2020				
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 %
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

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2020				
Alcro Parti AB	Stockholm	Sweden	50	-
2019				
Alcro Parti AB	Stockholm	Sweden	50	-

38. Changes in group structure

CHANGES IN THE GROUP STRUCTURE DURING 2020

No changes in year 2020.

CHANGES IN THE GROUP STRUCTURE DURING 2019

No changes in year 2019.

39. Events after the end of reporting period

TENDER OFFER BY PPG INDUSTRIES INC.

On January 15, PPG Industries, Inc. commenced a Tender Offer for all issued and outstanding shares in Tikkurila Oyj. The Tender Offer commenced based on the combination agreement, which was announced on December 18, 2020 and amended on January 5, 2021, pursuant to which the PPG Industries Inc. would make a voluntary recommended public cash tender offer for all the issued and outstanding shares in the Company that are not held by the Company or any of its subsidiaries. The Offer Price was amended to EUR 27.75 per share by PPG Industries Inc. on January 5, 2021 (previously EUR 25.00 per share). The offer period commenced on January 15, 2021.

The Offeror sees significant value and potential in Tikkurila and accordingly expects to make substantial investments in Tikkurila's technology, infrastructure and people, as well as provide Tikkurila access to PPG's global diversified paints, coatings and specialty coatings offerings on which Tikkurila will be able to build and further deepen its customer relationships, develop lateral products and access additional geographies.

The completion of the Tender Offer is not expected to have any immediate material effects on the operations or the position of the management or employees of the Company.

The members of the Board of Directors of the Company, who participated in the decision-making, have unanimously decided to recommend that the shareholders of the Company accept the Tender Offer.

Certain major shareholders of Tikkurila, i.e. Oras Invest Oy, Varma Mutual Pension Insurance Company, Mandatum Life Insurance Company Limited and Kaleva Mutual Insurance Company, representing in the aggregate approximately 29.39 per cent of the shares and votes in the Company, irrevocably undertook to accept the Tender Offer, subject to certain customary conditions.

As announced on January 15, 2021, the completion of the Tender Offer is subject to certain customary conditions being fulfilled or waived by the Offeror on or by the date of the Offeror's announcement of the final result of the Tender Offer. These include, among others, obtaining all necessary regulatory approvals and acceptance of the Tender Offer with respect to Shares representing, together with Shares otherwise held by the Offeror prior to the announcement of the final result of the Tender Offer, on a fully diluted basis, more than ninety (90) percent of the Shares and voting rights in the Company calculated in accordance with Chapter 18, Section 1 of the Finnish Companies Act (624/2006, as amended) governing the right and obligation to commence redemption proceedings.

More information regarding the Tender Offer by PPG Industries Inc. can be found on the related stock exchange releases.

INCREASE OF THE OFFER PRICE TO EUR 34.00 PER SHARE AND AMENDMENTS TO THE COMBINATION AGREEMENT

On February 4, 2021, PPG Industries Inc. announced to an increase in the Offer Price to EUR 34.00 per share and amended certain other terms of the offer. Further, PPG and Tikkurila had agreed on an amendment to the combination agreement.

Certain major shareholders of Tikkurila, Varma Mutual Pension Insurance Company, Mandatum Life Insurance Company Limited and Kaleva Mutual Insurance Company, representing in the aggregate approximately 9.32 per cent of the shares in the Company, unconditionally agreed to sell their Shares to the Offeror. In addition, Oras Invest Oy agreed to an unconditional irrevocable undertaking to accept the Improved Tender Offer and has also unconditionally agreed to sell its Shares to the Offeror upon the receipt by the Offeror of the necessary regulatory approvals. In total, the Shares subject to sale to the Offeror represent in the aggregate approximately 29.34 per cent of the shares in the Company.

The Offeror expects that the Improved Tender Offer can close as early as March in accordance with the original preliminary time schedule set forth in terms and conditions of the Tender Offer or early in the second quarter of 2021. Regulatory approvals are progressing in line with this schedule.

The Offeror has changed the condition for completion of the Improved Tender Offer concerning the minimum acceptance level by lowering the relevant threshold from more than 90 per cent to more than 66.7 per cent.

Following extensive review and discussions and after having regarded factors such as deal certainty for the Company and its shareholders, timeline to closing, including the fact that the regulatory process for PPG's Improved Tender Offer is well advanced, and potential disruption for the Company and its employees and other stakeholders, and after consultation with its financial and legal advisors, the Board of Directors has assessed PPG's Improved Tender Offer in comparison with AkzoNobel's Potential Competing Offer. The Board of Directors has concluded that following the significant increase in the Offer Price by PPG, together with the other amended terms and conditions of the Improved Tender Offer and deal certainty aspects related to the timing in obtaining required approvals from the regulatory authorities, the Improved Tender Offer by PPG is more beneficial for the Company, its shareholders and other stakeholders as compared to the Potential Competing Offer received from AkzoNobel. Therefore, the members of the Board of Directors who participated in the decision-making have unanimously decided to recommend that the shareholders of the Company accept the Improved Tender Offer.

In addition, PPG agreed to provide additional undertakings for the obtaining of the regulatory approvals in order to ensure completion of the Improved Tender Offer. In connection with the significant increase in the Offer Price and enhancements to deal certainty, and to reflect the costs incurred, PPG requested that Tikkurila increased the termination fee payable to PPG in the event the Combination Agreement is terminated due to certain reasons specified in the Combination Agreement, such as the Board of Directors withdrawing, modifying or changing its recommendation regarding PPG's Improved Tender Offer.

BINDING CONDITIONAL PROPOSAL FROM AKZO NOBEL N.V.

On January 28, 2021 Tikkurila received a binding proposal from Akzo Nobel to acquire all issued and outstanding shares of Tikkurila, subject to the Board of Tikkurila recommending the offer and Oras Invest undertaking to accept the offer. The binding proposal was made following AkzoNobel's announcement on non-binding conditional proposal, received on January 18, 2021, to acquire all issued and outstanding shares of Tikkurila at an offer price of EUR 31.25 per share, which represents a premium of 113 percent to Tikkurila's volume weighted average share price for the three-month period ending December 17, 2020 and was 12.6 percent higher than the unanimously recommended offer by PPG Industries Inc. of then EUR 27.75 per share, published on January 5, 2021.

The making of the binding offer was subject to the following conditions: Tikkurila's Board of Directors withdrawing its recommendation to the Company's shareholders to accept PPG Industries Inc.'s tender offer, announced on December 18, 2020, and recommending AkzoNobel's tender offer; and, Akzo Nobel obtaining an irrevocable undertaking from Oras Invest Oy to accept AkzoNobel's tender offer.

Tikkurila's Board of Directors sought to give AkzoNobel an equal possibility to make a binding offer for the shares of the Company. Following AkzoNobel's proposal published on January 18, 2021, the Company provided AkzoNobel with an opportunity to conduct due diligence and with access to the Company's management in line with the process complied with PPG.

Pursuant to the Potential Offer, as announced by AkzoNobel on January 28, 2021, the completion of the Potential Offer, if made, would have been subject to customary conditions substantially similar to those included in the current tender offer document published by PPG, dated January 14, 2021, including among others reaching a 90 percent acceptance level and obtaining required regulatory approvals, and would not be conditional on financing. In order to obtain merger clearance and ensure deal certainty for Tikkurila and its shareholders, AkzoNobel stated that it had agreed with Hempel A/S ("Hempel") the key terms for the sale of assets, including the sale of decorative paints business of AkzoNobel in the Nordics and the Baltics, to be completed after closing of AkzoNobel's Potential Offer for Tikkurila. On February 8, 2021 AkzoNobel N.V. announced that it no longer intends to pursue the acquisition of Tikkurila.

Tikkurila Oyj income statement (FAS)

EUR thousand	Note	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2019
Revenue	2	209,876	200,449
Change in inventories of finished goods and work in progress	4	-631	4,613
Other operating income	3	22,651	21,628
Materials and services	4	-119,983	-121,982
Personnel expenses	5	-38,920	-34,990
Depreciation, amortization and impairment losses	7	-5,854	-5,707
Other operating expenses	4, 6	-45,597	-47,515
Operating profit		21,542	16,496
Financial income and expenses	8	5,674	16,000
Profit before appropriations and taxes		27,215	32,497
Appropriations	7, 9	-1,259	622
Income taxes	10	-3,426	-4,708
Net result for the period		22,530	28,411

Tikkurila Oyj balance sheet (FAS)

EUR thousand	Note	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets	11		
Intangible assets		10,942	13,688
Tangible assets		13,345	13,732
Investments			
Holdings in Group companies		186,203	185,943
Other shares and holdings		445	540
Total investments		186,647	186,483
Total non-current assets		210,934	213,903
Current assets			
Inventories	12	29,747	31,930
Non-current receivables	13	7,654	11,913
Current receivables	13	50,862	57,312
Cash and cash equivalents		69,302	32,757
Total current assets		157,564	133,911
Total assets		368,498	347,815
EQUITY AND LIABILITIES			
Equity	14		
Share capital		35,000	35,000
Reserve for invested unrestricted equity		40,000	40,000
Retained earnings		91,911	85,757
Net result for the period		22,530	28,411
Total equity		189,441	189,168
Appropriations	15	2,691	1,432
Provisions	16	1,146	1,358
Liabilities	17		
Non-current liabilities		61,277	60,332
Current liabilities		113,944	95,525
Total liabilities		175,221	155,857
Total equity and liabilities		368,498	347,815

Tikkurila Oyj cash flow (FAS)

EUR thousand	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
CASH FLOW FROM OPERATING ACTIVITIES		
Result before appropriations and taxes	27,215	32,497
Adjustments:		
Unrealized exchange gains and losses	3,732	-2,062
Depreciation, amortization and impairment losses	5,744	5,707
Interest income	-2,104	-3,559
Interest expenses	1,197	823
Dividend income	-9,814	-13,013
Other adjustments	-167	1,048
Write-down of non-current investments	110	-
Write-down of non-current loan receivables	500	1,500
Other financial items	245	370
Funds from operating activities before change in net working capital	26,658	23,309
Change in net working capital		
Change in inventories	2,183	-5,637
Change in current receivables	-766	-6,799
Change in interest-free current liabilities	3,612	1,402
Operating cash flow before financing items and taxes	31,688	12,275
Interest and other financial expenses paid	-1,464	-1,538
Interest and other financial income received	2,368	3,543
Income taxes paid	-148	825
Dividends received	9,814	13,013
Total cash flow from operating activities	42,258	28,118

EUR thousand	Jan, 1–Dec, 31, 2020	Jan 1–Dec 31, 2019
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	-2,844	-3,648
Investments in Group companies	-260	-9
Disposal of Group companies	169	-
Change in loan receivables	6,112	12,729
Net cash used in investing activities	3,177	9,072
Cash flow before financing	45,435	37,190
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans (+)	-	60,000
Decrease in non-current loans (-)	-	-50,000
Change in current financing increase (+)	221,929	204,832
Change in current financing decrease (-)	-209,657	-228,658
Acquisition of own shares	-208	-
Dividends paid	-22,050	-14,555
Net cash used in financing activities	-9,985	-28,381
Net change in cash and cash equivalents	35,450	8,809
Cash and cash equivalents at Dec 31	69,302	33,852
Cash and cash equivalents at Jan 1	33,852	25,043
Change in cash and cash equivalents	35,450	8,809

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

	2020	2019
Revenue by geographical segment, % of total revenue	%	%
Finland	47	45
Other EU countries	31	30
Other Europe	19	21
Other countries	4	4
Revenue by geographical segment, total	100	100

3. Other operating income

EUR thousand	2020	2019
Gains on sale of non-current assets	-	5
Gains on sale of shares	74	-
Other income from operations	22,577	21,622
Other operating income, total	22,651	21,628

Additionally, other operating income includes intercompany service charges and intercompany charges regarding intangible asset licenses, rights to use in total of EUR 22.0 (21.0) million.

4. Other operating expenses

EUR thousand	2020	2019
Change in inventories of finished goods and work in progress	-631	4,613
Materials and services		
Materials and supplies		
Purchases during the financial year	-117,955	-122,711
Change in inventories of materials and supplies	-1,552	1,024
External services	-476	-295
Total materials and services	-119,983	-121,982
Personnel expenses	-38,920	-34,990
Rents	-1,460	-1,420
Other expenses and expense reimbursement	-44,137	-46,095
Total other operating expenses	-205,131	-199,873

5. Personnel expenses and number of personnel

EUR thousand	2020	2019
Wages and salaries	-32,534	-28,891
Pension expenses	-5,064	-5,150
Other personnel expenses	-1,322	-948
Total personnel expenses	-38,920	-34,990
Fringe benefits (tax value)	-1,365	-1,272

In financial year 2020 personnel expenses include EUR 0.2 (0.3) million one-time expenses as a result of the personnel dismissals due to co-operation negotiations and changes of organization structure.

Management remunerations	2020	2019
Members of the Board of Directors, CEO and other Management Team members	-2,613	-2,533

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 cash basis in year 2020 and 2019.

EUR thousand	2020	2019
CEO Elisa Markula		
Fixed salary, fringe benefits included	-382	-407
Bonuses	-143	-55
Share-based incentive plan	-73	-
Total	-598	-463
Statutory pension expenses	-88	-79

For the financial year the accrual based bonuses to Elisa Markula are EUR 327 (86) thousand. Elisa Markula, CEO of Tikkurila 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.

EUR thousand	2020	2019
Other Management Team members ¹⁾		
Fixed salary, fringe benefits included ^{*)}	-1,212	-1,236
Bonuses	-258	-145
Share-based incentive plan	-196	-
Total	-1,666	-1,381
Statutory pension expenses	-275	-247
Statutory pension is a defined contribution plan.		

¹⁾ EUR 301 thousand is not included in income statement line wages and salaries in year 2020. The comparison year EUR 160 thousand was not included in wages and salaries.

For the financial year the accrual based bonuses to other Management Team members are EUR 617 (210) thousand.

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

Amount of share-based incentive plan includes payments settled in shares. The value of share-settled payments is disclosed as fair value of shares at the date of disposal.

The way of presenting management remuneration has been changed from accrual basis to cash basis. Information of comparison year has been changed accordingly..

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

EUR thousand	2020	2019
Jari Paasikivi, Chairman of the Board	-74	-72
Petteri Walldén, Vice chairman of the Board	-50	-48
Harri Kerminen, member of the Board until April 11, 2019	-	-2
Pia Rudengren, member of the Board until April 11, 2019	-	-4
Andrey Pantyukhov, member of the Board as of June 9, 2020	-38	-
Riitta Mynttinen, member of the Board	-48	-51
Catherine Sahlgren, member of the Board	-42	-39
Heikki Westerlund, member of the Board	-53	-51
Lars Peter Lindfors, member of the Board as of April 11, 2019	-45	-40
Total	-349	-307

*) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 109 (96) thousand in year 2020. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2020 or in 2019.

Number of personnel	2020	2019
Average number of white-collar employees	343	339
Average number of blue-collar employees	209	209
Personnel (average)	552	548

6. Auditor's fees

EUR thousand	2020	2019
Ernst Young Oy and KPMG Oy Ab, Authorized Public Accountants		
Audit fees	-223	-195
Tax consultancy	-3	-
Other auditing	-4	-6
Auditing fees, total	-230	-201

Ernst & Young Oy has been company's principal auditor since April 11, 2019.

7. Depreciation, amortization and impairment losses

EUR thousand	2020	2019
Depreciation according to plan and impairment losses		
Intangible asset		
Other intangible assets	-3,613	-3,492
Tangible assets		
Buildings and constructions	-437	-479
Impairment of buildings and constructions	-77	-
Machinery and equipment	-1,683	-1,722
Impairment of machinery and equipment	-26	-
Other tangible assets	-11	-14
Impairment of other tangible assets	-7	-
Total depreciation, amortization and impairment losses	-5,854	-5,707
Change in depreciation difference		
Other intangible assets	-1,122	-13
Buildings and constructions	-41	-66
Machinery and equipment	-103	697
Other tangible assets	6	5
Total	-1,259	622

8. Financial income and expenses

EUR thousand	2020	2019
Financial income		
Dividend income		
Dividend income from Group companies	9,814	13,013
Dividend income from others	-	-
Total dividend income	9,814	13,013
Interest income		
Interest income from Group companies	1,863	3,266
Interest income from others	241	293
Total interest income	2,104	3,559
Other financial income		
Other financial income from Group companies	148	128
Total other financial income	148	128
Exchange gains		
Exchange gains from Group companies	-426	915
Exchange gains from others	2,127	5,085
Total exchange gains	1,701	6,000
Total financial income	13,767	22,700

EUR thousand	2020	2019
Financial expenses		
Interest expenses		
Interest expenses to Group companies	-12	-21
Interest expenses to others	-1,184	-802
Total interest expenses	-1,197	-823
Other financial expenses		
Other financial expenses to Group companies *)	-500	-1,500
Other financial expenses to others	-393	-497
Total other financial expenses	-893	-1,997
Exchange losses		
Exchange losses to Group companies	-3,166	-161
Exchange losses to others	-2,838	-3,718
Total exchange losses	-6,004	-3,879
Total financial expenses	-8,094	-6,700
Total financial income and expenses	5,674	16,000

*) A write-down of subsidiary loan receivables of EUR 500 (1,500) thousand.

EUR thousand	2020	2019
Exchange gains and losses		
Realized	-571	58
Unrealized	-3,732	2,062
Total exchange gains and losses	-4,303	2,121

9. Change in appropriations

EUR thousand	2020	2019
Change in depreciation difference	-1,259	622
Total change in appropriations	-1,259	622

10. Income taxes

EUR thousand	2020	2019
Income tax for current year	-3,464	-4,742
Income tax for previous years	36	-37
Change in deferred taxes	3	71
Total income taxes	-3,426	-4,708

11. Non-current assets

INTANGIBLE ASSETS

EUR thousand	2020	2019
Other intangible assets		
Acquisition cost at beginning of year	31,716	30,436
Increase	1,766	1,279
Decrease	-6,067	-
Acquisition cost at year end	27,415	31,716
Accumulated amortization at beginning of year	-18,927	-15,435
Accumulated amortization related decrease	6,067	-
Amortization during the financial year	-3,613	-3,492
Accumulated amortization and impairment losses at year end	-16,473	-18,927
Carrying amount at year end	10,942	12,788
Advance payments and assets under construction		
Acquisition cost at beginning of year	900	65
Change during the year	-900	835
Carrying amount at year end	-	900
Total intangible assets	10,942	13,688

TANGIBLE ASSETS

EUR thousand	2020	2019
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	24,264	24,130
Increase	8	134
Decrease	-808	-
Acquisition cost at year end	23,464	24,264
Accumulated depreciation at beginning of year	-20,306	-19,827
Accumulated depreciation related to decrease	808	-
Depreciation during the financial year	-437	-479
Impairment loss	-77	-
Accumulated depreciation and impairment losses at year end	-20,013	-20,306
Carrying amount at year end	3,451	3,958

EUR thousand	2020	2019
Machinery and equipment		
Acquisition cost at beginning of year	46,134	45,269
Increase	2,118	905
Decrease	-4,004	-40
Acquisition cost at year end	44,248	46,134
Accumulated depreciation at beginning of year	-38,490	-36,809
Accumulated depreciation related to decrease	4,004	-
Depreciation during the financial year	-1,683	-1,682
Impairment loss	-26	-
Accumulated depreciation and impairment losses at year end	-36,195	-38,490
Carrying amount at year end	8,053	7,644

The carrying amount of production machinery and equipment is EUR 6,689 (6,391) thousand. Additional depreciation EUR 517 thousand has been booked from machinery and equipment.

EUR thousand	2020	2019
Other tangible assets		
Acquisition cost at beginning of year	1,024	1,024
Increase	32	-
Decrease	-121	-
Acquisition cost at year end	935	1,024
Accumulated depreciation at beginning of year	-797	-784
Accumulated depreciation related to decrease	121	-
Depreciation during the financial year	-11	-14
Impairment loss	-7	-
Accumulated depreciation at year end	-695	-797
Carrying amount at year end	240	227
Advance payments and assets under construction		
Acquisition cost at beginning of year	392	60
Change during the year	-305	332
Carrying amount at year end	87	392
Total tangible assets	13,345	13,732

INVESTMENTS

EUR thousand	2020	2019
Holdings in Group companies		
Acquisition cost at beginning of year	185,943	185,933
Increase	260	9
Carrying amount at year end	186,203	185,943

EUR thousand	2020	2019
Other shares and holdings		
Acquisition cost at beginning of year	540	540
Decrease	-95	-
Carrying amount at year end	445	540
Total investments	186,647	186,483

12. Inventories

EUR thousand	2020	2019
Materials and supplies	10,402	11,954
Work in progress	1,541	1,889
Finished goods	17,804	18,088
Total inventories	29,747	31,930

13. Receivables

EUR thousand	2020	2019
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	1,529	4,164
Loan receivables from others	3,544	4,978
Total non-current interest-bearing receivables	5,073	9,142
Non-current interest-free receivables		
Trade receivables from others	856	1,003
Deferred expenses and accrued income from others	288	380
Other receivables from others	1,081	1,209
Total non-current interest-free receivables	2,225	2,592
Deferred tax assets	356	179
Total non-current receivables	7,654	11,913

EUR thousand	2020	2019
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	1,730	813
Current interest-bearing receivables from Group companies	15,033	22,225
Total current interest-bearing receivables	16,763	23,039
Current interest-free receivables		
Other current receivables from others	2,434	2,237
Trade receivables		
Trade receivables from Group companies	19,126	15,869
Trade receivables from others	9,999	10,892
Total trade receivables	29,125	26,761
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	380	3,364
Deferred expenses and accrued income from others	2,159	1,911
Total deferred expenses and accrued income	2,539	5,275
Total current interest-free receivables	34,099	34,273
Total current receivables	50,862	57,312
Total receivables	58,516	69,225
Deferred expenses and accrued income		
Interest income	395	511
Personnel expenses	240	123
IT services	1,158	908
E-services from group companies	-	2,917
Others	1,034	1,196
Total deferred expenses and accrued income	2,827	5,655

Deferred expenses and accrued income "Others" include withdrawal costs of a loan EUR 371 (467) thousand.

These expenses have been accrued for the period of repayment schedule.

14. Equity

EUR thousand	2020	2019
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	114,168	100,312
Dividends	-22,050	-14,555
Share-based compensation	-220	-
Acquisition of treasury shares	-208	-
Transfer of treasury shares to participants of share-based compensation program	220	-
Retained earnings at December 31	91,911	85,757
Net result for the period	22,530	28,411
Retained earnings and net result for the period at December 31	114,441	114,168
Total unrestricted equity	154,441	154,168
Total equity at December 31	189,441	189,168

EUR thousand	2020	2019
Distributable funds at December 31		
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	114,168	100,312
Dividends	-22,050	-14 555
Share-based compensation	-220	-
Acquisition of treasury shares	-208	-
Transfer of treasury shares to participants of share-based compensation program	220	-
Net profit for the financial year	22,530	28 411
Distributable funds	154,441	154,168

Changes in treasury shares	EUR thousand	Number of shares
Acquisition cost / Number of pieces at January 1	42	2,461
Change	-12	-90
Carrying amount / Number of pieces at December 31, 2020	30	2,371

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

15. Appropriations

EUR thousand	2020	2019
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	-3,528	-3,569
Machinery and equipment	4,676	4,572
Other tangible assets	91	97
Other intangible assets	1,453	331
Total accumulated depreciation difference	2,691	1,432
Change in depreciation difference		
Depreciation difference at January 1	1,432	2,054
Change in depreciation difference in income statement	1,259	-622
Depreciation difference at December 31	2,691	1,432

16. Provisions

EUR thousand	2020	2019
Other provisions	1,146	1,358

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 2020, the provision in relation to this obligation amounted to EUR 1,033 thousand of which EUR 93 thousand is recognized as current provision.

17. Liabilities

EUR thousand	2020	2019
Non-current liabilities		
Loans from financial institutions	60,000	60,000
Other non-current liabilities to others	1,277	332
Total non-current liabilities	61,277	60,332
Maturity of non-current liabilities		
Maturity		
2022 (2021)	778	104
2023 (2022)	499	228
2024 (2023)	60,000	-
2025 (2024)	-	60,000
2026 (2025)	-	-
Total non-current liabilities	61,277	60,332
Loans that will fall due after 5 years or later		
Loans from financial institutions	-	-
Total	-	-

EUR thousand	2020	2019
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	36,089	7,809
Other interest-bearing liabilities to others	26,907	42,916
Total other interest-bearing liabilities	62,996	50,724
Total current interest-bearing liabilities	62,996	50,724
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	3,617	3,994
Trade payables to others	17,476	16,754
Total trade payables	21,092	20,748
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	-	599
Accrued expenses and deferred income to others	28,906	22,400
Total accrued expenses and deferred income	28,906	22,998
Other interest-free liabilities		
Other interest-free liabilities to Group companies	-	112
Other interest-free liabilities to others	950	943
Total other interest-free liabilities	950	1,055
Total current interest-free liabilities	50,948	44,801
Total current liabilities	113,944	95,525
Accrued expenses and deferred income		
Personnel expenses	12,386	7,364
Related to sales	10,699	8,863
Other	7,097	7,103
Total accrued expenses and deferred income	30,182	23,330

18. Contingent liabilities

EUR thousand	2020	2019
Lease liabilities		
Maturity within one year	770	735
Maturity later than one year	847	961
Total lease liabilities	1,617	1,696
Operating lease liabilities		
Maturity within one year	403	400
Maturity later than one year	434	431
Total operating lease liabilities	837	830

MORTGAGES

The company has real estate mortgages EUR 99 million, which are held by Tikkurila Oyj.

EUR thousand	2020	2019
Guarantees		
On own behalf	33	33
On behalf of Group companies	29,461	28,442
Total guarantees	29,494	28,475

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 2.3 (1.4) 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 154,440,583.01 of which EUR 22,530,038.90 represents the net profit for the financial year.

Due to the ongoing tender offer process, the Board proposes to the Annual General Meeting that no dividend will be distributed based on the decision of the Annual General Meeting for the financial year 2020 and net profit EUR 22,530,038.90 will be transferred to retained earnings.

The financial position of the company has not materially changed after the end of the financial year.

Vantaa, February 11, 2021

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

Andrey Pantyukhov
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 2020. 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

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 537/2014, point (c) of Article 10(2).

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit procedures to address the risk of material misstatement included:

- Assessment of Tikkurila's accounting policies over revenue recognition from the perspective of IFRS standards.
- Assessment of appropriateness of internal controls in sales process.
- Comparison of prior year discount and credit accrual against actual settlements in order to verify the appropriateness of management's assessment process.
- On a sample basis an analysis of current sales contracts and evaluation of revenue transactions as well as 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

Valuation of goodwill

The accounting principles and disclosures concerning goodwill are disclosed in Notes 1, 2, 16 ja 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 2020, the value of goodwill amounted to 69 million euro representing 16 % of the total assets and 38 % 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 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.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit procedures regarding the valuation of goodwill included involving EY valuation specialists to assist us in evaluating testing 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.

We also assessed the sufficiency of the disclosures as well as whether the disclosures about the sensitivity of the impairment assessment are appropriate.

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, and our appointment represents a total period of uninterrupted engagement of two years.

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 2021

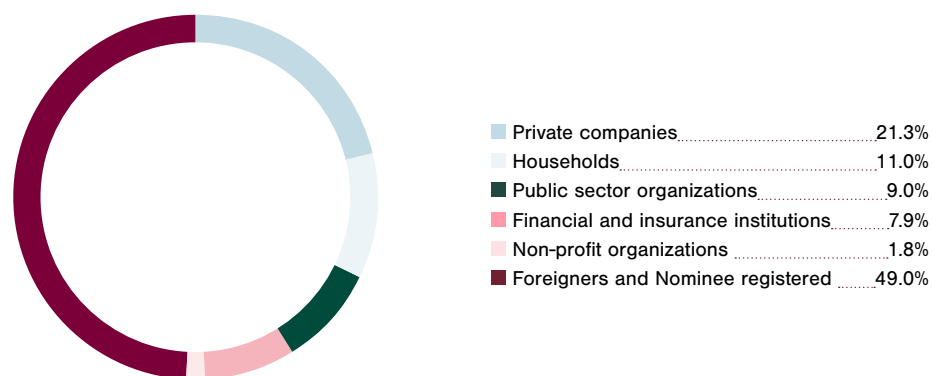
Ernst & Young Oy
Authorized Public Accountant Firm

Antti Suominen
Authorized Public Accountant

Shares and Shareholders

At the end of 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 2020, Tikkurila held 2,371 treasury shares.

BREAKDOWN BY SHAREHOLDER CATEGORY ON DECEMBER 31, 2020



TIKKURILA'S LARGEST SHAREHOLDERS ON DECEMBER 31, 2020

	Number of shares	% of share capital
1 Oras Invest Oy	8,828,051	20.01
2 Mandatum Life Insurance Company Ltd.	1,792,813	4.06
3 Varma Mutual Pension Insurance Company	1,693,525	3.84
4 Ilmarinen Mutual Pension Insurance Company	743,000	1.68
5 Kaleva Mutual Insurance Company	650,000	1.47
6 Elo Mutual Pension Insurance Company	532,821	1.21
7 Veritas Pension Insurance Company Ltd.	480,000	1.09
8 Nordea Nordic Small Cap Fund	468,594	1.06
9 The State Pension Fund	407,000	0.92
10 Seligson & Co Phoebe Fund	237,000	0.54
10 largest registered shareholders total	15,832,804	35.90
Nominee registered	21,559,462	48.88
Other shares	5,714,777	12.96
Total	44,108,252	100.00

BREAKDOWN OF SHARE OWNERSHIP ON DECEMBER 31, 2020

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	10,249	54.54	450,289	1.02
101–1,000	7,692	40.93	2,455,726	5.57
1,001–10,000	785	4.18	1,810,058	4.10
10,001–100,000	51	0.27	1,702,920	3.86
100,001–1,000,000	11	0.06	4,573,618	10.37
over 1,000,000	5	0.03	33,115,641	75.08
Total	18,793	100.00	44,108,252	100.00

Corporate Governance Statement 2020

1. INTRODUCTION

During 2020 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, 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 2020 Annual Review.

The CG Code 2020 is 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:

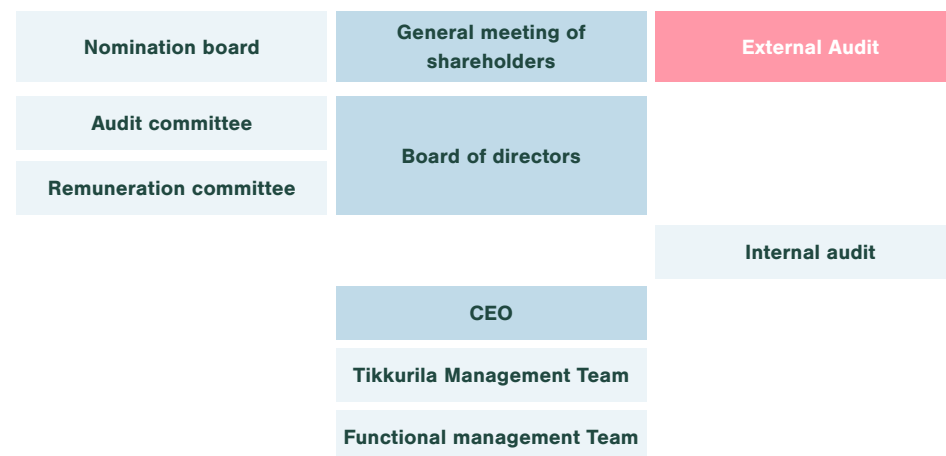
- Finnish Companies Act;
- Finnish Securities Market Act;
- Finnish Corporate Governance Code;
- Articles of Association of Tikkurila;
- regulations and guidelines issued by the Finnish Financial Supervision Authority and the European Securities and Markets Authority;
- rules and regulations of Nasdaq 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 within 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, and 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 2020 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 2021 will be held at a later date.

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.

Until September 4, 2020, 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.

Since September 4, 2020, the Nomination Board had the following members: Annika Paasikivi, Chief Executive Officer, Oras Invest Oy, Hanna Kaskela, Director, Responsible investment, Varma Mutual Pension Insurance Company and Patrick Lapveteläinen, CIO, Sampo Group; Chairman of the Board of Directors, Mandatum Life. Moreover, Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, acted as the expert member of the Nomination Board. During 2020, the Nomination Board had three (2019: 3) meetings, and the attendance rate was 100 (100) percent.

Nomination Board members and meeting attendance in 2020.

(The amount of all meetings held 2020 in brackets)

Member

Annika Paasikivi	3/3 (3)
Reima Rytsölä (until 4.9.)	2/2 (3)
Annika Ekman (until 4.9.)	2/2 (3)
Hanna Kaskela (since 4.9.)	1/1 (3)
Patrick Lapveteläinen (since 4.9.)	1/1 (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 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 2020, 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	83,947 shares*
Petteri Walldén	Born 1948, M.Sc. (Eng.) 2008 –, Vice Chairman 2010–	Board professional 2010 –	12,140 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–	1,736 shares
Riitta Mynttinen	Born 1960, B. Sc (Chem. Eng.), MBA Member of the Board –2011	Board professional 2014–	7,850 shares
Catherine Sahlgren	Born 1962, M.Sc. (BA and Econ.) Member of the Board 2018–	CEO, Werksta Group 2019–	2,592 shares
Heikki Westerlund	Born 1966, M.Sc. (Econ.) Member of the Board 2018–	Board professional 2017–	3,027 shares **
Andrei Pantyukhov	Born 1972, MBA Member of the Board since June 2020	Executive Vice President, Nokian Tyres plc and General Manager, Russia and Asia business area 2007–	894 shares

* In addition, Oras Invest Ltd owned 8.828.051 Tikkurila's shares (20.01%) 31.12.2020.

** In addition, Heiwe Oy, a company controlled by Heikki Westerlund, owned 10.000 Tikkurila's shares 31.12.2020.

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 20 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 2020, the Board held 16 meetings and in addition 3 per capsulam meetings (2019: 8 meetings). The average attendance rate was 100 (2019: 98) percent.

Remuneration of the Board of Directors

In 2020, 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 assess 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 2020, Heikki Westerlund was elected as the Chairman of the Audit Committee and Riitta Mynttinen and Lars Peter Lindfors acted as the Audit Committee member for the full financial year 2020.

During 2020, the Audit Committee held 7 meetings (2019: 7 meetings). The attendance rate was 100 (100) percent. Tikkurila's principal auditor Antti Suominen from Ernst & Young was present in 5 of the meetings and presented reports to Audit Committee. 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 2020, Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Riitta Mynttinen were members of the Committee. During 2020, the Remuneration Committee held 1 meeting (2019: 2 meetings), and the average attendance rate was 100 (100) percent.

Ad Hoc Committee

In October 2020, Tikkurila's Board of Directors established a committee representing independent Board members to steer the takeover bid process over Tikkurila, and the subsequent acquisition process. The chairman of the committee was Heikki Westerlund and Petteri Walldén was a member. The committee met numerous times during the takeover bid process and furthered the process along with the company's financial and legal advisors.

		Board of Directors	Audit Committee	Remuneration Committee	Total Gross Remuneration
		# of meetings attendance	# of meetings attendance	# of meetings attendance	EUR all fees total
Full year 2020					
Jari Paasikivi	Chairman of the Board and Chairman of the Remuneration Committee	16/16		1/1	74,200
Petteri Walldén	Vice Chairman	16/16		1/1	50,200
Heikki Westerlund	Member and Chairman of the Audit Committee	16/16	7/7		53,800
Lars Peter Lindfors	Member	16/16	7/7		45,800
Riitta Mynttinen	Member	16/16	7/7	1/1	48,200
Catherine Sahlgren	Member	16/16			42,200
Andrei Pantyukhov	Member since June 2020	11/16			38,600
	(100%)	(100%)	(100%)		353,000

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 2020:

- Elisa Markula, CEO (Born 1966, M.Sc. Econ.)
- Markus Melkko, CFO (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 until September 1, 2020; Senior Vice President, Sales, West division from September 1, 2020 (Born 1976, M.Sc. (Econ.))
- Roman Ivashko, Senior Vice President, Sales, East division from September 1, 2020 (Born 1969, M.Sc. Mathematics)

Remuneration of the Management Members Reporting Directly to the CEO

Detailed information about the remuneration of the Group management is available at 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 in 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 2020 re-elected Ernst & Young Oy ("EY") as the auditor and Authorized Public Accountant Antti Suominen was nominated 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 principal auditor Antti Suominen has started in the role in 2019.

During 2020, the Group had a total of EUR 514,000 (2019: EUR 466,000) statutory audit related expenses by EY, and EUR 24,000 (EUR 6,000) expenses for other services provided by EY. During the financial year 2020, the Group companies purchased additional audit services from other audit companies than EY for a total of EUR 14,000 (17,000).

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 in countries and 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 2020.

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 the disclosure requirements, management and supervision of inside information, notification, and disclosure of managers' transactions 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 case, these limitations begin 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 a regular basis.

Tikkurila 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, or have a potential conflict of interest, such transactions shall be reported to and handled by the Audit Committee and approved by the Board of Directors.

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 significant shareholders
- Finnish citizen
- Tikkurila shares on Dec 31, 2020: 83,947

Career history

- CEO, Oras Invest Ltd, 2006–2018
- 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, Expert Member of the Nomination Committee since 2009
- Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Directors 2014–2016, Chairman of the Board of Directors since 2017



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, 2020: 12,140

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

- Chairman of the Board of Directors, Helsingin Rauta Oy 2020–
- Componenta Oyj, Member of the Board of Directors
- Savonlinna Opera Festival, Chairman of the Board of Directors
- Alteams Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors 2006–2020



Lars Peter Lindfors

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, 2020: 1,736

Career history

- Senior Vice President, Innovation, 2018–
- Member of the Executive Committee in Neste Corporation, 2009–
- Senior Vice President, Technology, 2012–2018
- 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 1989–2001

Positions of trust

- Board Member, Fortum and Neste Foundation, 2012–



Riitta Mynttinen

Born 1960, B.Sc. (Chem.Eng.), MBA

- Member of the Board since 2011
- Member of the Audit Committee since 2012
- Member of the Remuneration Committee since 2020
- Independent Board member
- Finnish citizen
- Tikkurila shares on Dec 31, 2020: 7,850

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, 2020: 2,592

Career history

- 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

- Arkitektkopia, Chairwoman of the Board of Directors


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, 2020: 3,027

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

- Aspo Oyj, Member of the Board since 2020
- Growth Collective Finland, Member of the Board since 2020
- DIF Board Professionals, Member of the Board since 2020
- 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 2017–2020, Member of the Board 2010–2017


Andrey Pantyukhov

Born 1972, MBA

- Member of the Board since 2020
- Independent Board member
- Russian citizen
- Tikkurila shares on Dec 31, 2020: 894

Career history

- Executive Vice President, Nokian Tyres plc and General Manager, Russia and Asia business area, 2004–
- Executive Vice President, Nokian Tyres plc and General Manager, Nokian Tyres Russia, 06/2017–12/2017
- Interim President and CEO, Nokian Tyres plc and General Manager, Nokian Tyres Russia, 01/2017–05/2017
- Executive Vice President, Nokian Tyres plc and General Manager, Nokian Tyres Russia, 2016
- Vice President, Russian operations, Nokian Tyres plc, 2009–2015
- General Manager, Russian operations, Nokian Tyres plc, 2004–2009
- Consultant, The Boston Consulting Group (BCG), 2001–2004
- Marketing and Sales Manager, KTT (subsidiary of Noviter Oy), 1994–2000

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
- Joined Tikkurila in 2018
- Tikkurila shares on Dec 31, 2020: 6,800

Career history

- SVP, 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 Finland Chamber of Commerce, Member of the Board since 2020
- The Chemical Industry Federation of Finland, Member of the Board, since 2018
- Association of Finnish Paint industry (VTY), Chairman of the Board, since 2018
- East Office of Finnish Industries, Member of the Board, since 2018
- Varma, Member of the Consultative Committee of Employers, since 2019
- Finnish-Russian Chamber of Commerce (FRCC), Member of the Board, since 2018



Markus Melkko

Born 1975, M.Sc. (Tech.) B.Sc. (Econ.)

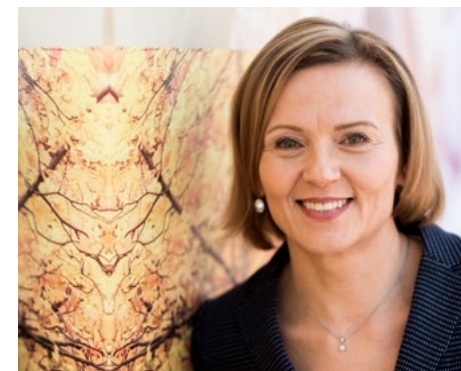
- Chief Financial Officer (CFO)
- Member of Tikkurila Management Team from April 11, 2019
- Finnish citizen
- Joined Tikkurila in 2019
- Tikkurila shares on Dec 31, 2020: 2,200

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, 2020: 3,800

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, 2020: 1,200

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 2004–2008
- Director Safety, Health & Environment, AstraZeneca Sweden 2002–2004
- Environmental engineer, Bulk Production, AstraZeneca Sweden 2000–2002
- Development Engineer, Process R&D, AstraZeneca Sweden 1998–2000



Meri Vainikka

Born 1971, M.Sc. (Econ.)

- Senior Vice President, Offering (Marketing, Product & Service Portfolio, Research & Development)
- Member of Tikkurila Management Team since May 1, 2017
- Finnish citizen
- Joined Tikkurila in 2017
- Tikkurila shares on Dec 31, 2020: 4,000

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, 2020: 900

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

Born 1976, M.Sc. (Econ.)

- Senior Vice President, Sales until September 1, 2020;
- Senior Vice President, Sales, West division, since September 1, 2020
- Member of the Management Team since May 2019
- Finnish citizen
- Joined Tikkurila in 2019
- Tikkurila shares on Dec 31, 2020: 1,020

Career history

- Chief P&M Officer, Cloetta Group Sweden 2018–2019
- Sales Director, Cloetta Finland Oy 2015–2018
- Head of Trade, Sweden and Norway, British American Tobacco Sweden A/S 2014–2015
- Country Manager, British American Tobacco Norway 2012–2014
- Various managerial sales positions in British American Tobacco since 2002



Roman Ivashko

Born 1969, M.Sc. Mathematics

- Senior Vice President, Sales, East division
- Member of Management Team since September 1, 2020
- Russian citizen
- Joined Tikkurila in 2020
- Tikkurila shares on Dec 31, 2020: 0

Career history

- SVP, Business Area East, Paulig Russia, 2012–2020
- Director, EMEA Consumer Sector Analyst, Renaissance Capital, 2011–2012
- Coca Cola HBC Eurasia, 1996 – 2011 (various roles: Commercial Director, Moscow Region; Business Development and NPD in Marketing; IT Director)
- IT Director, Russia, ICD Group B.V., 1992–1996
- Director and developer, GarNet Communications Ltd, 1990–1992



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