

**TIKKURILA**



Interim Report | Q2  
January-June 2011

**Tikkurila Oyj  
Interim Report**

August 11, 2011 at 9:00 a.m. (CET+1)

**Tikkurila's Interim Report for January–June 2011  
– Favorable revenue development continued while cost inflation weakened profitability**

**April–June 2011 highlights**

- Revenue for the second quarter increased by 8.7 percent in comparison to the corresponding period last year and was EUR 198.3 million (4–6/2010: EUR 182.5 million).
- Operating profit (EBIT) excluding non-recurring items was EUR 27.5 (28.4) million, i.e. 13.8 (15.5) percent of revenue.
- Non-recurring items totaled EUR 0.0 (0.7) million.
- EPS was EUR 0.39 (0.46).
- Tikkurila reiterates its outlook for 2011.
- General economic uncertainty has increased, in particular after the review period.

**January–June 2011 highlights**

- Revenue for the first half of the year increased by 10.3 percent in comparison to the corresponding period last year and was EUR 332.8 million (1–6/2010: EUR 301.8 million).
- Operating profit (EBIT) excluding non-recurring items was EUR 34.0 (35.9) million, i.e. 10.2 (11.9) percent of revenue.
- EPS was EUR 0.42 (0.55).

**Key Figures  
(EUR million)**

	<b>4–6/2011</b>	4–6/2010	Change %	<b>1–6/2011</b>	1–6/2010	Change %	1–12/2010
<b>Income statement</b>							
Revenue	<b>198.3</b>	182.5	8.7%	<b>332.8</b>	301.8	10.3%	588.6
Operating profit (EBIT), excluding non-recurring items	<b>27.5</b>	28.4	-3.2%	<b>34.0</b>	35.9	-5.2%	59.7
Operating profit (EBIT) margin, excluding non-recurring items, %	<b>13.8%</b>	15.5%		<b>10.2%</b>	11.9%		10.1%
Operating profit (EBIT)	<b>27.5</b>	29.1	-5.5%	<b>34.0</b>	36.6	-7.0%	60.8
Operating profit (EBIT) margin, %	<b>13.8%</b>	15.9%		<b>10.2%</b>	12.1%		10.3%
Profit before taxes	<b>23.9</b>	27.9	-14.6%	<b>27.3</b>	33.8	-19.3%	52.0
Net profit	<b>17.0</b>	20.5	-17.0%	<b>18.5</b>	24.1	-23.2%	36.5
<b>Other key indicators</b>							
EPS*, EUR	<b>0.39</b>	0.46	-17.0%	<b>0.42</b>	0.55	-23.2%	0.83
ROCE, % p.a.	<b>18.8%</b>	18.5%		<b>18.8%</b>	18.5%		19.2%
Cash flow after capital expenditure	<b>1.7</b>	5.1	-67.2%	<b>-26.0</b>	-25.0	-3.8%	51.4
Net interest-bearing debt at period-end				<b>137.7</b>	155.3	-11.3%	78.6
Gearing, %				<b>77.1%</b>	87.0%		41.4%
Equity ratio, %				<b>34.4%</b>	34.2%		41.1%
Personnel at period-end				<b>3,794</b>	3,946	-3.8%	3,468

\* As calculated by using the amount of shares outstanding of 44,108,252.

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**Comments by Erkki Järvinen, President and CEO:**

“Our revenue developed according to our expectations in the second quarter of the year. The market situation continued to be reasonably favorable in all of our key operating areas, and our revenue grew particularly due to sales price increases. Growth was brisk in the SBU East area and in its largest market Russia, where both sales volumes grew and the transfer of demand to the higher price and quality grade products continued. In Finland, the sales development did not meet our expectations.

Our profitability in the second quarter was weakened by the continued challenging development in the prices and availability of the key raw materials, as well as the extensive cost inflation in other areas. Salary expenses rose in Russia, in particular, where we also further increased our sales and marketing inputs. During the first half of the year, we managed to transfer the increased raw material costs to our sales prices reasonably well, although not in full. During the review period the prices of the key raw materials were approximately 20 percent higher than in the corresponding period last year. It would seem that challenges related to both the prices and the availability of the raw materials will continue during the remainder of the year as well. We will continue to raise the sales prices in the coming months in order to cover the increased costs.

The recent rapid weakening of the outlook of the global economy and the possible escalation of the European debt crisis have increased the uncertainty of the market development. Consumer confidence has declined in Finland and Sweden in the past few months.

Immediately after the end of the review period at the beginning of July 2011, we completed the acquisition of the operations of the Zorka Color paint company in Serbia. The acquisition strengthens our foothold in the interesting and developing market in the Balkans.”

**Tikkurila Oyj**

Erkki Järvinen, President and CEO

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**Press Conference Today at 12:00 p.m.**

Tikkurila will hold a press conference regarding its January–June 2011 Interim Report for the media and analysts today on August 11, 2011, at 12:00 p.m. (CET+1) in the Akseli Gallén-Kallela Cabinet at the Hotel Kämp, (address Pohjoisesplanadi 29, 00100 Helsinki). The conference will be held in Finnish language. Attendees will be served lunch at the conference premises starting at 11:30 (CET+1). The Interim Report will be presented by **Erkki Järvinen**, President and CEO, and **Jukka Havia**, CFO.

A conference call in English will be held at 3:00 p.m. (CET+1). The participants will be asked to provide their full name and a conference ID (80352169). To participate in the conference call, please dial one of the following numbers 5–10 minutes before the conference:

From Finland (no charge): 0800 112 363  
From Russia (no charge): 8108 002 097 2044  
From Sweden (no charge): 0200 890 171  
From the USA (no charge): 1866 966 9439  
UK Standard International (from all countries): +44 (0) 1452 555 566

The stock exchange release and presentation materials will be available before the event at [www.tikkurilagroup.com/investors](http://www.tikkurilagroup.com/investors). A recording of the conference call will be available at the same address after the conference.

Tikkurila will publish its January–September 2011 Interim Report on Thursday October 27, 2011 at around 9:00 a.m. (CET+1).

Tikkurila provides consumers, professionals and the industry with user-friendly and environmentally sustainable solutions for protection and decoration. Tikkurila is a strong regional player that aims to be the leading paint company in the Nordic area and Eastern Europe including Russia. – Tikkurila inspires you to color your life.

[www.tikkurila.com](http://www.tikkurila.com)

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## Tikkurila Oyj Interim Report January 1–June 30, 2011

This Interim Report has been prepared in accordance with the IAS 34 standard and other valid regulations. The information disclosed is unaudited except for the whole year 2010 data. The figures presented in the Interim Report are independently rounded.

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

All forward-looking statements in this Report are based on the current management's forecasts and assessments of the future economic trends and the actual results might be significantly different.

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

Tikkurila's business operations are organized in four reporting segments, or Strategic Business Units (SBU). Tikkurila's reporting segments are SBU East, SBU Scandinavia, SBU Finland, and SBU Central Eastern Europe. SBU East consists of Russia, Ukraine, Central Asian countries and Belarus. SBU Scandinavia covers Sweden, Denmark, and Norway. SBU Finland covers Tikkurila's business operations in Finland. SBU Central Eastern Europe includes Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, China, Germany, Hungary, and Romania, and as of July 1, 2011 also countries operating in the Balkans, such as Serbia and Macedonia. Furthermore, this SBU is responsible for the exports to approximately 20 countries that are not included in the operating areas of the other SBUs.

### Market Review

Economic development in Tikkurila's key market areas continued to be positive in the second quarter of the year, although the European debt crisis and the increased instability in the global economy increased market uncertainty. The increased turmoil, especially after the review period, in the financial markets and in the economies can lead to revisions in the GDP growth estimates and also to larger deviations between various geographical areas. The sentiment of both consumers and to some extent industry seems to be weakening in the mature Western markets. The consolidation development in the paint business has continued, and might be accelerated by the general macroeconomic uncertainties.

In Tikkurila's main markets, Russia's GDP grew by more than four percent in the first quarter, compared with the previous year, according to the Statistics of Russia (Rosstat). Construction development continued to be slow. Investments picked up in the second quarter, and retail sales grew during the first months of the year. The high consumer price inflation in Russia weakens purchasing power in the medium-term. The exchange rate of the ruble remained fairly stable against the euro in the second quarter. According to the Rosstat, the paint production grew by four percent in Russia in January–May 2011. According to the estimate published by Chem-Courier in the spring, Tikkurila's market share in volume in decorative paints was approximately 19 percent in Russia in the first quarter of 2011.

The Swedish economy grew strongly in the first quarter of the year, compared to the corresponding period last year. Nevertheless, growth slowed down from the previous quarter, and economic growth is forecast to stabilize in the future. The economic growth forecast for the entire year is slightly less than five percent. The increasing inflation slowed down the growth of household consumption in the first months of the year. The strengthening of the Swedish krona against the euro continued in the second quarter of the year. The market share of Tikkurila in value in decorative paints remained at the same level year-on-year in Sweden in the first quarter of 2011.

Finnish GDP grew by more than five percent in January–March 2011 compared to the corresponding period last year, according to Statistics Finland. Inflation in Finland is accelerating and is higher than in the rest of

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the euro region, thus slowing down the real growth of the purchasing power. Consumer confidence in the economy was also declining in the second quarter of the year. In Finland, the unstable economic situation of Europe heavily reflected on the consumer confidence and consumers' views on the development of the economy. According to the statistics by the Association of Finnish Paint Industry, Tikkurila's market share remained stable in decorative paints in the first half of the year.

According to the statistics by Eurostat, Poland's GDP grew by more than four percent in the first quarter of the year compared to the corresponding period last year. Construction in Poland saw substantial growth during the first months of the year, and the positive development is forecast to continue.

## Financial Performance in April–June 2011

Revenue and operating result by reporting segment in April–June are presented in the table below.

April–June (EUR million)	Revenue		Operating result (EBIT) excluding non-recurring items	
	4–6/2011	4–6/2010	4–6/2011	4–6/2010
SBU East	73.5	64.3	10.2	11.2
SBU Scandinavia	56.8	53.6	10.2	8.3
SBU Finland	34.9	34.5	5.7	7.9
SBU Central Eastern Europe	33.0	30.0	2.1	2.3
Group common and eliminations	0.0	0.0	-0.8	-1.2
Consolidated Group	198.3	182.5	27.5	28.4

Tikkurila Group's **revenue** in April–June 2011 was EUR 198.3 (182.5) million, i.e. 8.7 percent or EUR 15.9 million more than in the corresponding period last year. Revenue grew in all geographical areas. EUR 13.9 million of the total growth was due to the changes in the sales mix and sales prices and EUR 1.3 million was due to the growth in the sales volume. The positive impact of exchange rates was EUR 1.1 million.

The share of decorative paints in revenue in the second quarter of 2011 was 85.9 (86.1) percent and the share of industrial coatings was approximately 14.1 (13.9) percent.

**Operating profit excluding non-recurring items** in April–June 2011 totaled EUR 27.5 (28.4) million, equaling 13.8 (15.5) percent of the revenue. There were no non-recurring items in the second quarter of the year. The non-recurring items in the comparison period were related to the insurance compensation received in Russia and the infringement fine imposed by the Polish competition authorities, and in total, these had a positive impact of EUR 0.7 million on the operating profit.

**Operating profit** in April–June 2011 was EUR 27.5 (29.1) million. Profitability in the review period was burdened by the cost inflation. The increase in variable costs was mainly due to the higher raw material prices, which were at a level approximately 20 percent higher than last year. The impact of the higher raw material costs was for the most part, although not in full, transferred to the sales prices. Fixed costs rose due to the general cost inflation and, in particular, the higher level of salary expenses. The positive impact of exchange rates was EUR 0.2 million.

The net financial expenses in April–June were EUR 3.7 (1.1) million. The increase in the financial expenses compared to the corresponding period in the previous year is due, in particular, to the impact of the exchange rates. The majority of this impact results from the heavy devaluation of the Belarusian ruble. Profit

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before taxes was EUR 23.9 (27.9) million. Taxes totaled 6.8 (7.4) million, equaling an effective tax rate of 28.7 (26.6) percent. Earnings per share were EUR 0.39 (0.46).

## Financial Performance in January–June 2011

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

January–June (EUR million)	Revenue		Operating profit (EBIT) excluding non-recurring items	
	1–6/2011	1–6/2010	1–6/2011	1–6/2010
SBU East	106.3	92.7	8.7	11.2
SBU Scandinavia	103.5	93.5	15.0	11.2
SBU Finland	64.5	63.7	9.4	12.7
SBU Central Eastern Europe	58.4	51.9	2.5	2.6
Group common and eliminations	0.0	0.0	-1.7	-1.8
Consolidated Group	332.8	301.8	34.0	35.9

Tikkurila Group's **revenue** in January–June 2011 was EUR 332.8 (301.8) million, i.e. 10.3 percent or EUR 30.9 million more than in the corresponding period last year. EUR 14.8 million of the total growth was due to the changes in the sales mix and sales prices, EUR 8.9 million was due to the growth in the sales volume, and EUR 8.2 million was due to the translation effect of exchange rates.

The share of decorative paints in revenue in the first half of the year was 85.0 (85.2) percent and the share of industrial coatings was 15.0 (14.8) percent.

**Operating profit excluding non-recurring items** in January–June 2011 totaled EUR 34.0 (35.9) million, equaling 10.2 (11.9) percent of the revenue. There were no non-recurring items in the first half of the year 2011. The non-recurring items in the comparison period are related to the second quarter of 2010, and they are described in greater detail above in the April–June review.

**Operating profit** in January–June 2011 was EUR 34.0 (36.6) million. The level of both variable and fixed costs rose from the comparison period. The increase in the variable costs was primarily due to the raw material price level, which was higher than in the previous year, and its effect was for the most part, but not in full, transferred to the sales prices. The fixed costs in the first months of the year rose, in particular, due to the sales and marketing costs that were higher than in the comparison period, as well as the higher level of salary expenses. The positive impact of exchange rates on operating profit was EUR 1.0 million.

The net financial expenses in January–June were EUR 6.9 (2.8) million. Profit before taxes was EUR 27.3 (33.8) million. Taxes totaled EUR 8.8 (9.7) million, equaling an effective tax rate of 32.2 (28.6) percent. The effective tax rate is raised by the taxes related to the Group's internal distribution of dividends, the growth of expenses not eligible for tax deduction, as well as the taxable losses of some subsidiaries, for which deferred tax assets have not been recognized. Earnings per share in the review period were EUR 0.42 (0.55).

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## Financial Performance by Reporting Segments

### SBU East

(EUR million)	4-6/2011	4-6/2010	Change %	1-6/2011	1-6/2010	Change %	1-12/2010
Revenue	73.5	64.3	14.3%	106.3	92.7	14.7%	194.5
Operating profit (EBIT), excluding non-recurring items	10.2	11.2	-8.9%	8.7	11.2	-21.8%	22.7
Operating profit (EBIT) margin, excluding non-recurring items, %	13.9%	17.4%		8.2%	12.0%		11.6%
Operating profit (EBIT)	10.2	12.7	-19.6%	8.7	12.6	-30.9%	24.1
Operating profit (EBIT) margin, %	13.9%	19.7%		8.2%	13.6%		12.4%
Capital expenditure excl. acquisitions	0.9	1.2	-19.8%	1.5	1.8	-19.0%	4.5

### Financial Performance in April-June 2011

SBU East's revenue in April-June 2011 grew by 14.3 percent from the comparison period and totaled EUR 73.5 (64.3) million. The increase in revenue was due in particular to the changes in the sales mix and sales prices with an impact of EUR 9.3 million. Higher sales volumes improved revenue by EUR 3.2 million. The negative impact of exchange rate fluctuations was EUR 2.7 million.

Revenue of Tikkurila's Russian subsidiary OOO Tikkurila Powder Coatings, sold in January 2011, was EUR 0.5 million in the second quarter of 2010.

The share of decorative paints in SBU East's revenue in the second quarter was 91.4 (90.3) percent and the share of industrial coatings was 8.6 (9.7) percent.

SBU East's operating profit excluding non-recurring items in April-June 2011 decreased by 8.9 percent from the comparison period, to EUR 10.2 (11.2) million despite the good volume development. There were no non-recurring items in April-June 2011. The non-recurring items in the comparison period were related to the insurance compensation received in Russia that had a positive impact of EUR 1.5 million on SBU East's result.

SBU East's operating profit in April-June 2011 was EUR 10.2 (12.7) million. The weakening of profitability is due to severe cost inflation. Tikkurila's pricing power remained good in the SBU East region, and the company raised its sales prices in June. The increase in fixed costs in the second quarter was due to the general cost inflation and particularly the higher level of the salary expenses. In addition, Tikkurila continued investing in brand building and sales promotion, which raised the sales and marketing costs in the second quarter. The negative impact of exchange rate fluctuations on operating profit was EUR 0.3 million.

### Financial Performance in January-June 2011

SBU East's revenue in January-June 2011 grew by 14.7 percent from the comparison period and totaled EUR 106.3 (92.7) million. The increase in revenue was in particular due to the changes in the sales mix and sales prices with an impact of EUR 11.0 million. Higher sales volumes improved revenue by EUR 4.3 million. The negative impact of exchange rate fluctuations was EUR 0.8 million. The competitive situation in Russia has become clearly tighter but Tikkurila managed to strengthen its market share in the first quarter of the year according to external sources.

Revenue of Tikkurila's Russian subsidiary OOO Tikkurila Powder Coatings, sold in January 2011, was EUR 1.0 million in the first half of 2010.

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Operating profit excluding non-recurring items in January–June 2011 was EUR 8.7 (11.2) million. The result of the first months of the year was burdened by the cost inflation and the sales and marketing expenses, which were significantly higher than in the comparison period.

### SBU Scandinavia

(EUR million)	4-6/2011	4-6/2010	Change %	1-6/2011	1-6/2010	Change %	1-12/2010
Revenue	56.8	53.6	6.0%	103.5	93.5	10.7%	181.8
Operating profit (EBIT), excluding non-recurring items	10.2	8.3	23.3%	15.0	11.2	33.4%	21.3
Operating profit (EBIT) margin, excluding non-recurring items, %	18.0%	15.4%		14.5%	12.0%		11.7%
Operating profit (EBIT)	10.2	8.3	23.3%	15.0	11.2	33.4%	21.3
Operating profit (EBIT) margin, %	18.0%	15.4%		14.5%	12.0%		11.7%
Capital expenditure excl. acquisitions	1.0	0.6	66.3%	1.2	1.0	19.4%	2.3

### Financial Performance in April–June 2011

SBU Scandinavia's revenue in April–June 2011 grew by 6.0 percent from the comparison period and totaled EUR 56.8 (53.6) million. The increase in revenue was, in particular, due to exchange rate fluctuations, which had an impact of EUR 3.5 million. Higher sales volumes grew revenue by EUR 0.7 million. Changes in the sales mix had a negative impact on topline development. The unfavorable development of the sales mix was due, among other things, to changes in the customer structure and the higher share of the professional customers and the larger can sizes in sales.

The share of decorative paints in the SBU Scandinavia's revenue in the second quarter was 88.2 (88.8) percent and the share of industrial coatings was 11.8 (11.2) percent.

SBU Scandinavia's revenue excluding non-recurring items in April–June 2011 grew by 23.3 percent and totaled EUR 10.2 (8.3) million. Relative profitability was improved, in particular, by the higher productivity of the Nykvarn production facility in Sweden and effective management of fixed expenses. Operating profit was adversely affected by the changes in the sales mix. The positive impact of exchange rate fluctuations was EUR 0.5 million.

### Financial Performance in January–June 2011

SBU Scandinavia's revenue in January–June 2011 grew by 10.7 percent from the comparison period and totaled EUR 103.5 (93.5) million. The increase in revenue was mainly due to exchange rate fluctuations, which had an impact of EUR 8.3 million. Higher sales volumes grew revenue by EUR 2.9 million. The negative net impact of the changes in the sales mix and sales prices was EUR 1.2 million.

SBU Scandinavia's operating profit in January–June 2011 rose by a third from the comparison period and totaled EUR 15.0 (11.2) million. The improved profitability was due to the higher productivity of the Nykvarn production facility and higher sales volumes. The changes in the sales mix reduced operating profit.

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**SBU Finland**

(EUR million)	4-6/2011	4-6/2010	Change %	1-6/2011	1-6/2010	Change %	1-12/2010
Revenue	34.9	34.5	1.2 %	64.5	63.7	1.2%	107.2
Operating profit (EBIT), excluding non-recurring items	5.7	7.9	-27.5%	9.4	12.7	-25.8%	13.6
Operating profit (EBIT) margin, excluding non-recurring items, %	16.3%	22.8%		14.6%	19.9%		12.7%
Operating profit (EBIT)	5.7	7.9	-27.5%	9.4	12.7	-25.8%	13.6
Operating profit (EBIT) margin, %	16.3%	22.8%		14.6%	19.9%		12.7%
Capital expenditure excl. acquisitions	0.5	0.7	-19.0%	1.3	1.2	7.1%	2.2

**Financial Performance in April–June 2011**

SBU Finland's revenue in April–June 2011 remained at the comparison period level and totaled EUR 34.9 (34.5) million. The sales mix and sales prices developed favorably but sales volumes declined slightly. The changes in the sales mix and sales prices grew revenue by EUR 1.6 million. The lower sales volumes reduced revenue by EUR 1.2 million.

The share of decorative paints in SBU Finland's revenue in the second quarter was 83.5 (84.1) percent, and the share of industrial coatings was 16.5 (15.9) percent.

SBU Finland's operating profit excluding non-recurring items in April–June 2011 decreased by 27.5 percent from the comparison period and totaled EUR 5.7 (7.9) million. Profitability weakened due to the higher cost level and sales volumes. Tikkurila raised its sales prices in Finland at the beginning of May 2011.

**Financial Performance in January–June 2011**

SBU Finland's revenue in January–June 2011 remained at the comparison period level and totaled EUR 64.5 (63.7) million. The changes in the sales mix and sales prices grew revenue by EUR 2.1 million. The negative impact of the sales volumes that were lower than last year was EUR 1.4 million.

SBU Finland's operating profit in January–June 2011 decreased from the comparison period and totaled EUR 9.4 (12.7) million. The decline in operating profit is particularly due to the cost level, which was higher than in the comparison period.

**SBU Central Eastern Europe (CEE)**

(EUR million)	4-6/2011	4-6/2010	Change %	1-6/2011	1-6/2010	Change %	1-12/2010
Revenue	33.0	30.0	10.1%	58.4	51.9	12.6%	105.2
Operating profit (EBIT), excluding non-recurring items	2.1	2.3	-6.0%	2.5	2.6	-0.3%	4.8
Operating profit (EBIT) margin, excluding non-recurring items, %	6.4%	7.5%		4.4%	4.9%		4.6%
Operating profit (EBIT)	2.1	1.5	44.0%	2.5	1.8	44.0%	4.4
Operating profit (EBIT) margin, %	6.4%	4.9%		4.4%	3.4%		4.2%
Capital expenditure excl. acquisitions	0.7	0.4	80.7%	1.1	0.8	28.7%	2.2

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### Financial Performance in April–June 2011

SBU Central Eastern Europe's revenue in April–June 2011 grew by 10.1 percent from the comparison period and totaled EUR 33.0 (30.0) million. The changes in the sales mix and sales prices grew revenue by EUR 4.0 million. The sales volume that was lower than in the comparison period reduced revenue by EUR 1.3 million. The development in Poland, the most significant market in the SBU Central Eastern Europe region, continued to be good. Sales development has been particularly brisk in the fast-growing Asian market in China. The positive impact of exchange rates was EUR 0.3 million.

The share of decorative paints in SBU Central Eastern Europe's revenue in the second quarter was 72.3 (74.7) percent and the share of industrial coatings was 27.7 (25.3) percent.

SBU Central Eastern Europe's operating profit excluding non-recurring items in April–June 2011 decreased by 6.0 percent from the comparison period and totaled EUR 2.1 (2.3) million. Operating profit was burdened by the higher cost level and sales volumes, which were lower than in the comparison period. The impact of the changes in the sales mix and sales prices on operating profit was positive. Exchange rates did not have a significant impact on operating profit. In SBU Central Eastern Europe's operating area sales price increases were implemented, for example, in Poland at the beginning of April and once more in mid-July. Sales price increases in the region will continue.

There were no non-recurring items in April–June 2011. The non-recurring items in the comparison period were related to the infringement fine imposed by the Polish competition authorities, which weakened SBU Central Eastern Europe's result by EUR 0.8 million.

### Financial Performance in January–June 2011

SBU Central Eastern Europe's revenue in January–June 2011 grew by 12.6 percent from the comparison period and totaled EUR 58.4 (51.9) million. The sales volumes, higher than in the comparison period, grew revenue by EUR 3.0 million, and the changes in the sales mix and sales prices increased it by EUR 3.0 million. The positive impact of exchange rate fluctuations was EUR 0.6 million.

SBU Central Eastern Europe's operating profit excluding non-recurring items in January–June 2011 remained at the comparison period level and totaled EUR 2.5 (2.6) million. The cost level that rose from the comparison period reduced profitability, but the higher sales volumes and the changes in the sales mix and sales prices improved the operating profit.

### Other matters

In order to improve the profitability of the operations, certain functions and a part of the personnel were outsourced in Slovakia, the operations of the Romanian unit were downsized significantly in order to cut costs, and the operations in Ireland were transferred to the external distributors in their entirety. The intention is to increase and expand the streamlining measures as applicable, so that the relative profitability of SBU Central Eastern Europe is brought closer to the level of the Group's other areas.

### Group Functions

Group functions support the operations of Tikkurila's Strategic Business Units and see to the responsibilities of the listed parent company. No major changes occurred in the Group's common items compared to the comparison period.

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## Cash Flow, Financing Activities, and Financial Risk Management

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

Cash flow from operations in January–June was EUR -22.6 (-20.5) million. The volume of gross investments was at last year's level in the first half of the year, and the net cash flow from the investing activities was EUR -3.4 (-4.5) million, taking into account the divestment of the Russian subsidiary in January 2011. Cash flow after capital expenditure totaled EUR -26.0 (-25.0) million in the review period. Net working capital totaled EUR 132.6 (136.8) million at the end of the review period. In comparison with the situation at the end of June last year, the value of the inventories has risen, non-interest-bearing current receivables have decreased, and non-interest-bearing current liabilities have increased. Due to the seasonal nature of the operations, the amount of net working capital is typically at a high level at the end of the second quarter.

Interest-bearing debt amounted to EUR 174.0 (187.9) at the end of the review period. The average capital weighted interest rate of interest-bearing debt was 5.6 (4.8) percent in the period under review. The Group's net financial expenses were EUR 6.9 (2.8) million, of which net interest expenses and other financial expenses accounted for EUR 4.2 (4.1) million. The net result weakened by a total of EUR 2.7 million in the review period due to the impact of realized and unrealized exchange rate differences on net interest expenses and financial expenses, whereas in the comparison period, the exchange rate differences had a positive impact of EUR 1.3 million on the result. The heavy devaluation of the Belarusian ruble in the 2011 financial year had a negative impact of EUR 1.8 million on the exchange rate differences in the review period. EUR 52.7 million of Tikkurila Group's interest-bearing debt will mature during the 2011 financial period. Cash and cash equivalents amounted to EUR 36.3 (32.6) million at the end of the review period. The Group's net debt was EUR 137.7 (155.3) million at the end of the review period. The amount of the Group's net debt grew by EUR 59.1 million in the review period compared to the end of the 2010 financial year. This was primarily due to the payment of EUR 30.9 million in dividends in the second quarter of the year and the seasonal growth in the amount of tied working capital in the first half of the year. At the end of June 2011, the Group had a total of EUR 41.1 million of unused committed credit facilities or bank overdraft facilities.

At the end of June, the equity ratio was 34.4 (34.2) percent, and gearing was 77.1 (87.0) percent.

At the end of the review period, the nominal value of Tikkurila's forward exchange agreements was EUR 93.5 (68.6) million and the market value was EUR 0.8 (-0.0) million. Currency risk hedging is based on the forecast cash flow net currency exposure for the next 12 months, part of which is hedged in accordance with the principles confirmed by the Board of Directors. The Group's highest currency risks during the review period and comparison period were related to the Swedish krona, Russian ruble and Polish zloty. At the end of June, the nominal value of Tikkurila's interest rate swaps was EUR 30.0 (0.0) million and market value EUR 0.1 (0.0) million.

During the first quarter of 2011, Tikkurila Oyj repaid in advance a total of EUR 20.0 million of its long-term pension (TyEL) loan capital. After the end of the review period in July 2011, the company repaid in advance the remaining EUR 20.0 million of the TyEL loan, which means that the loan has been repaid in full and the associated guarantees amounting to EUR 53.0 million are released. In July 2011, the company paid in cash the fixed basic purchase price in the acquisition of Zorka Color's operations, a total of approximately EUR 11.9 million.

## Capital Expenditure

In January–June 2011, the gross capital expenditure excluding acquisitions amounted to EUR 5.1 (4.9) million. No major single investments were carried out during the review period.

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The Group's depreciation and amortization amounted to EUR 10.2 (10.1) million in January–June. The Group performs impairment tests in accordance with the IAS 36 standard.

## Research and Development

In January–June 2011, Tikkurila's research and development expenses totaled EUR 5.3 (5.1) million, corresponding to 1.6 (1.7) percent of revenue.

## Human Resources

At the end of June 2011, the Tikkurila Group employed 3,794 (3,946) people. The average number of employees in January–June was 3,609 (3,724).

Tikkurila Group's number of employees per quarter by SBU is presented below, starting from the first quarter of 2010.

	Q1/2010	Q2/2010	Q3/2010	Q4/2010	Q1/2011	Q2/2011
SBU East	1,702	1,794	1,657	1,508	1,558	<b>1,642</b>
SBU Scandinavia	464	485	464	465	468	<b>514</b>
SBU Finland	749	857	762	720	743	<b>825</b>
SBU CEE	746	774	757	740	750	<b>777</b>
Group functions	34	36	37	35	36	<b>36</b>
Total	3,695	3,946	3,677	3,468	3,555	<b>3,794</b>

## Shares and Shareholders

At the end of June 2011, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of June 2011, Tikkurila held no treasury shares

According to Euroclear Finland Oy's register, Tikkurila had a total of 24,350 shareholders on June 30, 2011. A list of the largest shareholders registered in the book-entry account system is regularly updated and is available on Tikkurila's website at [www.tikkurilagroup.com](http://www.tikkurilagroup.com).

At the end of June, the closing price of Tikkurila's share was EUR 15.99. In January–June, the volume-weighted average share price was EUR 15.88, the highest price EUR 16.92, and the lowest EUR 15.30. At the end of June, the market value of Tikkurila Oyj's shares was EUR 705.3 million. During January–June, a total of 14.9 million Tikkurila shares, corresponding to approximately 33.8 percent of the number of registered shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 236.6 million.

In accordance with the decision made by Tikkurila's Annual General Meeting held on March 31, 2011, 40 percent of the annual remuneration of the members of Tikkurila's Board of Directors will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares used for the annual remuneration were purchased directly on behalf of the Board members within two weeks from the release of the Interim Report for the period of January 1–March 31, 2011.

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## Events after the Review Period

On July 1, 2011 Tikkurila completed the acquisition of the business operations of Serbian paint company Zorka Color. The acquired business was transferred to Tikkurila on July 1, 2011. The compensation paid at the time of the closing of the deal was approximately EUR 11.9 million. In addition, Tikkurila will pay a possible additional purchase price during the next four years, which will be based on the future financial performance of the business operations acquired.

On August 5, 2011, Tikkurila received a notification, based on the Securities Markets Act, from Ilmarinen Mutual Pension Insurance Company. Ilmarinen Mutual Pension Insurance Company's holding in shares of Tikkurila Oyj exceeded the 1/10 (10%) threshold due to trades made on August 5, 2011. The holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila Oyj amounted to 4,461,823 shares, which corresponds to 10.12 percent of the total amount of shares and votes in Tikkurila Oyj.

On August 10, 2011, Tikkurila received a notification, based on the Securities Markets Act, from Orkla ASA. Orkla ASA's holding in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades made on August 10, 2011. The holding of Orkla ASA in Tikkurila Oyj amounted to 2,722,404 shares, which corresponds to 6.17 percent of the total amount of shares and votes in Tikkurila Oyj.

## Short-term Risks and Uncertainties

The overall uncertainty in the global economy has clearly increased, particularly during the past few weeks, compared with the situation at the beginning of the year. Tikkurila's business operations, financial position and result may be adversely affected if the positive development of the economic growth in Tikkurila's operating area comes to a standstill or takes a downward turn due to, for example, worsening of the European debt crisis. During the previous months, the indicators of the consumer confidence have weakened in Finland and Sweden. Increased general uncertainty can slow down or postpone investments and consumption of Tikkurila's customers, and thereby potentially decrease the demand for Tikkurila's products or move the demand into lower-priced product categories. In the short term, differences in the economic growth in different geographical areas seem to be growing, which can affect the geographical and the product group split of Tikkurila's revenue, and hence potentially have an adverse impact on the average relative profitability of the Group. Moreover, taxation changes in Tikkurila's operating areas can have a negative effect on consumer demand.

Cost inflation and, in particular, the continuing increases in raw material prices may have an adverse effect on Tikkurila's profitability. Tikkurila believes that the challenges relating to the prices and availability of the raw materials will continue or will potentially increase during the rest of the year. The Group might not be able to transfer in full or without delay the increases in costs to the sales prices of its end products. In addition, the uncertainties related to the raw material situation may impact the development of the market shares, general competitive situation, or product portfolio. After the end of the review period the market price of oil has declined, which can have an adverse impact on the economic growth in Russia and therefore also on Tikkurila Group's business, if the oil price continues to fall further.

The competitive situation in the paint industry may rapidly change, especially due to the new players entering the market, or changes in the market structure. In Russia, Tikkurila's competitors have recently made investments in order to increase their production capacity. Furthermore, the potential changes in the Group's distribution channels, for example due to the changed competitive circumstances, or in the development of purchase volumes or inventory management of various distribution channels may have a negative impact on the near-term financial performance or cash flow. It seems that during the last months activity in mergers and acquisitions has increased in the paint industry, and therefore it is possible that supplier or customer concentration risks will increase in the future or that Tikkurila's relative position compared to its key competitors may deteriorate.

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From Tikkurila's point of view, the risks have otherwise remained unchanged compared to the situation at the time of the publication of the 2010 Annual Report and the Interim Report for the first quarter of 2011.

Tikkurila's risk management principles are available on Tikkurila's website at [www.tikkurilagroup.com](http://www.tikkurilagroup.com). A statement of financial risks was published in the Notes to the 2010 Financial Statements.

## Outlook for 2011

After the review period financial uncertainty has gained momentum, and therefore it is more difficult to forecast the development during the rest of the year. The purchase behavior of Tikkurila's customers and their customers might change due to the prevailing uncertainty in the international markets. GDP growth is expected to continue in the key market areas of the Tikkurila Group in 2011, but regional and country-specific variances might increase. Further raw material cost increases are predicted. The suppliers for the paint industry will probably not be able to fully match the increasing demand, due to some of the capacity shutdowns carried out during the recession.

Tikkurila reiterates its revenue growth and EBIT margin guidance for the financial year 2011. In 2011, Tikkurila expects revenue growth to exceed the average GDP growth in Tikkurila's main market areas. In spite of the rising raw material prices, Tikkurila expects EBIT margin as a percentage of revenue to stay at the same level as in 2010. These estimates are based on the assumption that foreign exchange rates would stay close to the end of 2010 level and that the gradual economic recovery of Tikkurila's key markets would continue. The estimates are also based on Tikkurila's current business structure, when the impact of mergers, acquisitions or divestments carried out in 2011 is excluded. In order to enhance profitability and competitiveness, Tikkurila has decided to continue to increase sales prices as well as to implement additional measures to increase efficiency and decrease expenses.

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## Summary Financial Statements and Notes

The financial information presented in this interim report is prepared in accordance with IAS 34 standard. As a result of rounding differences, the figures presented in the tables may not add up to the total. The interim report information is unaudited except for the full year 2010 data.

Tikkurila applies the same accounting principles as applied in the 2010 financial statements, with the exception of the following new or revised or amended standards and interpretations which have been applied from January 1, 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
- Revised IAS 24 Related Party Disclosures
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010)

The Group's view is that the adoption of the standards and interpretations above did not have any effect on the financial statements of the reporting period.

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	4-6/2011	4-6/2010	1-6/2011	1-6/2010	1-12/2010
<b>Revenue</b>	<b>198,310</b>	182,451	<b>332,793</b>	301,848	588,647
Other operating income	526	1,868	922	2,271	3,025
Expenses	-166,316	-150,102	-289,510	-257,437	-510,254
Depreciation, amortization and impairment losses	-5059	-5,153	-10,213	-10,117	-20,661
<b>Operating profit</b>	<b>27,461</b>	29,064	<b>33,992</b>	36,565	60,757
Total financial income and expenses	-3,658	-1,149	-6,857	-2,755	-8,675
Share of profit or loss of associates	53	5	177	20	-87
<b>Profit before taxes</b>	<b>23,856</b>	27,921	<b>27,312</b>	33,830	51,995
Income taxes	-6,848	-7,429	-8,781	-9,692	-15,471
<b>Net profit for the period</b>	<b>17,008</b>	20,492	<b>18,531</b>	24,138	36,524
<b>Other comprehensive income</b>					
Available-for-sale financial assets	60	-	354	1,579	1,825
Foreign currency translation differences for foreign operations	-119	817	710	9,277	8,333
Income taxes related to components of other comprehensive income	-18	-	-100	-411	-507
<b>Total comprehensive income for the period</b>	<b>16,931</b>	21,309	<b>19,495</b>	34,583	46,175
<b>Net profit attributable to:</b>					
Owners of the parent	17,008	20,492	18,531	24,138	36,524
Non-controlling interest	-	-	-	-	-
<b>Net profit for the period</b>	<b>17,008</b>	20,492	<b>18,531</b>	24,138	36,524
<b>Total comprehensive income attributable to:</b>					
Owners of the parent	16,931	21,309	19,495	34,583	46,175
Non-controlling interest	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>16,931</b>	21,309	<b>19,495</b>	34,583	46,175
<b>Earnings per share of the net profit attributable to owners of the parent</b>					
Basic earnings per share (EUR)	0.39	0.46	0.42	0.55	0.83
Diluted earnings per share (EUR)	0.39	0.46	0.42	0.55	0.83

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**EUR 1,000**

	Jun 30, 2011	Jun 30, 2010	Dec 31, 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	68,403	69,119	68,386
Other intangible assets	28,858	34,593	30,544
Property, plant and equipment	110,454	118,173	114,736
Investment in associates	826	657	668
Available-for-sale financial assets	3,061	2,686	2,694
Non-current receivables	6,543	6,315	7,102
Defined benefit pension assets	292	267	413
Deferred tax assets	5,045	2,970	3,715
<b>Total non-current assets</b>	<b>223,482</b>	<b>234,780</b>	<b>228,258</b>
<b>Current assets</b>			
Inventories	96,261	86,079	76,814
Interest-bearing receivables	670	189	184
Non-interest-bearing receivables	162,841	168,316	85,234
Cash and cash equivalents	36,298	32,615	69,372
Assets classified as held for sale	-	-	2,437
<b>Total current assets</b>	<b>296,070</b>	<b>287,199</b>	<b>234,041</b>
<b>Total assets</b>	<b>519,552</b>	<b>521,979</b>	<b>462,299</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	35,000	35,000	35,000
Other reserves	359	359	359
Fair value reserve	1,612	1,168	1,350
Reserve for invested unrestricted equity	40,000	40,000	40,000
Translation differences	-11,428	-11,154	-12,130
Retained earnings	113,114	113,073	125,459
<b>Equity attributable to owners of the parent</b>	<b>178,657</b>	<b>178,446</b>	<b>190,038</b>
Non-controlling interest	-	-	-
<b>Total equity</b>	<b>178,657</b>	<b>178,446</b>	<b>190,038</b>
<b>Non-current liabilities</b>			
Interest-bearing non-current liabilities	119,445	139,024	139,282
Pension obligations	16,377	15,659	16,559
Provisions	240	408	199
Deferred tax liabilities	10,840	10,539	11,309
<b>Total non-current liabilities</b>	<b>146,902</b>	<b>165,630</b>	<b>167,349</b>
<b>Current liabilities</b>			
Interest-bearing current liabilities	54,596	48,860	8,697
Non-interest-bearing current liabilities	139,204	128,812	95,186
Provisions	193	231	302
Liabilities classified as held for sale	-	-	727
<b>Total current liabilities</b>	<b>193,993</b>	<b>177,903</b>	<b>104,912</b>
<b>Total equity and liabilities</b>	<b>519,552</b>	<b>521,979</b>	<b>462,299</b>

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## CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS

EUR 1,000	4-6/2011	4-6/2010	1-6/2011	1-6/2010	1-12/2010
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net profit for the period	17,008	20,492	18,531	24,138	36,524
Adjustments for:					
Non-cash transactions	5,345	5,439	11,240	10,882	26,651
Interest and other financial expenses	5,125	2,421	8,698	4,475	10,070
Interest income and other financial income	-1,467	-156	-1,841	-385	-1,394
Income taxes	6,848	7,430	8,781	9,692	15,471
<b>Funds from operations before change in net working capital</b>	<b>32,859</b>	<b>35,626</b>	<b>45,409</b>	<b>48,802</b>	<b>87,322</b>
Change in net working capital	-26,629	-24,318	-60,384	-60,664	-974
Interest and other financial expenses paid	-2,159	-4,230	-5,812	-4,756	-8,951
Interest and other financial income received	155	156	529	385	1,332
Income taxes paid	181	466	-2,343	-4,280	-14,874
<b>Total cash flow from operations</b>	<b>4,407</b>	<b>7,700</b>	<b>-22,601</b>	<b>-20,513</b>	<b>63,855</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Other capital expenditure	-3,129	-2,813	-5,579	-4,936	-11,267
Proceeds from sale of assets	82	119	1,796	309	436
Change in non-current loan receivables decrease (+), increase (-)	196	36	258	30	-1,671
Dividends received	120	62	120	62	62
<b>Net cash used in investing activities</b>	<b>-2,731</b>	<b>-2,596</b>	<b>-3,405</b>	<b>-4,535</b>	<b>-12,440</b>
<b>Cash flow before financing</b>	<b>1,676</b>	<b>5,104</b>	<b>-26,006</b>	<b>-25,048</b>	<b>51,415</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Change in non-current borrowings, increase (+), decrease (-)	-112	58	-20,199	24,478	24,162
Current financing, increase (+), decrease (-)	44,156	10,332	44,272	9,759	-30,244
Dividends paid	-30,876	-	-30,876	-	-
Acquisition of own shares	-	-72	-	-72	-72
Other	-905	-1,356	-641	-281	-339
<b>Net cash used in financing activities</b>	<b>12,263</b>	<b>8,962</b>	<b>-7,444</b>	<b>33,884</b>	<b>-6,493</b>
<b>Net change in cash and cash equivalents</b>	<b>13,939</b>	<b>14,066</b>	<b>-33,450</b>	<b>8,836</b>	<b>44,922</b>
Cash and cash equivalents at the beginning of period	21,564	18,847	69,328	24,201	24,201
Effect of exchange rate fluctuations on cash held	415	298	790	422	-205
Cash and cash equivalents at the end of period	35,088	32,615	35,088	32,615	69,328
<b>Net change in cash and cash equivalents</b>	<b>13,939</b>	<b>14,066</b>	<b>-33,450</b>	<b>8,836</b>	<b>44,922</b>

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**EUR 1,000**

	Equity attributable to the owners of the parent						Total	Non- control- ling interest	Total equity
	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestric- ted equity	Translation differences	Retained earnings			
Equity at Jan 1, 2010	35,000	359	-	40,000	-20,431	88,935	143,863	-	143,863
Total comprehensive income for the period	-	-	1,168	-	9,277	24,138	34,583	-	34,583
Acquisition / disposal of treasury shares	-	-	-	0	-	-	-	-	-
Equity at Jun 30, 2010	35,000	359	1,168	40,000	-11,154	113,073	178,446	-	178,446
<b>Equity at Jan 1, 2011</b>	<b>35,000</b>	<b>359</b>	<b>1,350</b>	<b>40,000</b>	<b>-12,130</b>	<b>125,459</b>	<b>190,038</b>	<b>-</b>	<b>190,038</b>
Total comprehensive income for the period	-	-	262	-	702	18,531	19,495	-	19,495
Dividends paid	-	-	-	-	-	-30,876	-30,876	-	-30,876
<b>Equity at Jun 30, 2011</b>	<b>35,000</b>	<b>359</b>	<b>1,612</b>	<b>40,000</b>	<b>-11,428</b>	<b>113,114</b>	<b>178,657</b>	<b>-</b>	<b>178,657</b>

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## OPERATING SEGMENTS

Tikkurila's business activities are organized in four reporting segments based on its strategy to be a strong regional player in the Nordic area and Eastern Europe including Russia. The differences in these operating environments and overall management of each area have been taken into account while establishing these reporting 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. Tikkurila common section includes the items related to the Group headquarters.

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

Revenue by segment EUR 1,000	4-6/2011	4-6/2010	1-6/2011	1-6/2010	1-12/2010
SBU East	73,542	64,322	106,344	92,734	194,549
SBU Scandinavia	56,821	53,629	103,535	93,499	181,762
SBU Finland	34,916	34,488	64,488	63,715	107,176
SBU Central Eastern Europe	33,030	30,012	58,426	51,900	105,160
<b>Total</b>	<b>198,310</b>	<b>182,451</b>	<b>332,793</b>	<b>301,848</b>	<b>588,647</b>

EBIT by segment EUR 1,000	4-6/2011	4-6/2010	1-6/2011	1-6/2010	1-12/2010
SBU East	10,201	12,681	8,723	12,631	24,129
SBU Scandinavia	10,205	8,279	14,970	11,223	21,302
SBU Finland	5,707	7,870	9,423	12,700	13,643
SBU Central Eastern Europe	2,120	1,472	2,543	1,766	4,387
Tikkurila common	-757	-1,248	-1,653	-1,765	-2,704
Eliminations	-15	11	-14	11	0
<b>Total</b>	<b>27,461</b>	<b>29,064</b>	<b>33,992</b>	<b>36,565</b>	<b>60,757</b>

## Non-allocated items:

Total financial income and expenses	-3,658	-1,149	-6,857	-2,755	-8,675
Share of profit or loss of associates	53	5	177	20	-87
<b>Profit before taxes</b>	<b>23,856</b>	<b>27,921</b>	<b>27,312</b>	<b>33,830</b>	<b>51,995</b>

Assets by segment EUR 1,000	Jun 30, 2011	Jun 30, 2010	Dec 31, 2010
SBU East	140,422	143,886	117,430
SBU Scandinavia	176,674	175,048	161,030
SBU Finland	100,896	124,962	82,673
SBU Central Eastern Europe	99,498	84,120	70,894
Assets, non-allocated to segments	80,834	64,566	68,758
Eliminations	-78,772	-70,604	-38,486
<b>Total assets</b>	<b>519,552</b>	<b>521,979</b>	<b>462,299</b>

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## BUSINESS COMBINATIONS

In the beginning of July 2011, Tikkurila Group completed the acquisition of the business operations of the Serbian paint company Zorka Color. Zorka Color operates in Serbia, where it is one of the three largest decorative paint companies according to estimates by Tikkurila management. Zorka Color also has operations in Bosnia-Herzegovina, Montenegro, Croatia, Kosovo and Macedonia. This acquisition strengthens Tikkurila's position in Central Eastern Europe, particularly in the Balkan region. The acquired assets are consolidated into the SBU Central Eastern Europe segment of Tikkurila Group as from July 1, 2011.

Asset purchase agreement was signed in April 2011, and the transaction was closed and net assets transferred to Tikkurila on July 1, 2011, which is the acquisition date.

Cash consideration paid at the time of closing in July was around EUR 11.9 million, and since no cash was transferred to the acquirer that also equals the net cash impact on Tikkurila Group at the time of closing in July. Moreover, the parties have agreed on an additional contingent consideration based on the future financial performance of the business operations acquired. The contingent component is linked to the equity value development, calculated based on both EBITDA and Net Debt, of the business up until December 31, 2014, and if equity value will increase certain part of that increase is payable in two tranches: firstly, after the finalization of the 2012 financial statements, and secondly, after the finalization of the 2014 financial statements. The fair value of the contingent consideration presented in preliminary purchase price allocation has been estimated by Tikkurila's management based on alternative future scenarios, the probability-weighted average of which has been used as the basis for the nominal contingent consideration, which then has been discounted to its present value by using case-specific WACC of 16.4 percent as the discounting rate.

The preliminary purchase price allocation of Zorka transaction is presented in the following table. Purchase price allocation is preliminary as the verification process of the transferred net asset is not yet fully finalized.

### Preliminary purchase price allocation EUR 1,000

#### Total purchase consideration

Fixed consideration paid at closing in July 2011	11,930
Contingent consideration, discounted present value *	2,148
<b>Total Consideration</b>	<b>14,078</b>

\* the undiscounted value of the estimated total contingent consideration is about EUR 3,288 thousand

#### Acquisition-related costs

**333**

Of the total expenses EUR 167 thousand was included in consolidated statement of comprehensive income in other operating expenses in year 2010 and EUR 166 thousand is included in other operating expenses for the period ended June 30, 2011.

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**Recognized amounts of identifiable assets acquired and liabilities assumed**  
**EUR 1,000**

	<b>Provisional fair value</b>
Property, plant and equipment	3,081
Intangible assets	
Trademarks	3,975
Customer relationships	2,279
Inventories	3,459
Trade and other receivables	4,787
Deferred tax assets	586
<b>Total assets</b>	<b>18,167</b>
Deferred tax liabilities	646
Trade and other payables	5,083
<b>Total liabilities</b>	<b>5,729</b>
<b>Total identifiable net assets</b>	<b>12,439</b>
Goodwill	1,639
<b>Total</b>	<b>14,078</b>

At the time of the closing, the fair value of the trade and other receivables was EUR 4,787 thousand. The gross contractual amount for these receivables was EUR 5,406 thousand, of which EUR 619 thousand is expected to be uncollectible.

Goodwill has been recognized, and is linked firstly to the know-how of the personnel transferred from Zorka Color to Tikkurila Group, and secondly to the integration and synergy benefits that the acquired assets generate, e.g. as a platform for future growth, via cross-selling opportunities within the Group, as well as via efficiency improvements in sourcing, logistics and production. None of the goodwill is expected to be deductible for tax purposes.

If the Zorka Color transaction would have been carried out in the beginning of 2011, instead of from July 1, 2011, Tikkurila's management estimates that it would have had roughly the following impact on Tikkurila Group's consolidated income statement for January - June 2011:

- Revenue: Increase of about EUR 7.9 million
- Net profit: Decrease of about EUR 1.3 million

#### **DISPOSAL OF GROUP COMPANIES**

Tikkurila completed the sale of a Russian subsidiary, OOO Tikkurila Powder Coatings, during the first quarter. The cash flow effect and effect on the assets and liabilities of the Group are presented in the first quarter interim report published on May 6, 2011.

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<b>CHANGES IN PROPERTY, PLANT AND EQUIPMENT</b> <b>EUR 1,000</b>	<b>1-6/2011</b>	1-6/2010	1-12/2010
Carrying amount at the beginning of period	<b>114,736</b>	114,857	114,857
Additions	<b>4,479</b>	4,242	9,896
Disposals	<b>-216</b>	-149	-379
Depreciation, amortization and impairment losses	<b>-7,740</b>	-7,572	-15,466
Exchange rate differences and other changes	<b>-805</b>	6,795	5,828
<b>Carrying amount at the end of period</b>	<b>110,454</b>	118,173	114,736

Tikkurila Group had contractual commitments for purchase of property, plant and equipment EUR 3.3 million at the end of June 2011.

<b>CHANGES IN INTANGIBLE ASSETS</b> <b>EUR 1,000</b>	<b>1-6/2011</b>	1-6/2010	1-12/2010
Carrying amount at the beginning of period	<b>98,930</b>	101,974	101,974
Business combinations	-	-20	-
Additions	<b>608</b>	706	1,382
Disposals	-	-125	-124
Depreciation, amortization and impairment losses	<b>-2,473</b>	-2,545	-5,195
Exchange rate differences and other changes	<b>195</b>	3,722	893
<b>Carrying amount at the end of period</b>	<b>97,260</b>	103,712	98,930

## INVENTORIES

Write-down of inventory EUR 0.8 (1.0) million was recognized until end of June 2011.

## RELATED PARTY TRANSACTIONS

Tikkurila Group has related party relationships amongst the parent company, the subsidiaries, the associates and the joint ventures. Related parties include members of Board of Directors and the Group's Board of Management, including CEO. In addition, during the financial year 2010 Tikkurila's former parent company Kemira Oyj and other Kemira Group companies were considered to be related parties until March 26, 2010. These related party transactions have been presented in Tikkurila Group's financial statements 2010.

### Related party transactions are presented below

<b>EUR 1,000</b>	<b>1-6/2011</b>	1-6/2010	1-12/2010
<b>Joint ventures</b>			
Sales	<b>1,107</b>	1,005	2,049
Receivables	<b>305</b>	285	111
Liabilities	<b>20</b>	29	15
<b>Associates</b>			
Sales	<b>11,392</b>	11,462	21,779
Purchases	<b>662</b>	636	1,274
Receivables	<b>11,304</b>	6	4,191
Liabilities	-	30	69

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**COMMITMENTS AND CONTINGENT LIABILITIES**  
**EUR 1,000**

Jun 30, 2011

Jun 30, 2010

Dec 31, 2010

**Mortgages given as collateral for liabilities in the statement  
of financial position**

Loans from pension institutions	<b>20,000</b>	40,000	40,000
Mortgages given	<b>53,000</b>	53,000	53,000
Other loans	-	100	-
Mortgages given	<b>102</b>	102	102
<b>Total loans</b>	<b>20,000</b>	40,100	40,000
<b>Total mortgages given</b>	<b>53,102</b>	53,102	53,102

**Contingent liabilities**

Assets pledged			
On behalf of own commitments	-	33	-
Guarantees			
On behalf of own commitments	<b>969</b>	1,958	1,710
On behalf of others	<b>3,417</b>	2,693	2,974
Lease obligations	<b>41,028</b>	45,589	40,904
<b>Total contingent liabilities</b>	<b>45,414</b>	50,273	45,588

**DERIVATIVE INSTRUMENTS**  
**EUR 1,000**

Jun 30, 2011

Jun 30, 2010

Dec 31, 2010

**Currency**
**derivatives**

	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Currency forwards	<b>93,478</b>	<b>795</b>	68,568	-26	119,834	-706

**Interest rate**
**derivatives**

Interest rate swaps	<b>30,000</b>	<b>60</b>	-	-	20,000	36
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## KEY PERFORMANCE INDICATORS

	<b>4-6/2011/ Jun 30, 2011</b>	4-6/2010/ Jun 30, 2010	<b>1-6/2011/ Jun 30, 2011</b>	1-6/2010/ Jun 30, 2010	1-12/2010/ Dec 31, 2010
Earnings per share / basic and diluted, EUR	<b>0.39</b>	0.46	<b>0.42</b>	0.55	0.83
Cash flow from operations, EUR 1,000	<b>4,407</b>	7,700	<b>-22,601</b>	-20,513	63,855
Cash flow from operations / per share, EUR	<b>0.10</b>	0.17	<b>-0.51</b>	-0.47	1.45
Capital expenditure, EUR 1,000	<b>3,129</b>	2,813	<b>5,579</b>	4,936	11,267
of revenue %	<b>1.6%</b>	1.5%	<b>1.7%</b>	1.6%	1.9%
Shares (1,000), average	<b>44,108</b>	44,108	<b>44,108</b>	44,108	44,108
Shares (1,000), at the end of the reporting period	<b>44,108</b>	44,108	<b>44,108</b>	44,108	44,108
Equity attributable to the owners of the parent / per share, EUR	<b>4.05</b>	4.05	<b>4.05</b>	4.05	4.31
Equity ratio, %	<b>34.4%</b>	34.2%	<b>34.4%</b>	34.2%	41.1%
Gearing, %	<b>77.1%</b>	87.0%	<b>77.1%</b>	87.0%	41.4%
Interest-bearing financial liabilities (net), EUR 1,000	<b>137,743</b>	155,269	<b>137,743</b>	155,269	78,607
Return on capital employed (ROCE), % p.a.	<b>18.8%</b>	18.5%	<b>18.8%</b>	18.5%	19.2%
Personnel (average)	<b>3,704</b>	3,843	<b>3,609</b>	3,724	3,703

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**DEFINITIONS OF KEY FIGURES****Earnings per share (EPS)**

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

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Shares on average

**Equity per share**

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

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Number of shares at the end of the reporting period

**Cash flow from operations / per share**

Cash flow from operations

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Shares on average

**Equity ratio, %**

Total equity x 100

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Total assets - advances received

**Gearing, %**

Net interest-bearing financial liabilities x 100

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Total equity

**Interest-bearing financial liabilities (net)**

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

**Net working capital**

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

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

Operating profit + share of profit or loss of associates x 100

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(Net working capital + property, plant and equipment ready for use + intangible assets ready for use + investments in associates)\*

\* average during the period

\*\* actual operating profit and share of profit or loss of associates taken into account for a rolling twelve month period ending at the end of the review period

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## SEGMENT INFORMATION BY QUARTER

Revenue by segment EUR 1,000	1-3/2010	4-6/2010	7-9/2010	10-12/2010	1-3/2011	4-6/2011
SBU East	28,412	64,322	65,664	36,151	32,803	73,542
SBU Scandinavia	39,870	53,629	49,768	38,495	46,713	56,821
SBU Finland	29,228	34,488	26,524	16,937	29,572	34,916
SBU Central Eastern Europe	21,887	30,012	31,589	21,672	25,396	33,030
<b>Total</b>	<b>119,397</b>	<b>182,451</b>	<b>173,544</b>	<b>113,255</b>	<b>134,483</b>	<b>198,310</b>

EBIT by segment EUR 1,000	1-3/2010	4-6/2010	7-9/2010	10-12/2010	1-3/2011	4-6/2011
SBU East	-51	12,681	9,606	1,892	-1,478	10,201
SBU Scandinavia	2,944	8,279	9,102	978	4,766	10,205
SBU Finland	4,830	7,870	3,409	-2,466	3,716	5,707
SBU Central Eastern Europe	294	1,472	3,719	-1,098	423	2,120
Tikkurila common	-516	-1,248	-605	-349	-896	-757
Eliminations	0	11	4	0	0	-15
<b>Total</b>	<b>7,501</b>	<b>29,064</b>	<b>25,235</b>	<b>-1,043</b>	<b>6,531</b>	<b>27,461</b>

## Non-allocated items:

Total financial income and expenses	-1,606	-1,149	-3,248	-2,672	-3,200	-3,658
Share of profit or loss of associates	15	5	-5	-102	125	53
<b>Profit / loss before taxes</b>	<b>5,909</b>	<b>27,921</b>	<b>21,982</b>	<b>-3,817</b>	<b>3 456</b>	<b>23,856</b>

Assets by segment EUR 1,000	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011
SBU East	123,350	143,886	126,209	117,430	125,682	140,422
SBU Scandinavia	155,784	175,048	166,173	161,030	167,683	176,674
SBU Finland	102,898	124,962	112,605	82,673	94,612	100,896
SBU Central Eastern Europe	86,045	84,120	84,940	70,894	79,429	99,498
Assets, non-allocated to segments	57,845	64,566	36,005	68,758	69,638	80,834
Eliminations	-69,870	-70,604	-45,034	-38,486	-70,289	-78,772
<b>Total assets</b>	<b>456,052</b>	<b>521,979</b>	<b>480,898</b>	<b>462,299</b>	<b>466,755</b>	<b>519,552</b>

Vantaa, August 10, 2011

TIKKURILA OYJ  
BOARD OF DIRECTORS

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