



Tikkurila Analyst Day 2015

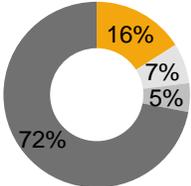
Strengthening our position in Russia

Ilari Hyyrynen, General Director, Russia

August 25, 2015



Tikkurila in Russia

2014 revenue	EUR 176 million, 28% of Group
Brands	   <div style="display: flex; justify-content: space-around; align-items: center;"> PREMIUM → ECONOMY </div>
Production	<p>Production sites in St. Petersburg (3) and Stary Oskol</p> <p>Majority of the products sold in the area are produced locally, Tikkurila brand is also exported from Finland</p>
Raw materials	Approximately half of the raw materials used in the production in Russia is sourced from local suppliers
Retail	Tikkurila's products are sold in more than 5,000 retail outlets
Market position in decorative paints in 2014	 <ul style="list-style-type: none"> ■ Tikkurila ■ Lakra ■ Optimist ■ Others <p>Source: Chem-Courier (volume)</p>



Good coverage of operations



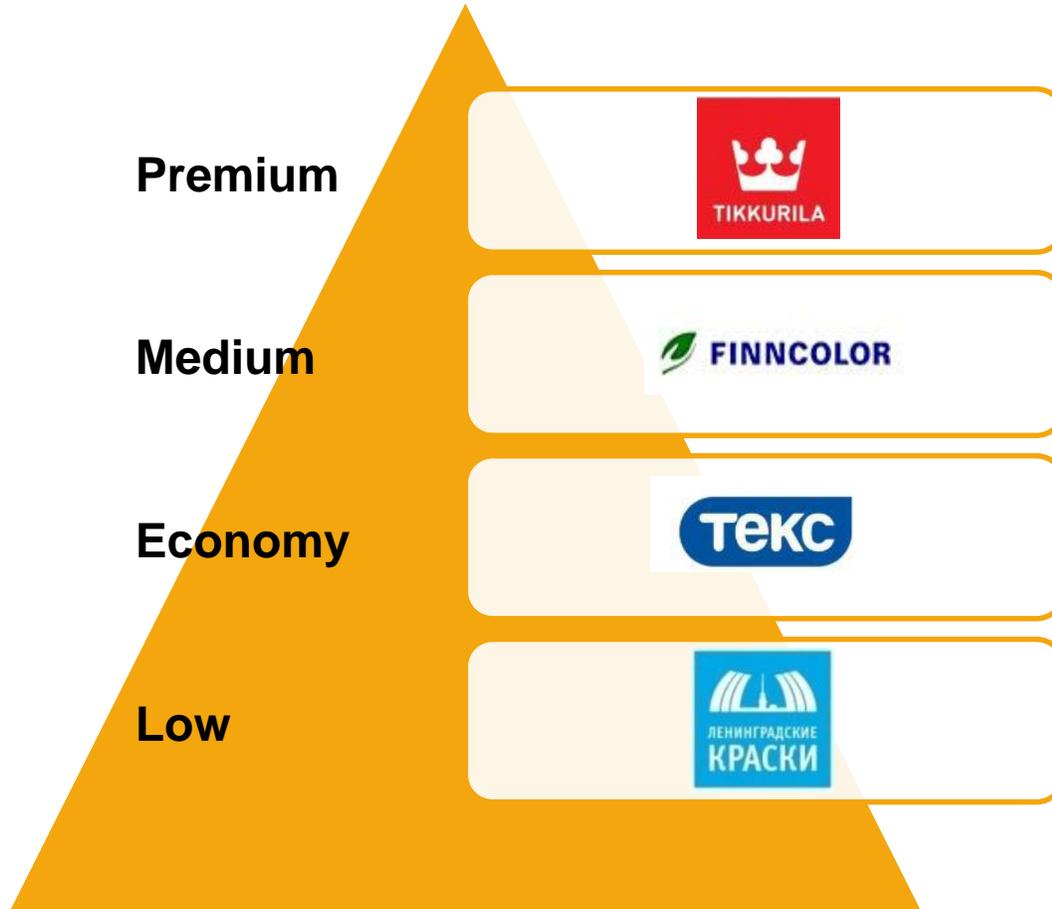
Approximately one third of Tikkurila's personnel work in sales and marketing

Tikkurila sales function has a regional structure

Tikkurila has established long-term partnerships with local customers



Good brand coverage

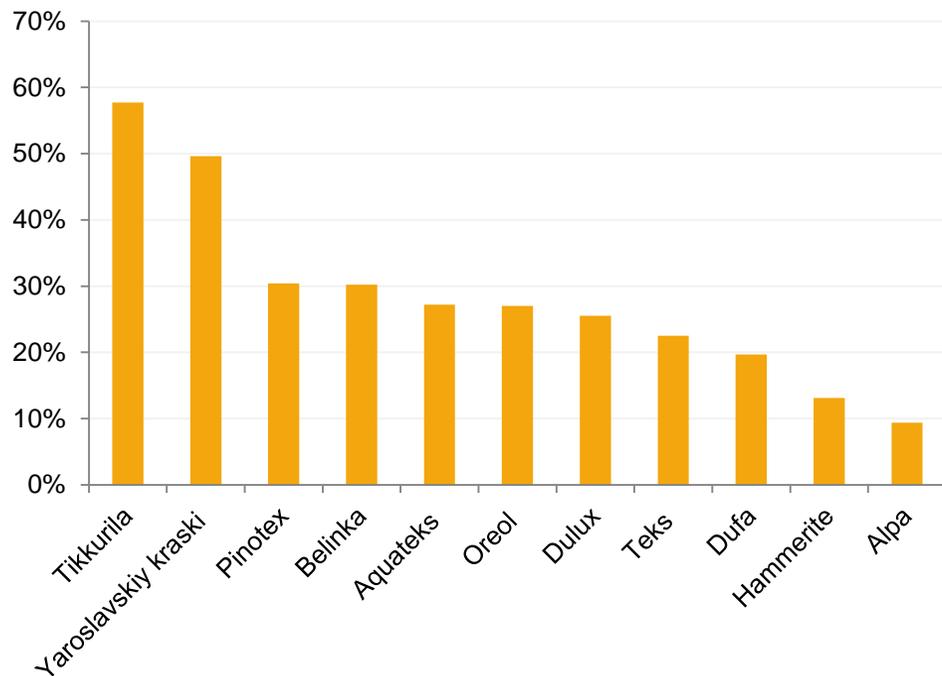


- Part of Tikkurila premium products are produced in Finland and exported to Russia, other brands are produced locally
- Tikkurila and Teks are the main brands (volume and value)
- In the recent years, the volume development of Tikkurila's high end products has been better; there has been more pressure at the lower end

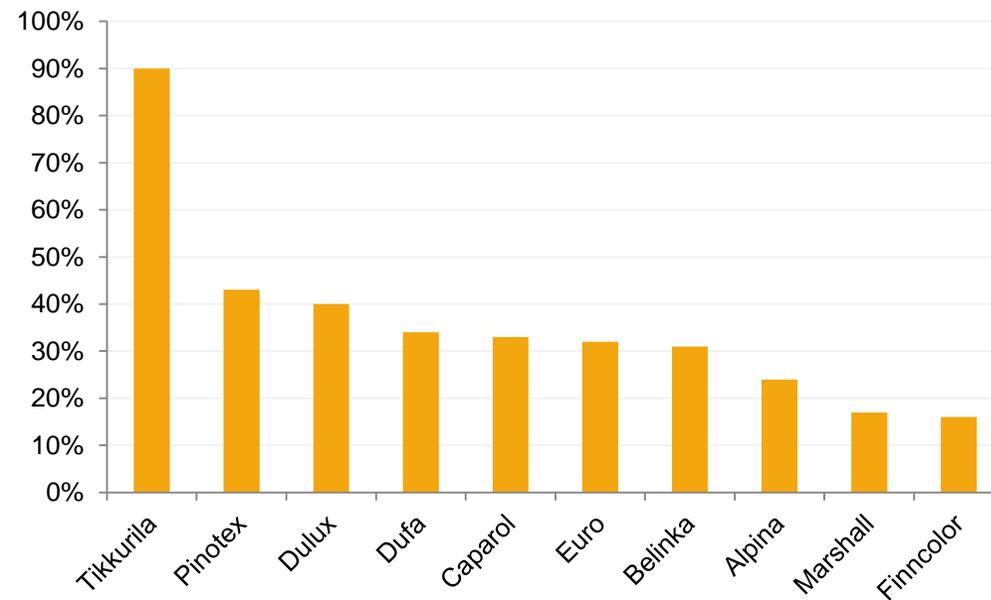


Tikkurila is the most well-known paint brand in Russia

Brand awareness in 2014, non-aided



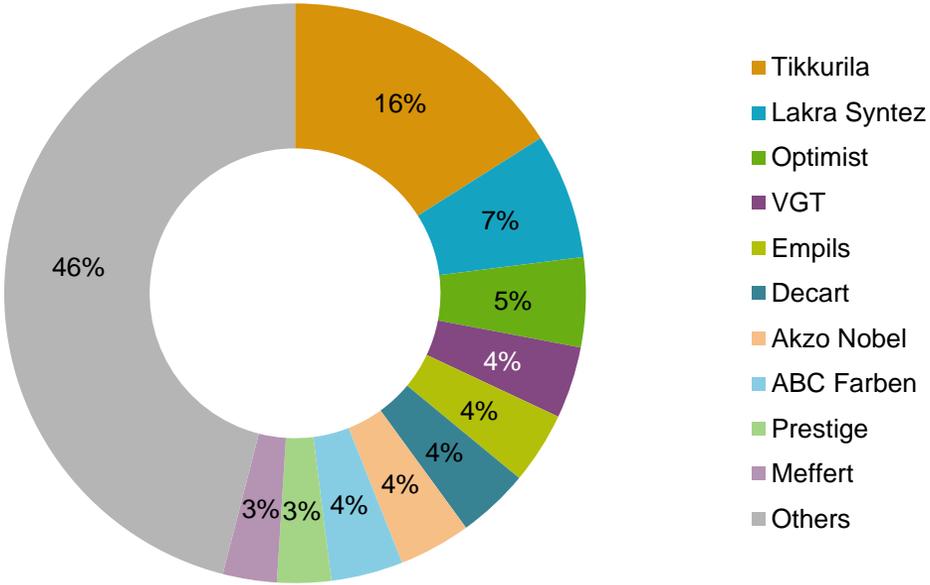
Brand awareness in 2014, aided



Source: TNS Gallup (Russia 2014)

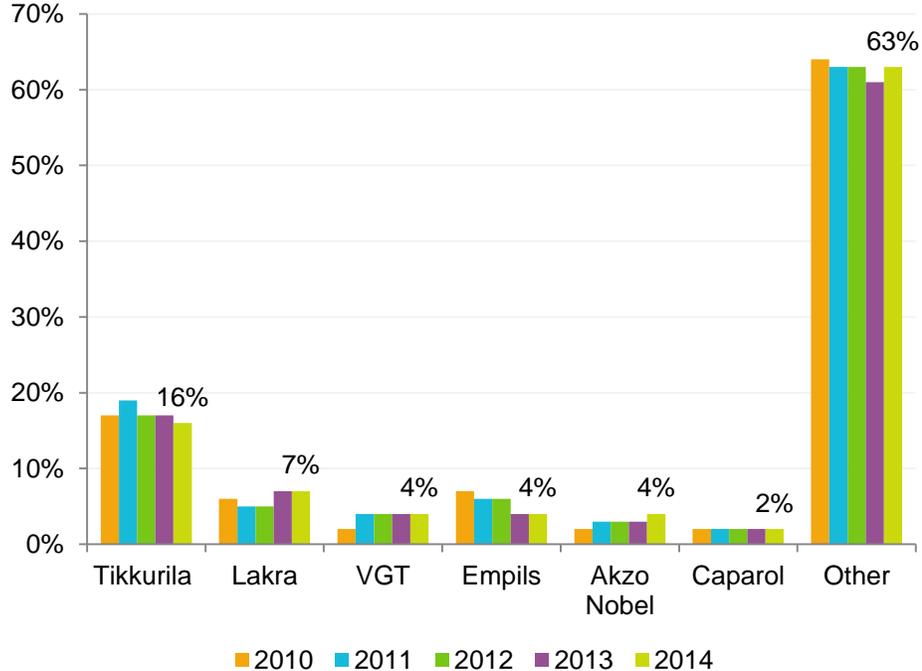
Russian paint market is still highly fragmented

Russian decorative paint market shares in 2014



Source: Chem-Courier 2015 (volume)

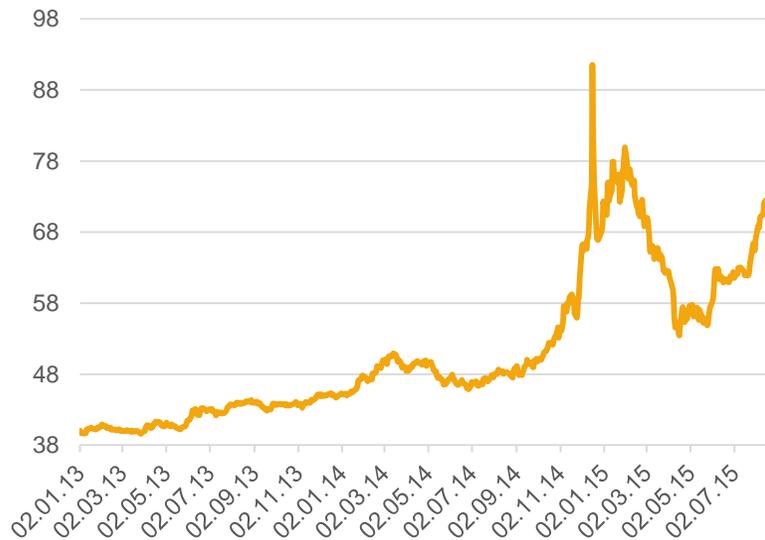
Market share development in Russia in 2010–2014





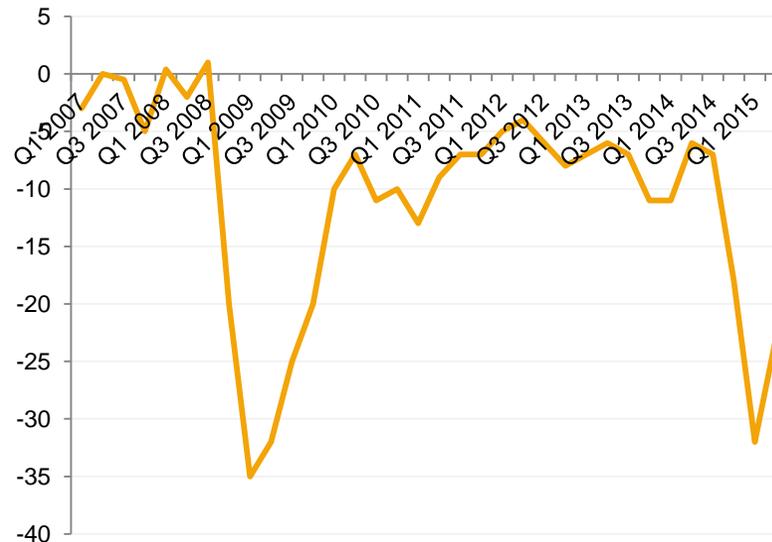
Ruble remains weak and consumption is declining

EUR RUB exchange rate



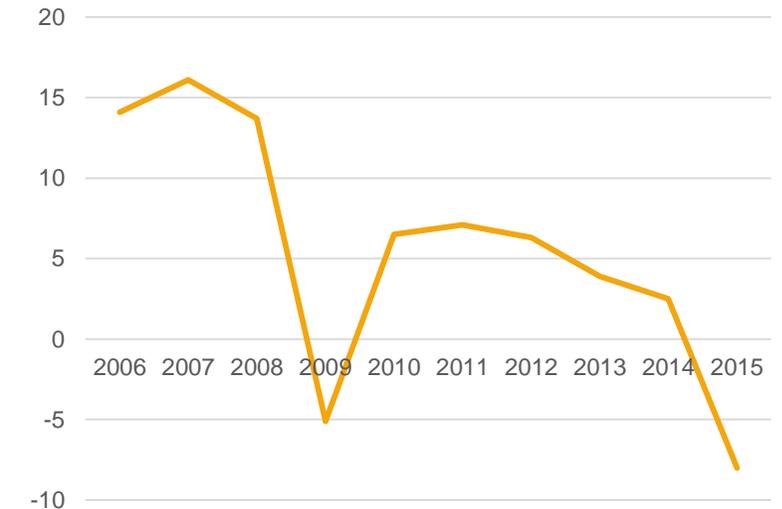
- Ruble has been depreciating during the past months

Russian consumer confidence



- Consumer confidence remains weak

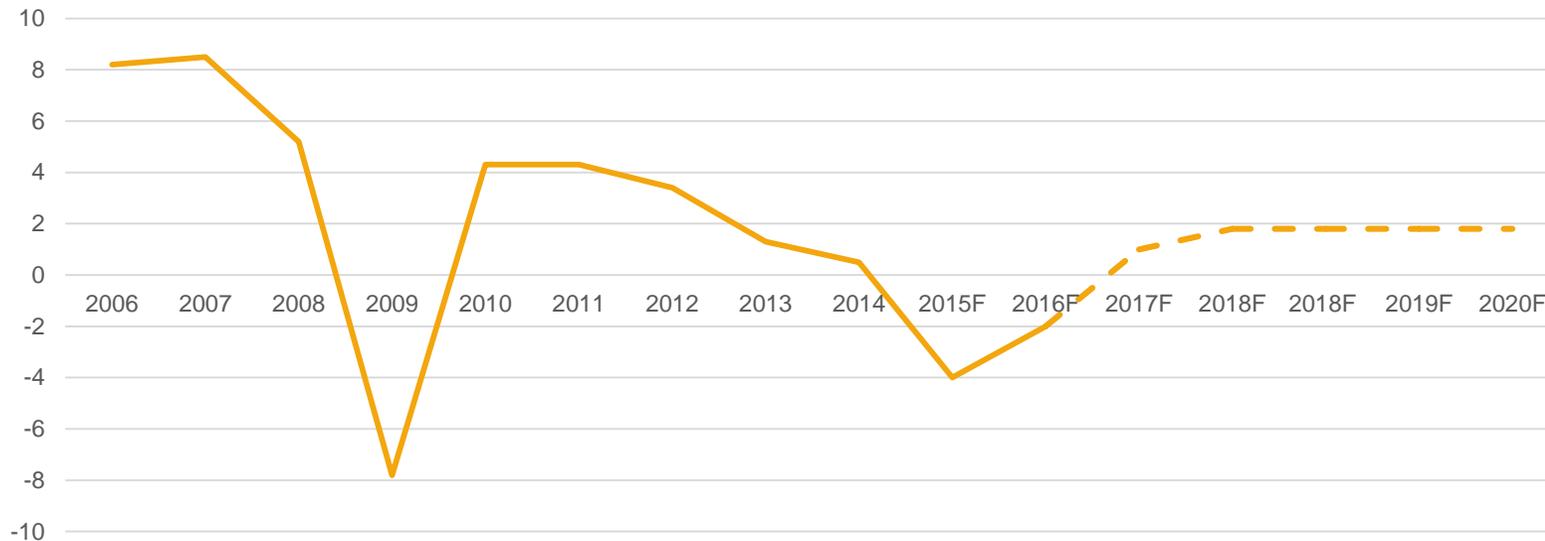
Retail sales in Russia, yearly change, %



- Consumption decreased rapidly

Low growth for a long time

Russian GDP development, %



Source: Bank of Finland and several other sources

- Growth of the Russian economy will be low in the coming years (average yearly growth rate of 0-2% according to Bank of Finland)

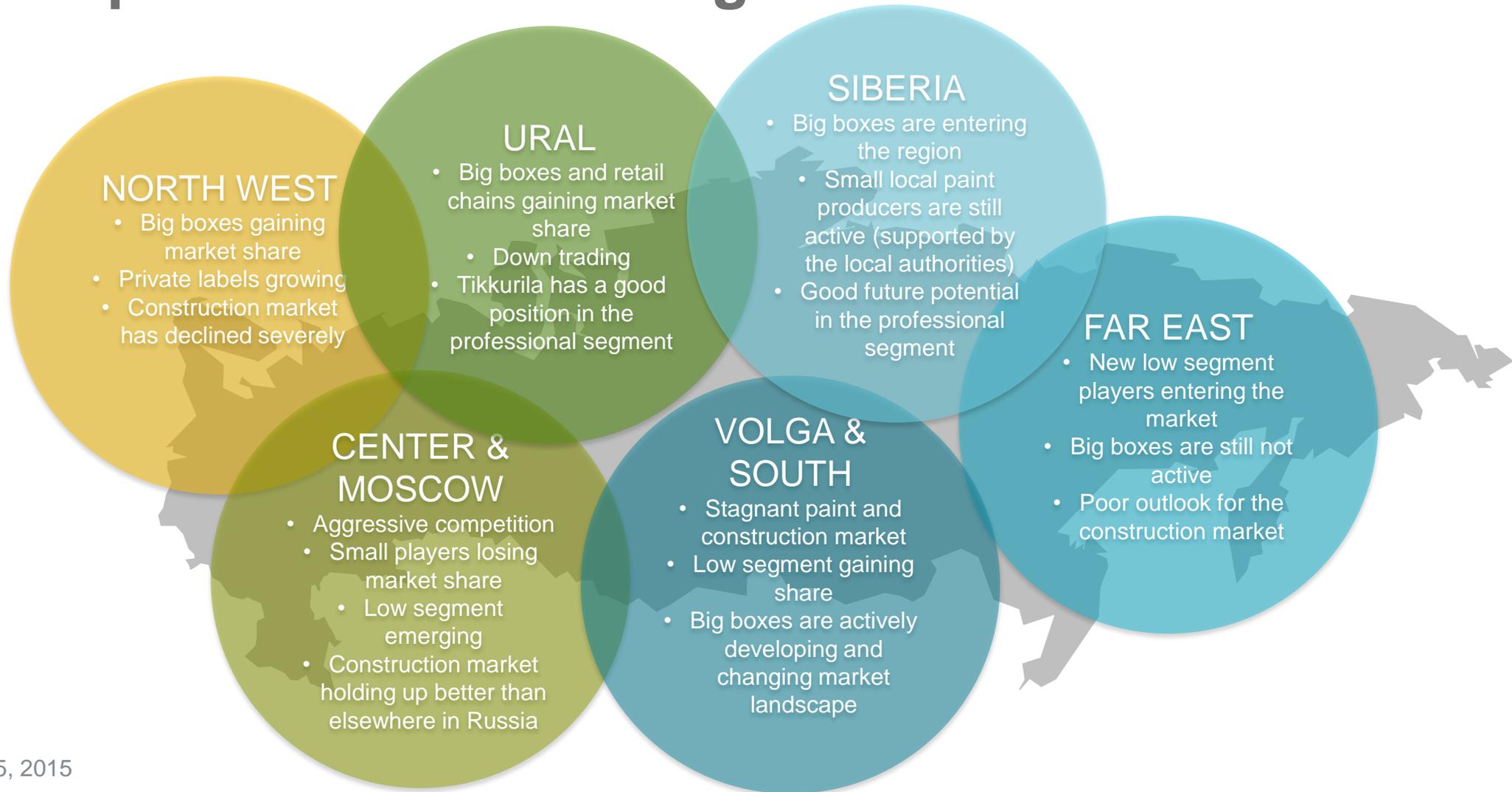
Recent developments on the Russian paint market

- Big boxes seem to gain market share from traditional retail trade.
- Consumers switch from premium to medium segment and from medium to low segment.
- Retailers are increasing the production of private label products in the medium and low segment.
- There is fierce competition with significant discounts and free-of-charge tinting services.
- Particularly in the Moscow region, bigger players are gaining market share from smaller players.



Discount campaigns have been common this year in Russia

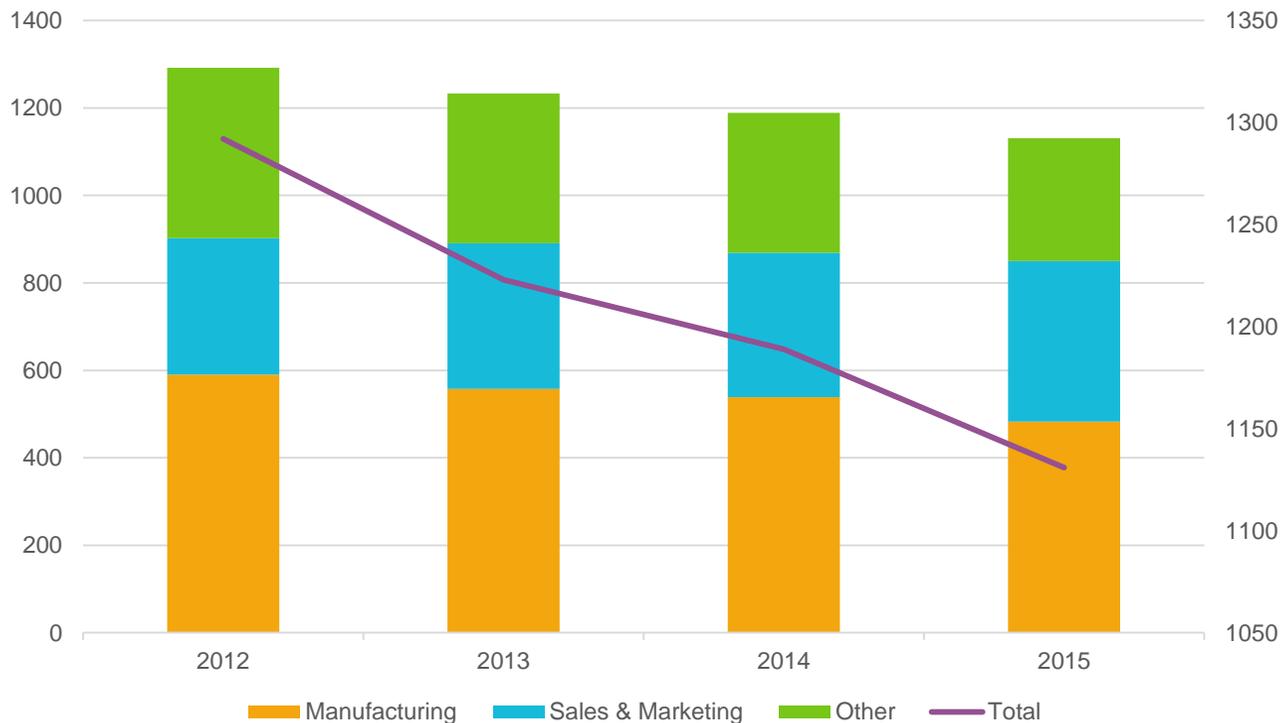
Development in different regions





Sales and marketing function has been strengthened

Personnel development by function in Russia
End of June



- Sales and marketing resources have been remarkably strengthened recently
- Simultaneously the number of persons working in production and support functions has been reduced



Active development of commercial activities

- Updated commercial strategy
- Reorganization of the commercial function
- Dedicated marketing support for key customers
- Focus on sell-out activities: price promotion, retailers motivation, incentives for sales team
- Increasing the transparency of retailers' inventories (DTS, Data Tracking System)
- Rebranding of Tikkurila EURO series, launch in 2016

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УЛ. КОТОВСКОГО, 19/1

ПЕРИОД ПРОВЕДЕНИЯ С 01.08.2015 Г ПО 30.09.2015 Г. ИНФОРМАЦИЮ ОБ ОРГАНИЗАТОРЕ АКЦИИ, О ПРАВИЛАХ ЕЕ ПРОВЕДЕНИЯ,
КОЛИЧЕСТВЕ ПРИЗОВ ИЛИ ВЫИГРЫШЕЙ ПО РЕЗУЛЬТАТАМ АКЦИИ, СРОКАХ, МЕСТЕ И ПОРЯДКЕ ПОЛУЧЕНИЯ ПО ТЕЛЕФОНУ..... 8 (3822) 56-16-51

Active development of distribution

Leroy Merlin



OBI

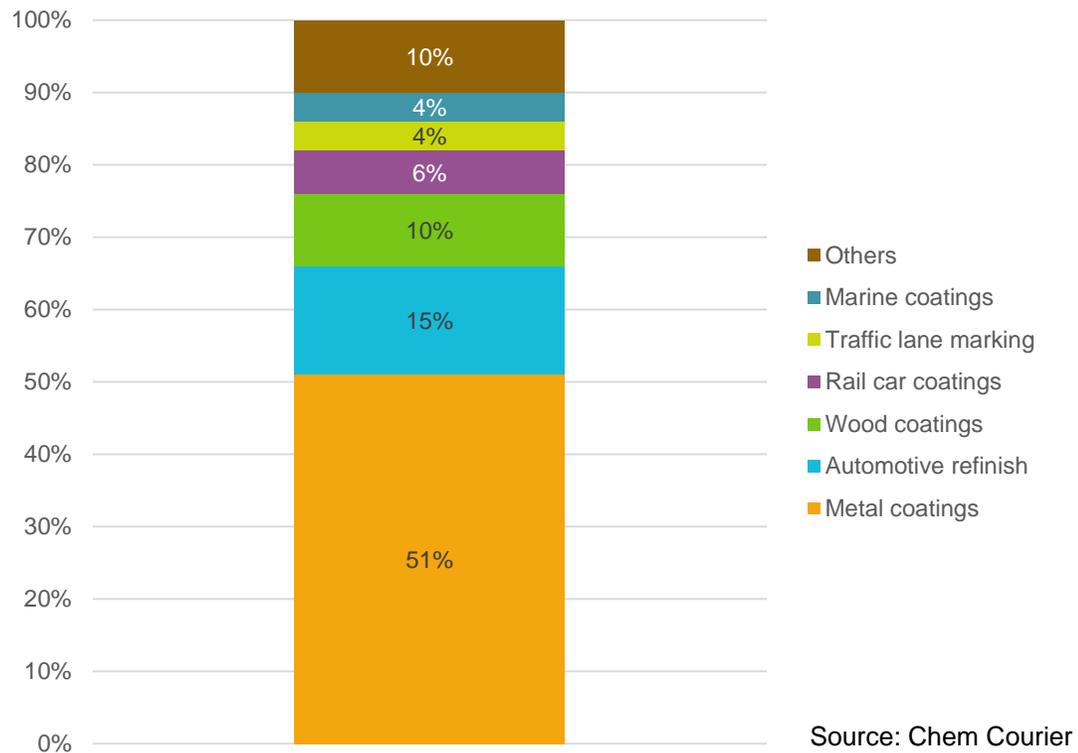


- New distribution chains and distributors selling Tikkurila
- Increased number of sales promoters at stores
- Training program for retailers' sales personnel
- More efficient and convenient operating methods (e.g. Electronic Data Interchange, EDI)



More emphasis also on industrial coatings business

Russian industrial coatings market Volume split



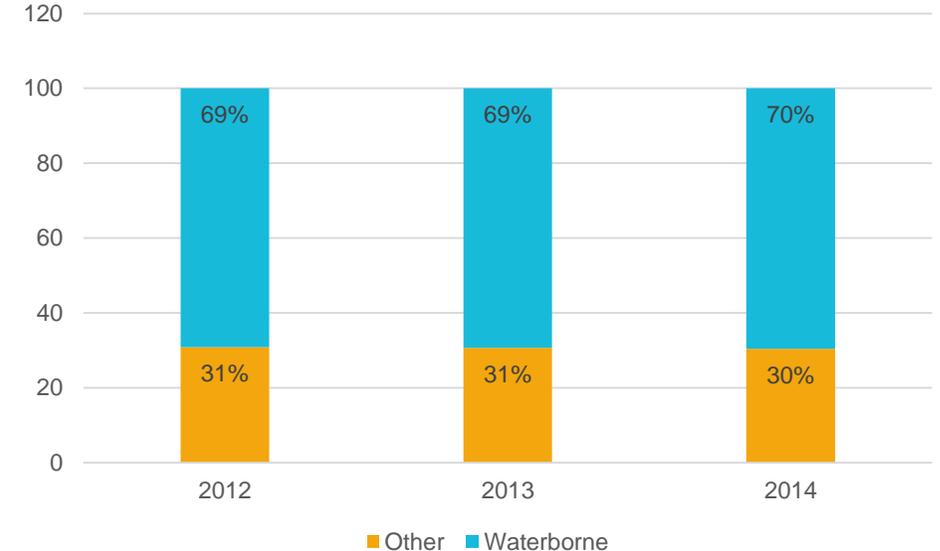
- Volume of the Russian industrial coatings market totals less than 300 million liters (decorative paint market totals some 600 million liters)
- Metal coatings account for half of the total industrial coatings market
- Demand for locally produced industrial coatings is increasing



Promoting quality and life-cycle thinking

- Tikkurila wants to enhance the quality of painting, increase the use of environmentally sustainable products, and improve product and user safety
- In 2013, Tikkurila together with other paint manufacturers and raw materials suppliers established the Quality Paint Association (QPA) in Russia. The objectives of the association include communication about high-quality and environmentally sustainable products, as well as promoting the adoption of international quality, safety and environmental standards for paints in the Russian market
- Members have in cooperation developed quality standards for paints, and the association was also involved in state committee work to establish higher quality standards nationally
- Current plan is to have QPA emblems on paint cans in 2016

Share of water-borne paints of Tikkurila sales in Russia



Conclusions and near-term focus areas

- Streamlined organizational structure
- Active cost management
- Active sales and marketing activities
 - Development of the retail operations
 - Increased presence and shelf space
 - Active pricing; sales prices were increased in early 2015 to compensate the weak ruble
- Active measures have led to a favorable market share development in the first quarter of 2015





Q&A