



TIKKURILA

Interim Report for January–September 2014

Investor presentation



Disclaimer

In this presentation, all forward-looking statements in relation to the company or its business are based on the management judgment, and macroeconomic or general industry data are based on third-party sources, and actual results may differ from the expectations and beliefs such statements contain.



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- Tikkurila in brief
- Development during the review period
- Strategic Business Units
- Summary and outlook for 2014
- Appendix



TIKKURILA

Tikkurila in brief

Tikkurila in brief

Tikkurila in a nutshell

Customers:

Consumers and professionals

Market position:

Leading market position in decorative paints in Finland, Sweden, Russia and the Baltic countries, one of the leading in Poland

Market area:

Northern Europe, Central Eastern Europe, Russia and other CIS countries, Ukraine

Products and services:

Decorative paints, industrial wood and metal coatings, customer training, comprehensive advisory service (e.g. Customer hotline), Designer and Contractor Pool etc.

Tikkurila's locations

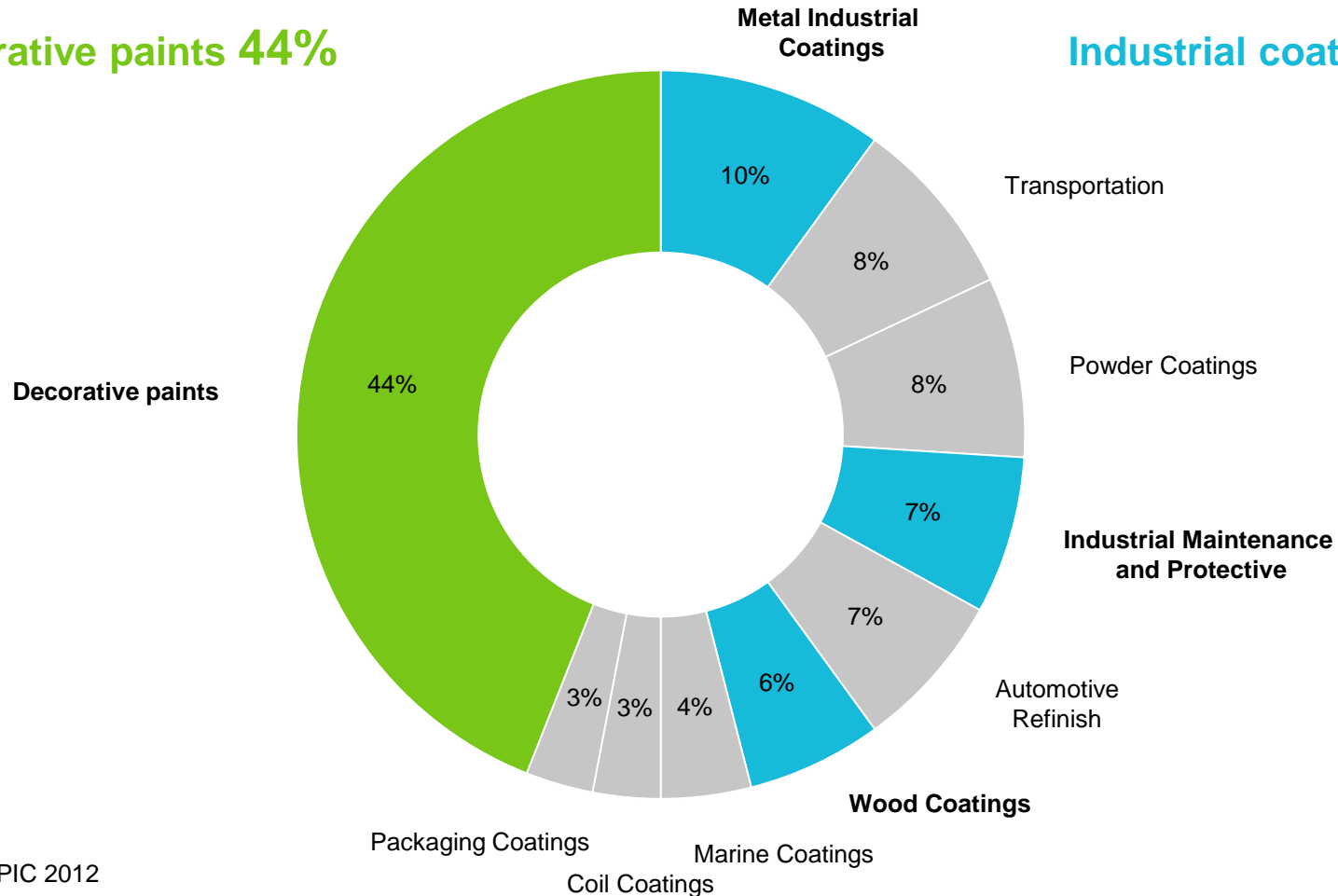




Value of the global paints and coatings market EUR ~76 billion

Decorative paints 44%

Industrial coatings 56%



Source: IPPIC 2012

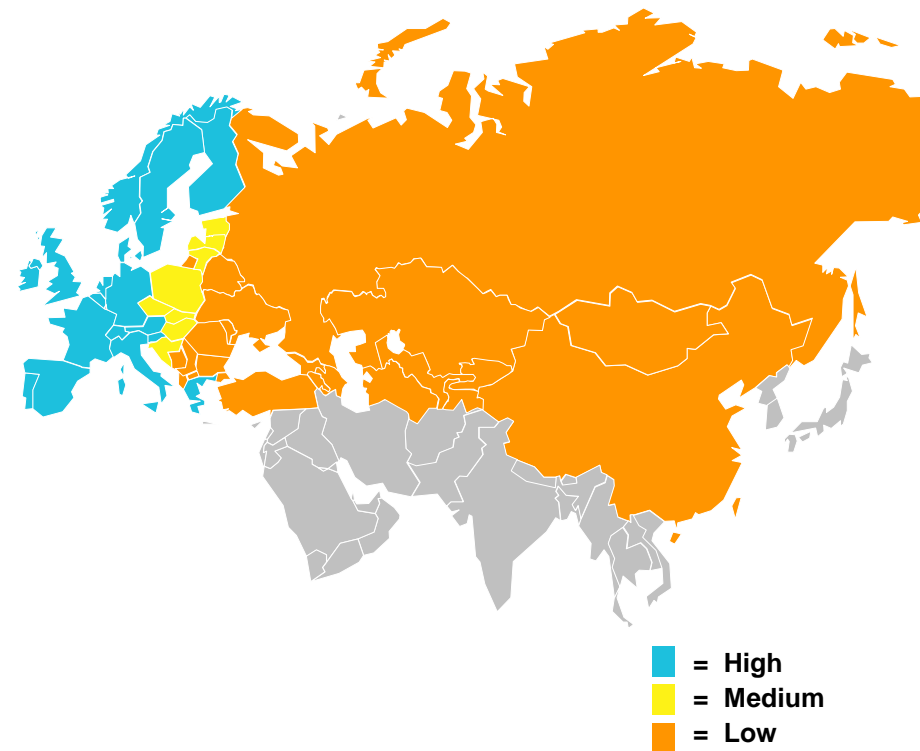
November 2014

Paint consumption and demand structure

Factors impacting paint demand

- Living standards
 - Local habits and painting methods
 - Construction styles and available materials
 - Trends in interior decoration, colors etc.
 - Level of activity in new construction, renovation and industry
 - Functional paints
- Markets in Western Europe mature, growth opportunities in areas with increasing income per household
- Tikkurila has an established presence in areas with expected growth in consumption per capita and increasing demand for premium products

Estimated paint consumption per capita*



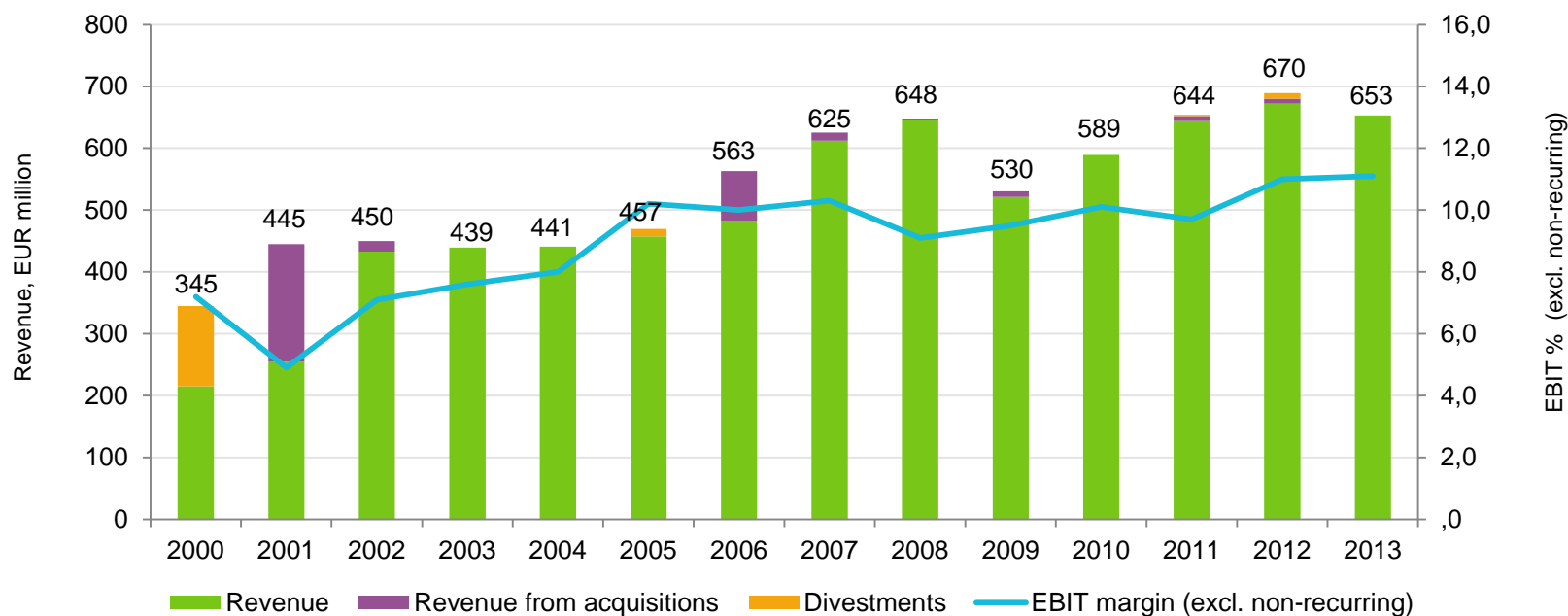
* Paint consumption source: Management estimates, IPPIC

Long term financial development

Development of sales and profitability 2000–2013

Major acquisitions and divestments

<p>Sale of tinting business in 2000 (Revenue ~MEUR 130)</p>	<p>Acquisition of Alcro-Beckers in 2001 (Revenue ~MEUR 190)</p>	<p>Acquisition of Kraski Tekes in 2006 (Revenue ~MEUR 80)</p>	<p>Acquisition of Zorka Color in 2011 (Revenue ~MEUR 16)</p>
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Financial targets for 2018

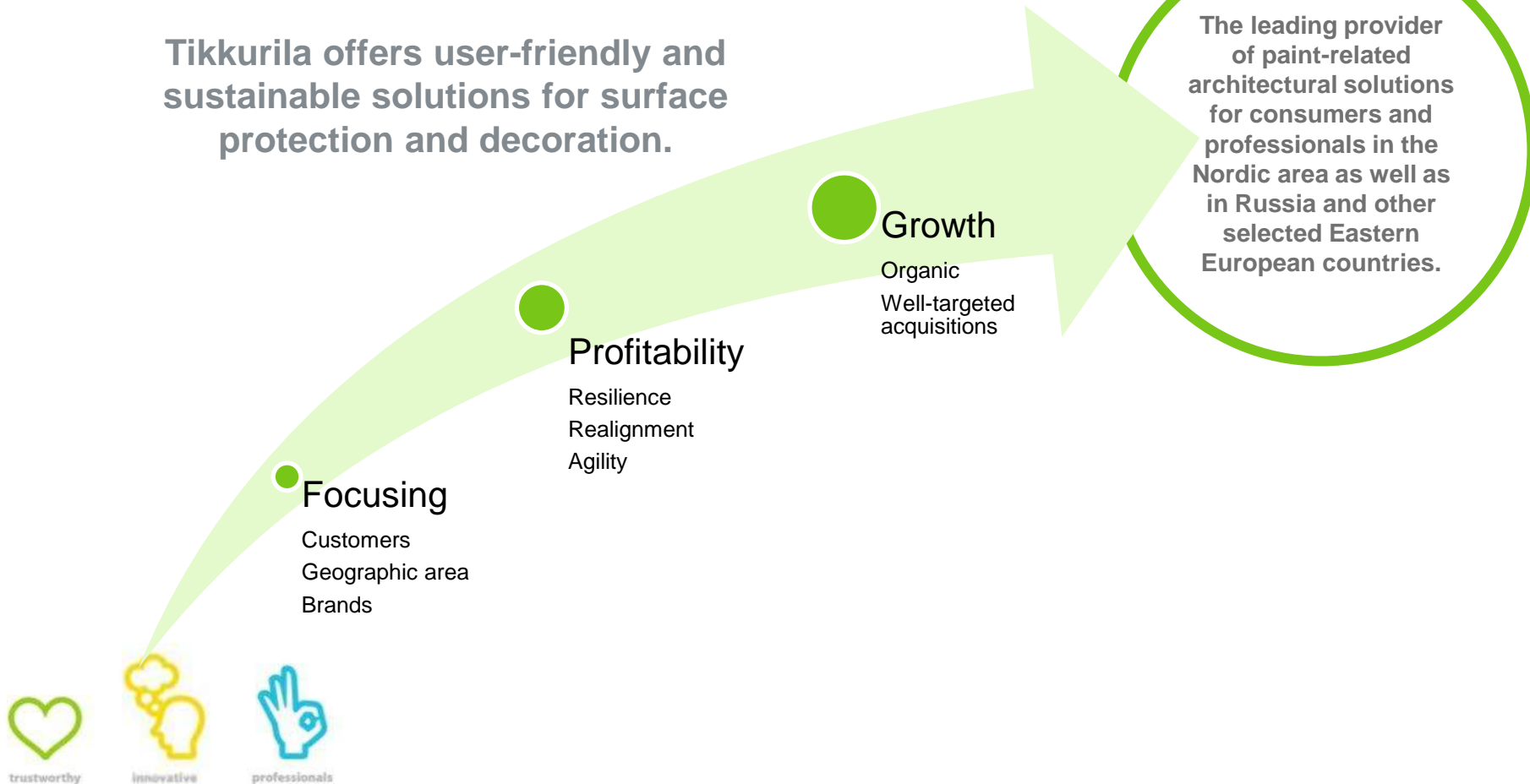
- Revenue of EUR 1 billion
- Operating EBIT >12%
- Operative return on capital employed (ROCE) >20%
- Gearing <70%
- Dividend policy: Target is to pay at least 40 % of annual operative net income as dividends

	Historical performance						
	2007	2008	2009	2010	2011	2012	2013
Revenue	625	648	530	589	644	670	653
EBIT, % ¹	10.3%	9.1%	9.5%	10.1%	9.7%	11.0%	11.1%
ROCE	24.5%	18.7%	15.7%	19.2%	19.4%	21.0%	23.5%
Gearing	135.3%	208.5%	90.0%	41.4%	51.9%	40.6%	23.4%
Dividend payout; share of operative net income, %				86% (EUR 0.70 per share)	88% (EUR 0.73 per share)	72% (EUR 0.76 per share)	69% (EUR 0.80 per share)

1) Excluding non-recurring items

Tikkurila's strategy for 2012–2014

Tikkurila offers user-friendly and sustainable solutions for surface protection and decoration.





Strong and well-established brands are the key to achieving our strategic intent

Strategic brands

Tactical brands

International brands

Regional or local brands



We help our customers to succeed in surface protection and decoration



Inspiration



Ideas



Colors



Stores



Helpline



Internet



Training



Designer Pool
Contractor Pool



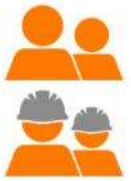
Professional
services

Distribution channels

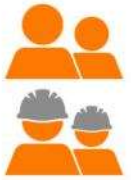


Wholesale*

Retail**



Retail**



Tikkurila's own paint shops



Temaspeed distribution network
Direct sales



* Only in some markets

** Big boxes, specialized paint shops

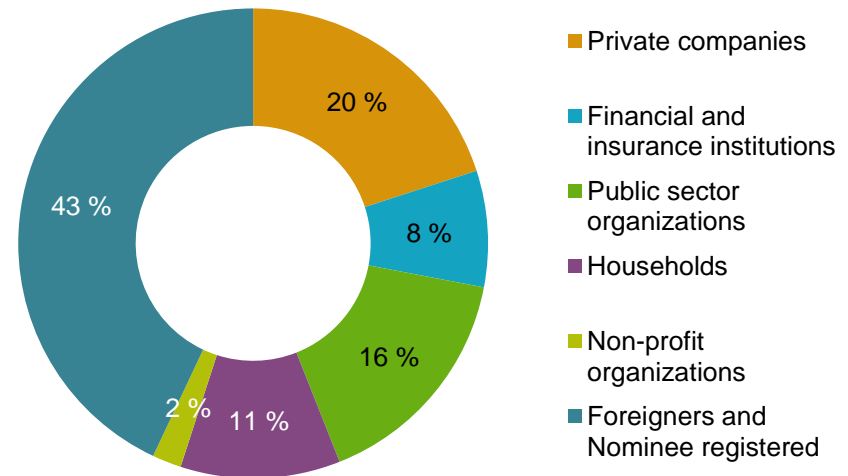
Consumers 

Professionals 

Tikkurila's ownership at the end of September 2014

- Number of shareholders ~20,300
- Foreign ownership in Tikkurila has increased strongly
- Largest shareholders: Oras Invest Oy (18.1%), Ilmarinen (9.1%) and Varma (5.7%)
- 50 largest shareholders holding ~45%

Tikkurila's ownership structure on September 30, 2014





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Development during the review period



Third quarter highlights

- Revenue decreased by 5% due to weak foreign exchange rates and lower sales volumes
- Relative profitability remained on a record high level due to efficiency improvement measures, higher productivity, cost savings, and favorable sales mix development
- Overall economic outlook is weak in Russia and Finland, the situation is somewhat better in Sweden, Poland, and the Baltic countries



Review period key figures

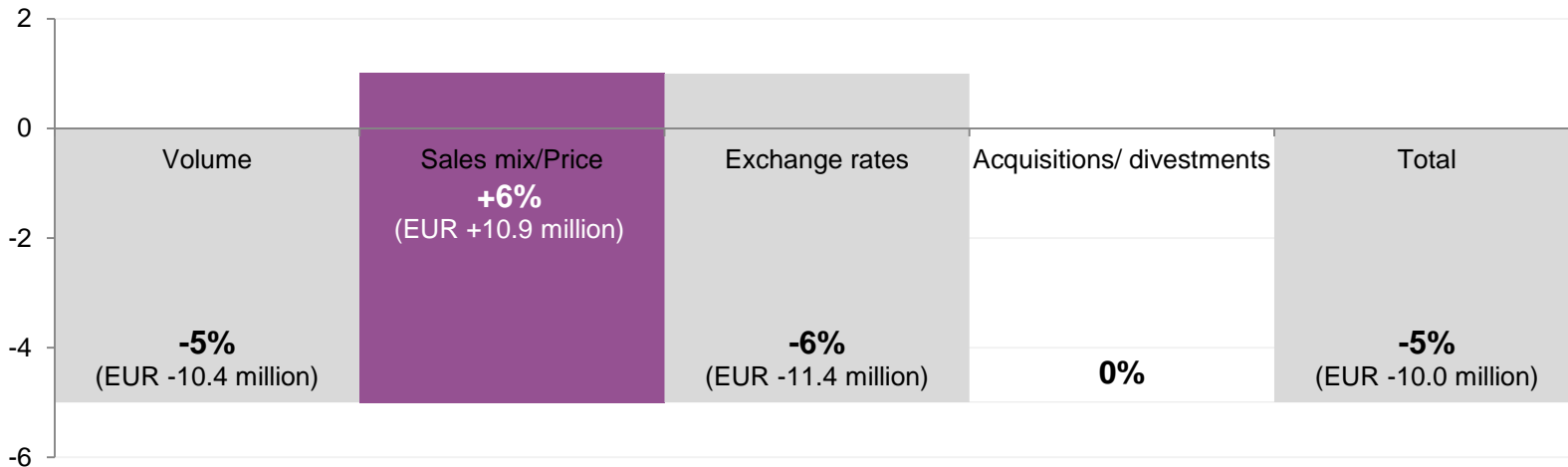
EUR million	7–9/2014	7–9/2013	Change %	1–9/2014	1–9/2013	Change %	2013
Revenue	179.6	189.6	-5.3%	514.0	536.3	-4.2%	653.0
EBIT excluding non-recurring items	32.1	33.3	-3.7%	77.4	76.8	0.7%	72.6
EBIT excluding non-recurring items, %	17.9%	17.6%		15.0%	14.3%		11.1%
EBIT	31.3	33.1	-5.4%	77.6	76.7	1.2%	71.5
EBIT, %	17.4%	17.4%		15.1%	14.3%		10.9%
EPS, EUR	0.55	0.55	-0.6%	1.28	1.25	3.0%	1.14
ROCE, %, rolling	25.5%	23.7%		25.5%	23.7%		23.5%
Cash flow after capital expenditure	54.1	64.9	-16.6%	42.2	55.5	-23.9%	66.9
Net interest-bearing debt at period-end				46.1	60.1	-23.3%	48.6
Gearing, %				21.2%	28.0%		23.4%
Equity ratio, %				46.8%	46.4%		50.1%
Personnel at period-end				3,212	3,253	-1.3%	3,133

Sales volume development and weak currencies decreased revenue

EUR million	7–9/2014	7–9/2013	Change %	1–9/2014	1–9/2013	Change %
Revenue	179.6	189.6	-5.3%	514.0	536.3	-4.2%

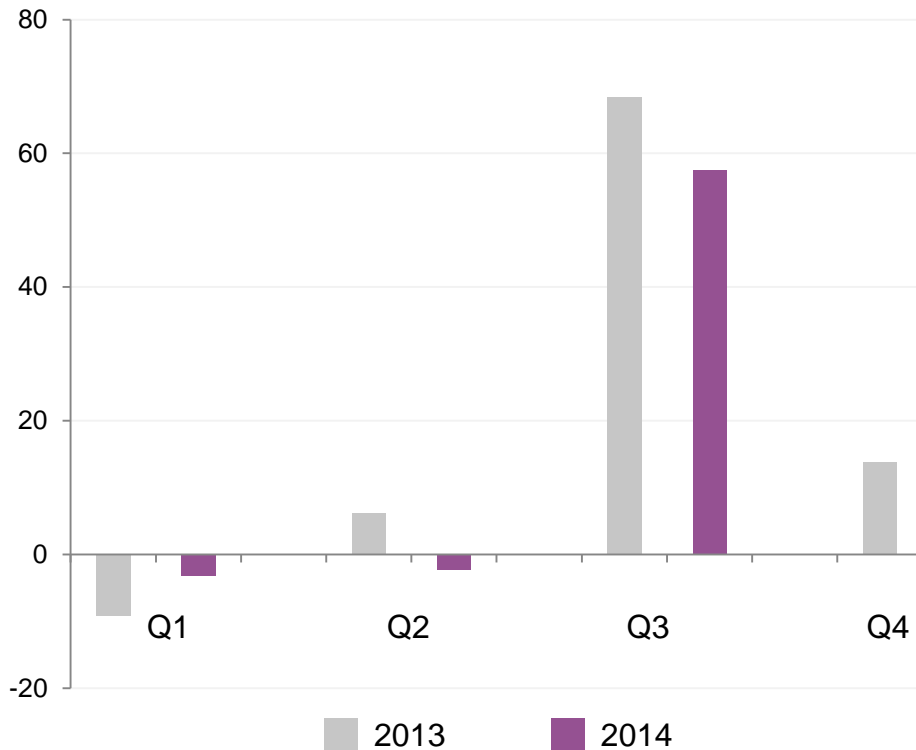
Group's revenue development Q3/2014 vs. Q3/2013

Increase/decrease, %



Changes in the working capital decreased cash flow

Cash flow from operations
EUR million



- Inventories and trade receivables tied more capital than during the comparison period
- This was mainly due to increased inventory level (to secure good customer service), and sales taking place at the end of the review period

Delivery reliability was improved in all markets

- Supply chain aims at excellent customer service and timely product availability in stores
- Forecasting has become more challenging due to increased volatility in demand
- Product availability has been on a high level and it has been further improved
- During 2014, the delivery reliability in Russia has been improved to an excellent level after the challenges faced last year





Logo and packaging renewal of the Tikkurila brand

- Renewal aims at improved customer experience
- Strong logo that symbolizes quality
- Distinguishable, clear, and informative packages
- Water-borne interior paints will be delivered in plastic cans, which are light to transport and easy to open





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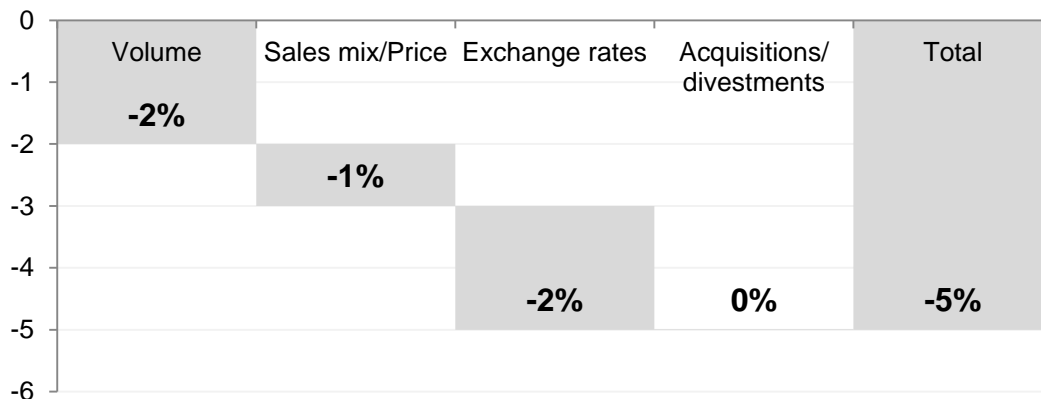
Strategic Business Units

SBU West Q3/2014

EUR million	7–9/2014	7–9/2013	Change %	1–9/2014	1–9/2013	Change %	1–12/2013
Revenue	100.4	105.5	-4.8%	314.2	320.3	-1.9%	388.6
EBIT*	18.4	22.3	-17.6%	53.9	55.6	-2.9%	50.9
EBIT*, %	18.3%	21.1%		17.2%	17.3%		13.1%

Revenue development Q3/2014 vs. Q3/2013

Increase/decrease, %



* Excluding non-recurring items

Q3/2014 highlights

- Sales volume development was weak in Finland
- Sweden, Poland, and the Baltic countries performed somewhat better
- Decline in revenue and higher sales and marketing expenses had a negative impact on profitability

Expertise in energy-efficient solutions

- Tikkurila acquired the Danish ISO Paint Nordic (revenue totaled EUR 7.5 million in 2013)
- Complements the professional product range and expertise in energy-efficient coating solutions and solutions which extend the life cycle of structures
- Demand for energy-efficient and eco-efficient solutions is expected to increase



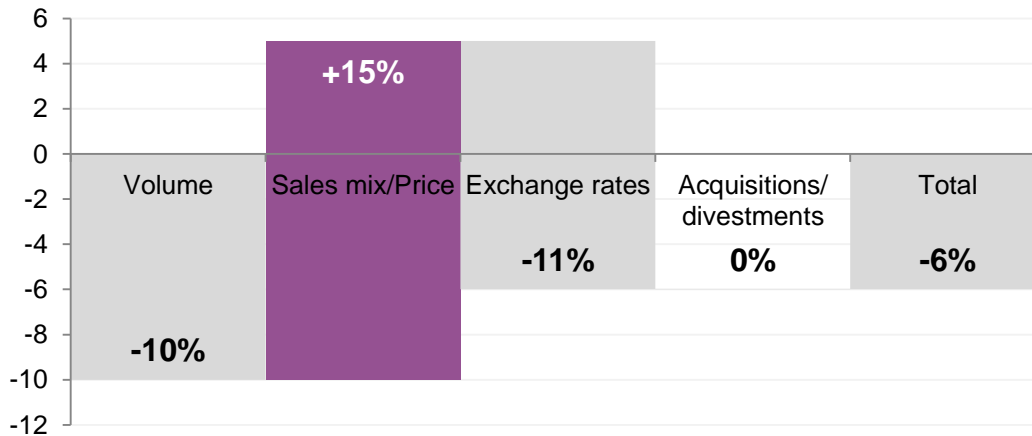
ISO Paint ClimateCooler™ roof coating reflects the rays of sunlight, which saves energy and extends the life cycle of the roof. In addition, the surface is self-cleaning.

SBU East Q3/2014

EUR million	7–9/2014	7–9/2013	Change %	1–9/2014	1–9/2013	Change %	1–12/2013
Revenue	79.2	84.1	-5.9%	199.8	216.0	-7.5%	264.4
EBIT*	14.4	11.7	23.1%	26.2	23.6	11.1%	24.7
EBIT*, %	18.2%	13.9%		13.1%	10.9%		9.3%

Revenue development Q3/2014 vs. Q3/2013

Increase/decrease, %



* Excluding non-recurring items

Q3/2014 highlights

- Sales volumes declined in Russia due to weak economic situation
- Weak currencies had a significant negative impact on revenue
- Favorable sales mix development, higher productivity, and cost savings clearly improved relative profitability

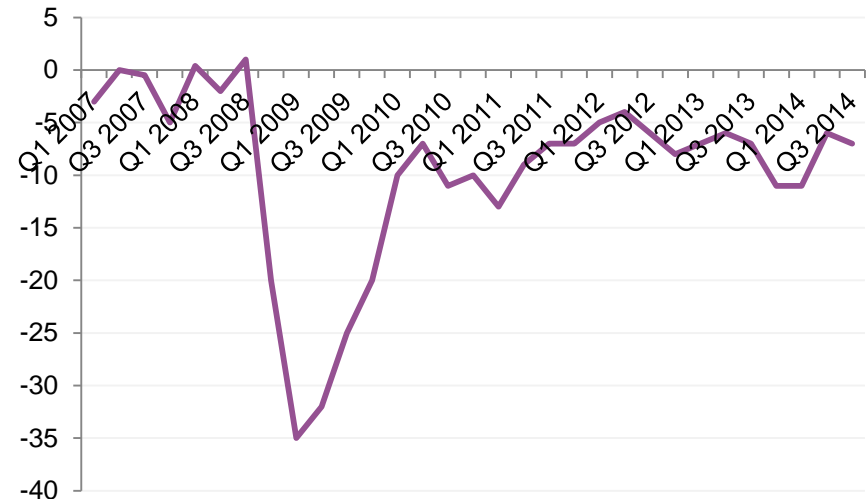
Economic situation deteriorates in Russia

EUR RUB exchange rate



- Russian ruble has been depreciating during the past few months due to e.g. decreasing oil price

Russian consumer confidence



- In the third quarter, consumer confidence weakened and private consumption slowed down



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Conclusions and outlook

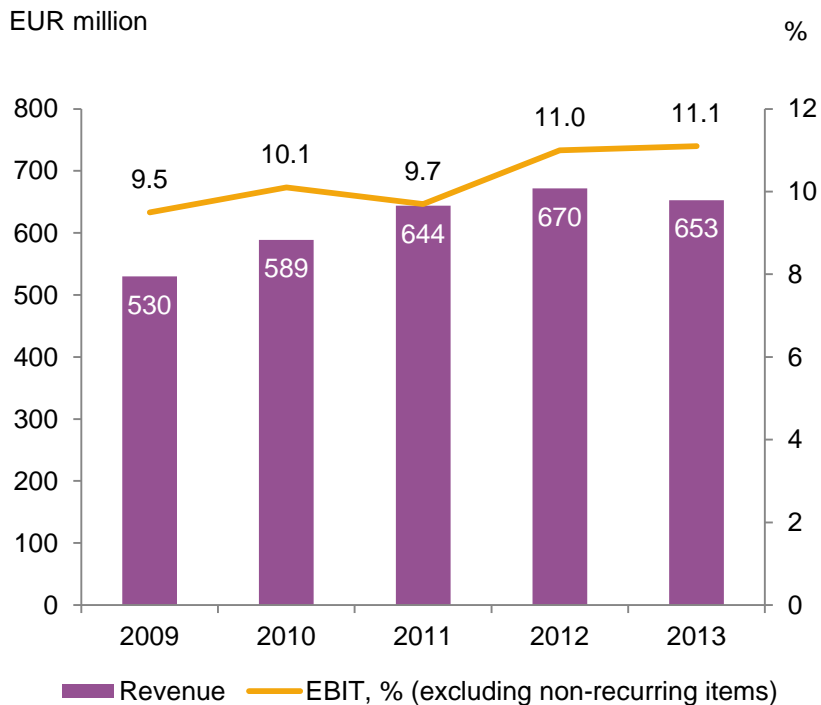


Conclusions

- General economic development continued to be weak in Tikkurila's operating area
- Comparable revenue for the third quarter was on last year's level
- Measures to boost sales volumes will be continued in all market areas
- Profitability remained on a good level

Guidance for 2014 intact

Revenue and profitability of Tikkurila 2009–2013



Outlook and guidance for 2014

For the last months of 2014, the economic growth is expected to be weak in Tikkurila's key market areas. Considerable regional differences are forecasted between Tikkurila's different markets in private consumption and construction volumes in 2014, but overall growth is estimated to remain low. Based on these estimates, no considerable change is expected in the demand for Tikkurila's products compared to last year. Cost inflation is expected to continue, and investments in sales, marketing and innovation activities are forecasted to increase the fixed cost level. Raw material prices are forecasted to remain stable.

Tikkurila expects its revenue and EBIT excluding non-recurring items for the financial year 2014 to remain at the 2013 level.



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Appendix

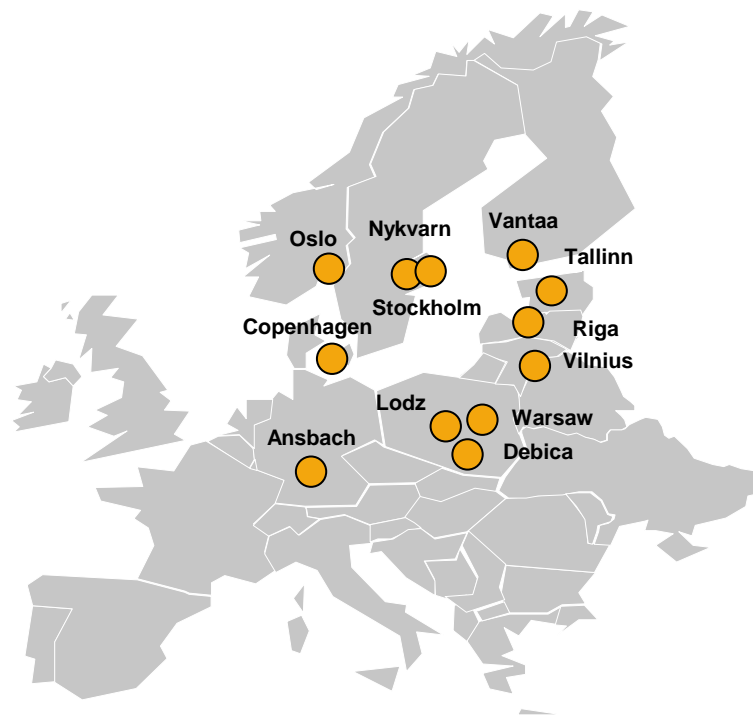
Tikkurila Strategic Business Units (SBU)

	SBU West	SBU East
Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania	Russia, Central Asian countries, Ukraine, Belarus, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
Production sites	Nykvarn, Sweden Vantaa, Finland Debica, Poland Ansbach, Germany Tallinn, Estonia	St. Petersburg, Russia Stary Oskol, Russia Kiev, Ukraine Sabac, Serbia
Current demand structure	Premium and medium price and quality segment products	Economy price and quality segment products
Expected demand structure	Premium and medium price and quality segment products	Premium price and quality segment products expected to rise
Competitors	Akzo Nobel, PPG, Flügger, Jotun, Sherwin-Williams, Teknos, Nor-Maali, Sniezka	Akzo Nobel, Lakra-Sintez, Empils, ABC-Farben, Meffert, Caparol
Distribution channels	Deco: DIY retailers, independent retailers, Alcro professional stores, wholesalers Industry: direct sales, Temaspeed	Deco: DIY retailers, independent retailers, wholesalers Industry: direct sales, Temaspeed

SBU West key facts

Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania
2013 revenue	EUR 388.6 million, 59.5% of Group
EBIT 2013 ¹⁾	EUR 50.9 million, 67% of Group ²⁾
Employees	1,537 (at year-end)
Production sites	Nykvärn, Sweden; Vantaa, Finland; Debica, Poland; Ansbach, Germany; Tallinn, Estonia
Development in West	<p>1862 Tikkurila founded in Finland</p> <p>1865 Beckers founded in Sweden</p> <p>1906 Alcro founded in Sweden</p> <p>1930 Customer training started in Finland</p> <p>1958 Color card development and color advisory service started in Finland</p> <p>1970 Monicolor tinting system launched in Finland</p> <p>1992 Paint production started in Estonia</p> <p>1995 Sales company established in Lithuania</p> <p>2000 Maailinja customer helpline launched in Finland</p> <p>2001 Acquisition of Alcro-Beckers in Sweden</p> <p>2001 Production plants in Germany and Poland</p> <p>2003 Customer training center Paletti opened in Finland</p> <p>2007 New production plant in Nykvärn Sweden</p> <p>2009 Avatint tinting system launched</p> <p>2012 Divestment of subsidiaries in Hungary, Czech Republic, Slovakia, and Romania</p>

SBU West locations



1 Excluding non-recurring items
2 Excluding group items

SBU East key facts

Operational area	Russia, Central Asian countries, Ukraine, Belarus, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
2013 revenue	EUR 264.4 million, 40.5% of Group
EBIT 2013 ¹⁾	EUR 24.7 million, 32.7% of Group ²⁾
Employees	1,565 (at year-end)
Production sites	St. Petersburg, Russia (3) Stary Oskol, Russia Kiev, Ukraine Šabac, Serbia

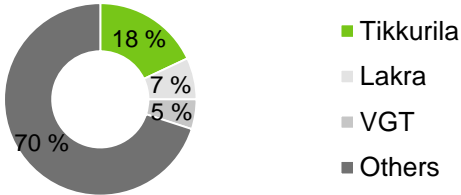
Development in SBU East

1970s	Export to Russia and the former Soviet Union started
1994	Sales company in Russia
1995	First western paint factory opened in St. Petersburg
1998	Sales company OOO Tikkurila Coatings established
2004	Acquisition of Kolorit in Ukraine
2006	Acquisition of Kraski Teks
2006	Sales company established in Kazakhstan
2007	Sales company established in China
2008	Sales company established in Belarus
2009	Completion of logistic centre in Mytishchi, Moscow region and new water-borne production lines to Obukhovo site in St. Petersburg
2011	Divestment of the powder coatings business
2011	Acquisition of the business of Serbian Zorka Color
2012	Expansion of sales and ware house network in Russia



1 Excluding non-recurring items
2 Excluding group items

Tikkurila in Russia

2013 revenue	EUR 204 million, 31% of Group
Brands	 <p>The diagram shows three brands on a spectrum from PREMIUM to ECONOMY. From left to right: TIKKURILA (with a crown icon), FINNCOLOR (with a green leaf icon), and ТЕКС (in a blue rounded rectangle). An arrow points from left to right below the brand names.</p>
Production	<p>Production sites in St. Petersburg (3) and Sary 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	 <p>Legend:</p> <ul style="list-style-type: none"> Tikkurila (18%) Lakra (7%) VGT (5%) Others (70%) <p>Source: Chem-Courier, 2014 (volume)</p>





In the long run, many factors support the good development of business operations in Russia

- Approximately half of Tikkurila's production capacity is located in Russia.
- Tikkurila's operations cover the entire nation. Products are sold in more than 5,000 retail outlets in different parts of the country.
- Rise of the middle class increases paint consumption and boosts quality consciousness.
- Brand awareness is high and growing. Tikkurila is by far the most well-known paint brand in Russia.

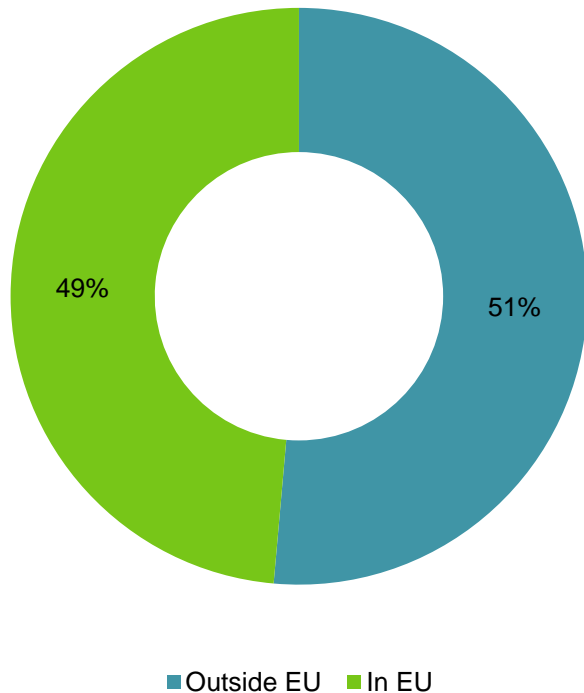
Paint consumption on Tikkurila's markets, liters per capita



Source: Tikkurila, market data

In good position to grow further in our operating area

Tikkurila's production capacity



Production and raw materials

- 11 production facilities in 8 countries
- Local production increases flexibility, clear advantage especially during unstable market conditions
- Production of water-borne products increasing; ~70% of production
- Raw material prices affected mainly by oil prices, supply capacity and currencies
- ~75% of raw materials from western suppliers, in Russia ~50% of raw materials from local suppliers
- Chemical legislation sets restrictions on paint import to the EU region from the third countries

Investor and media contacts



Erkki Järvinen

President and CEO



Jukka Havia

CFO



Minna Avellan

Manager, Investor Relations

minna.avellan@tikkurila.com

Tel. +358 40 533 7932



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TO COLOR YOUR LIFE.™