



Tikkurila in Russia

Danske Bank Markets
Russia, March 12, 2014

TIKKURILA

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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:

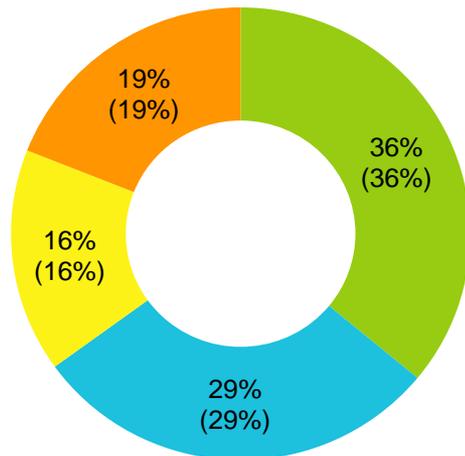
Decorative paints, industrial wood and metal coatings, customer training, comprehensive advisory service (e.g. Customer hotline), Designer and Contractor Pool etc.

Tikkurila's locations



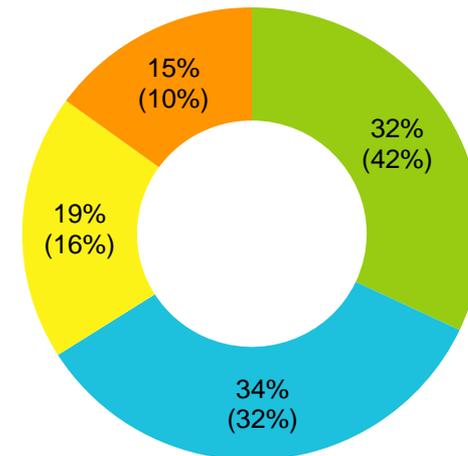
Revenue and EBIT split in 2013

Revenue by reporting segment



■ East ■ Scandinavia ■ Finland ■ CEE

EBIT* by reporting segment



■ East ■ Scandinavia ■ Finland ■ CEE

Revenue totaled EUR 653 million and EBIT* EUR 73 million

Number of employees was 3,100 at year-end

Decorative paints accounted for 84% and industrial coatings 16% of revenue

* Excluding non-recurring and Group items

Tikkurila market shares and positions in decorative paints in key markets in 2012



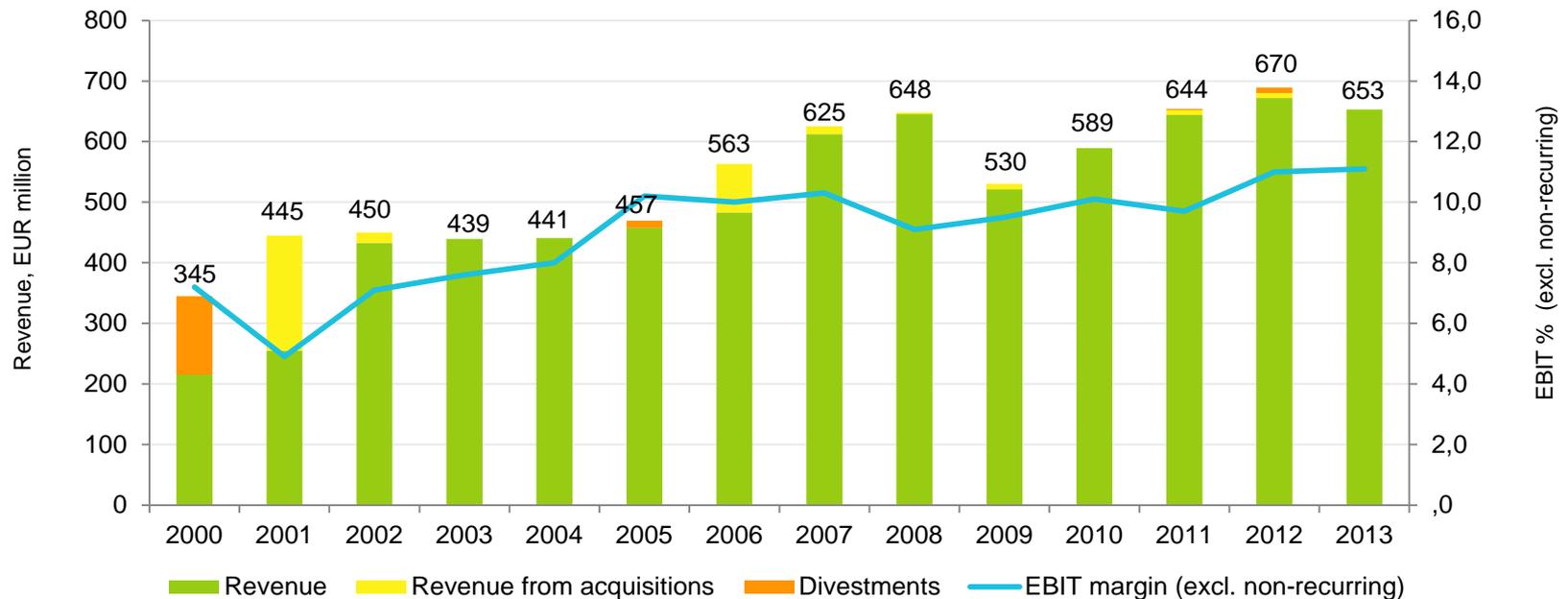
Source: Chem-Courier (Russia, volume), SVEFF (Sweden, value), Association of Finnish Paint Industry (Finland, value), IRP Research (Poland, volume)

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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Tikkurila's strategy for 2013–2015

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

The leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area as well as in Russia and other selected Eastern European countries.

Growth

Organic
Well-targeted acquisitions

Profitability

Resilience
Realignment
Agility

Focusing

Customers
Geographic area
Brands



trustworthy



innovative



professionals

Sources for revenue growth





Tikkurila in Russia

Tikkurila in Russia

Facts about SBU East	
Operational area	Russia, other CIS countries, Ukraine
2013 revenue	EUR 231.9 million, 36% of Group Russia ~90% of SBU East revenue
2013 EBIT*	EUR 24.3 million, 32% of Group
Personnel	1,425 (on average in 2013)
Production sites	Russia (3) and Ukraine (1)
Retail	Tikkurila's products are sold in more than 5,000 retail outlets
Paint consumption	~5-7 liters per capita
Current demand structure	Economy and medium segments dominating, premium segment expected to grow fastest



*Excl. non-recurring items

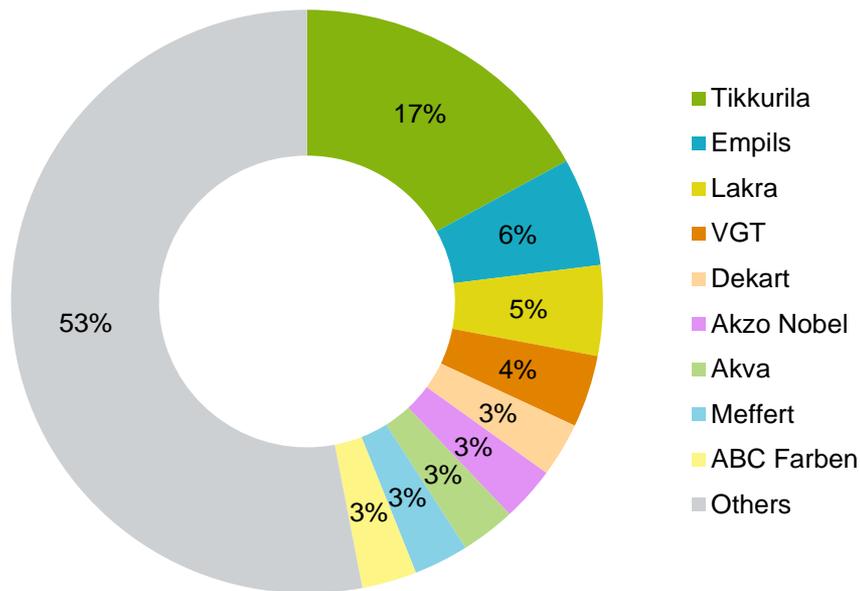
Good coverage of operations



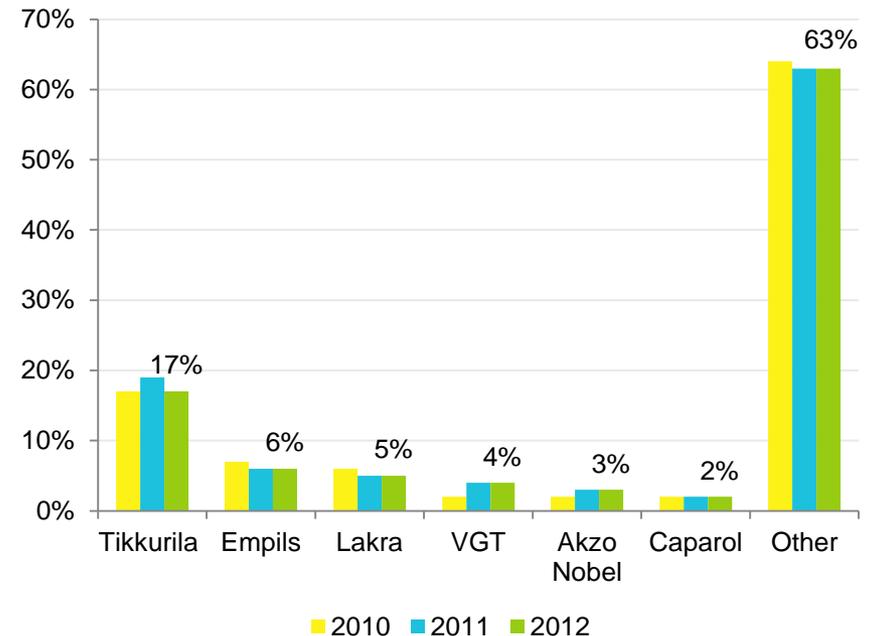
- Tikkurila sales function has regional structure with more than 200 employees
- Tikkurila has established long term partnerships with local customers
- Tikkurila's office and warehouse network has been expanded in 2012 and 2013

Russian paint market is fragmented and there have been no major changes recently

Russian decorative paint market shares in 2012



Market share development in Russia in 2010–2012

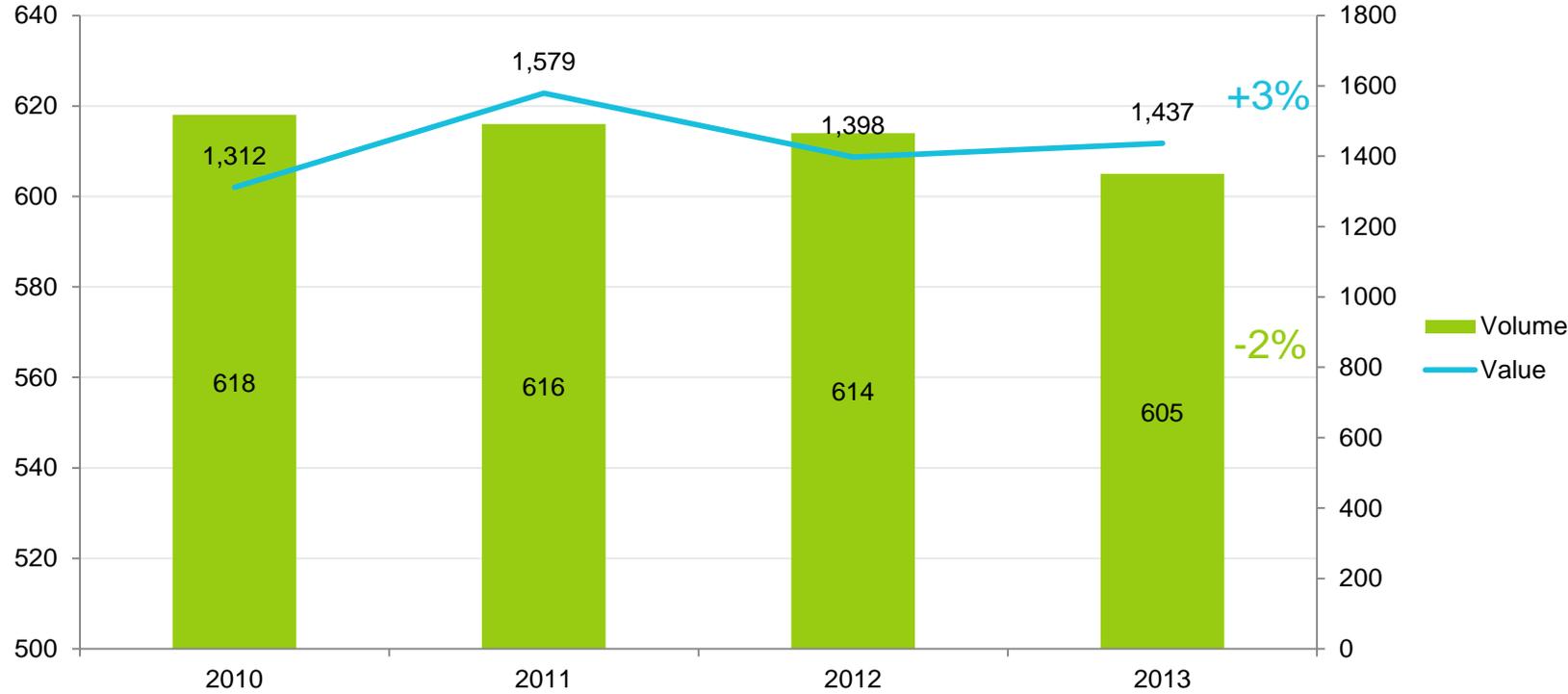


*Source: Chem-Courier 2012 (volume)

Paint market development in Russia

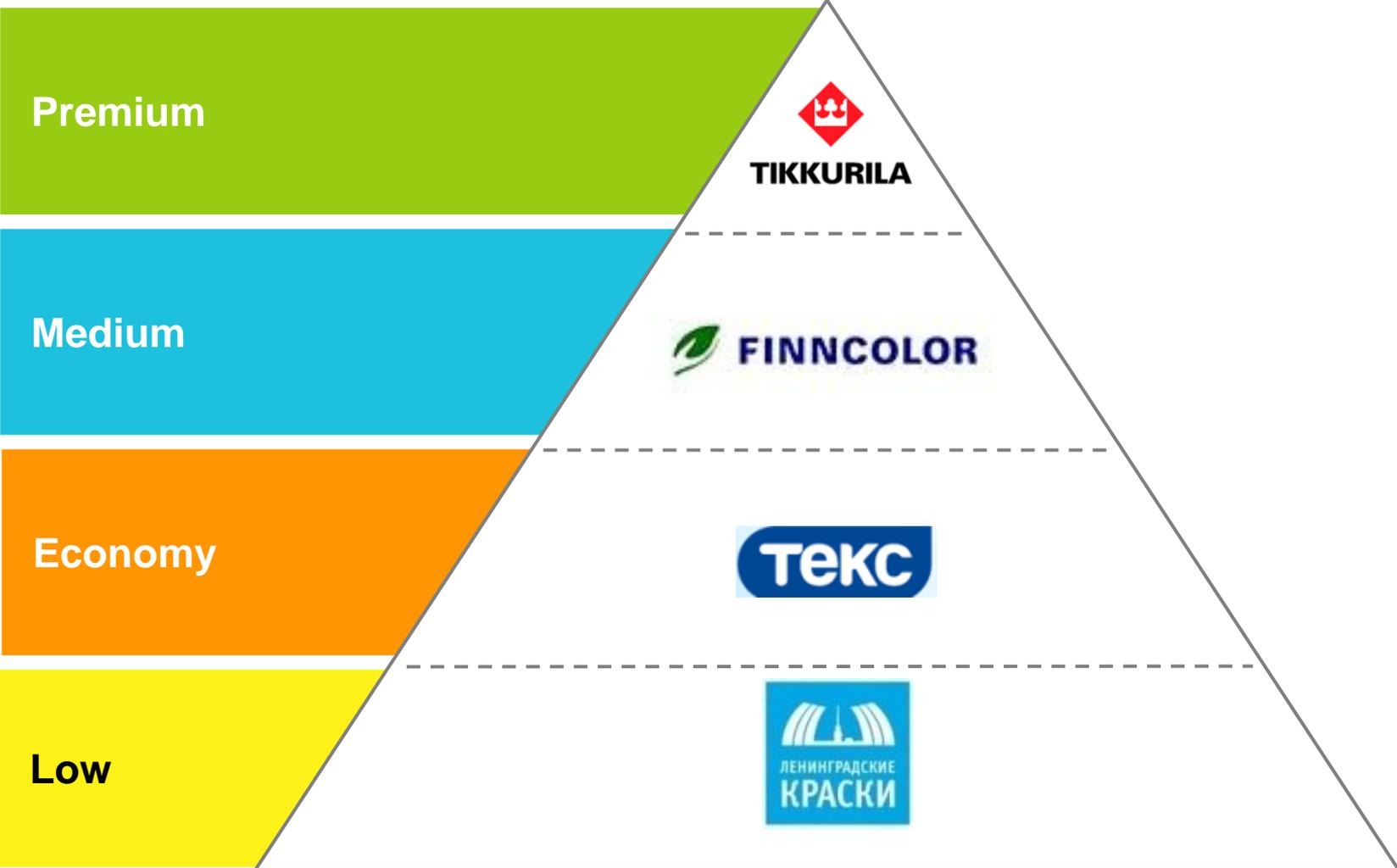
Million liters

EUR million

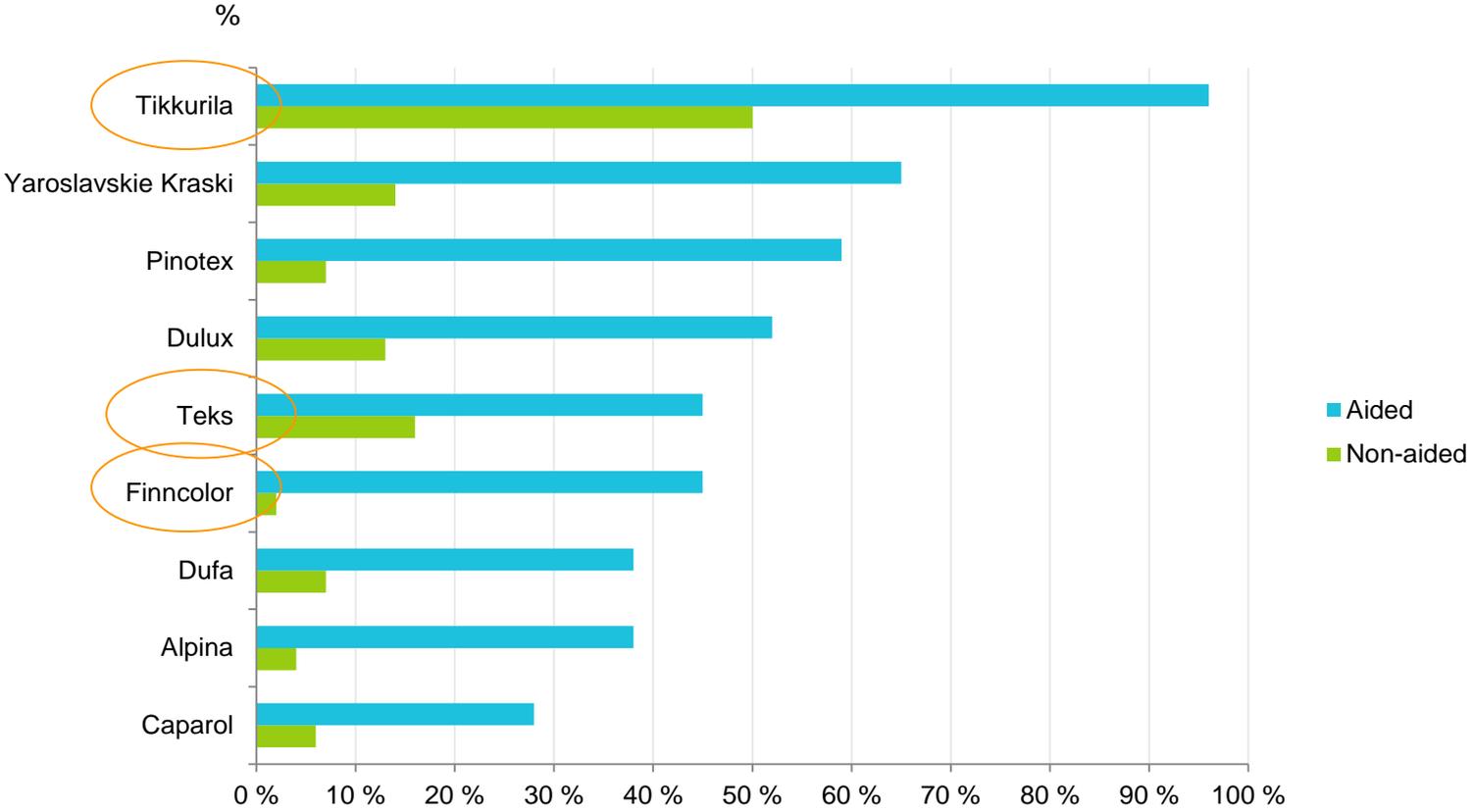


Source: Chem Courier

Tikkurila brand positioning in Russia



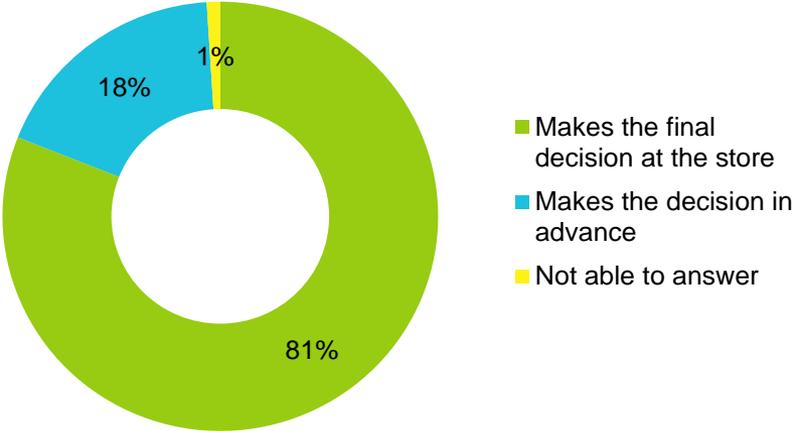
Tikkurila brand awareness is high in Russia



Brand awareness in Russia
*Source: Gfk consumer research (Russia 2012)

Point of sale marketing is of utmost importance

Decision is made at the store

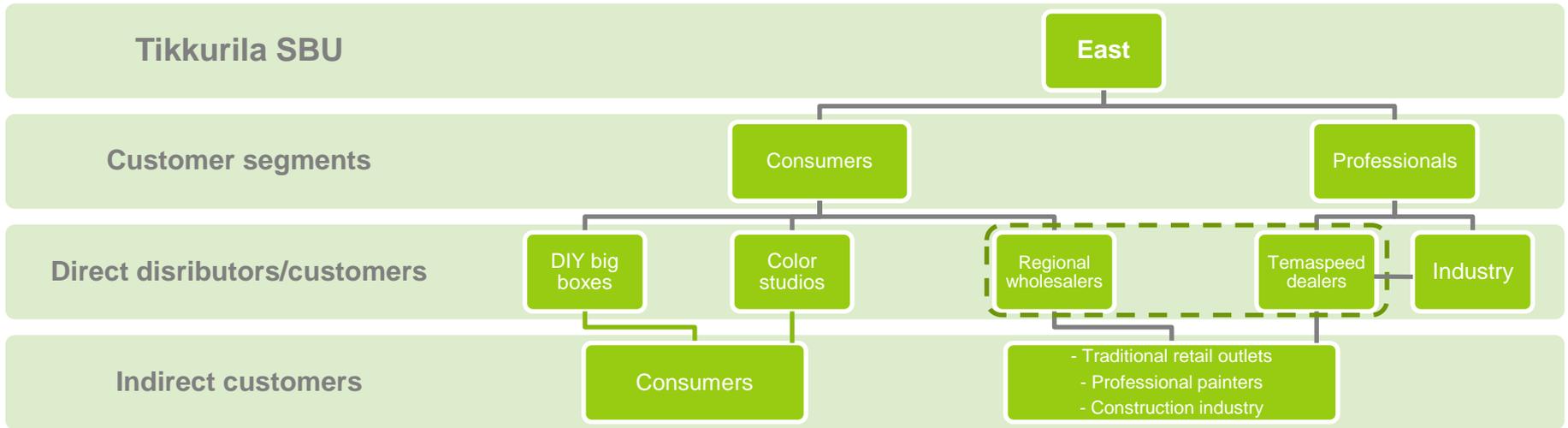


Factors impacting choice

- Quality
- Price
- Color palette

Source: Gfk consumer research (Russia 2012)

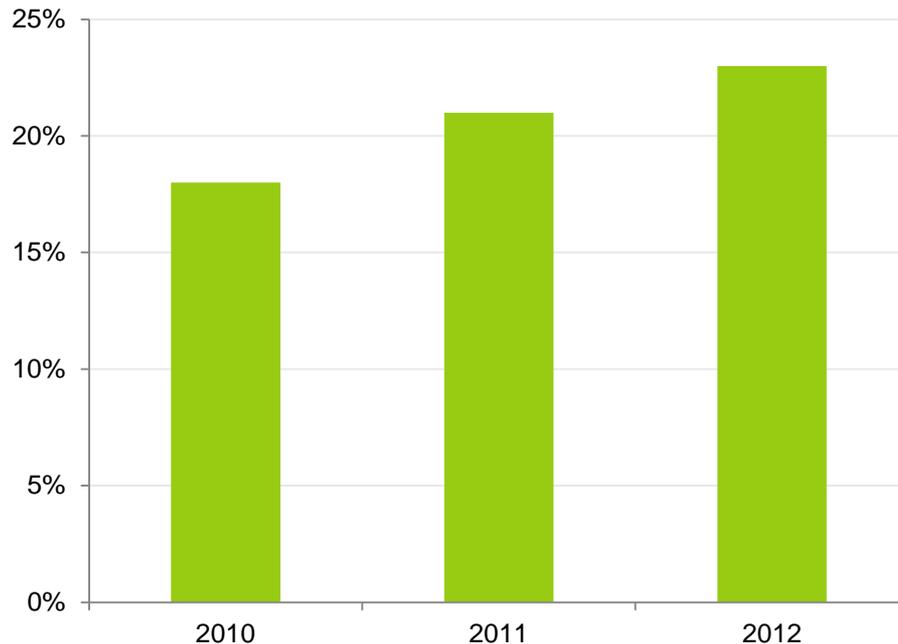
Distribution channels in SBU East



- High share and number of distributors
- Chains are increasing slowly
- Both international and local big boxes
 - Located only in the central parts of Russia, i.e. in big cities
 - Low coverage of regions
- Tikkurila is present in all channels and has a long history of cooperation with the customers

Tikkurila aims at diversifying its distribution in Russia

Big boxes' share of Tikkurila sales in Russia



- Tikkurila's products are sold through more than 5,000 retail outlets
- Big boxes are increasing their market share slowly
- Majority of Tikkurila sales go through distributors but their relative share is decreasing
- Tikkurila aims at balanced development of different distribution channels

More active role in distribution to support growth

Tikkurila's new paint shop concepts

Color Studio



- For consumers and designers
- Brand offering: Tikkurila
- First shop opened in St. Petersburg in May 2013

Profe Shop



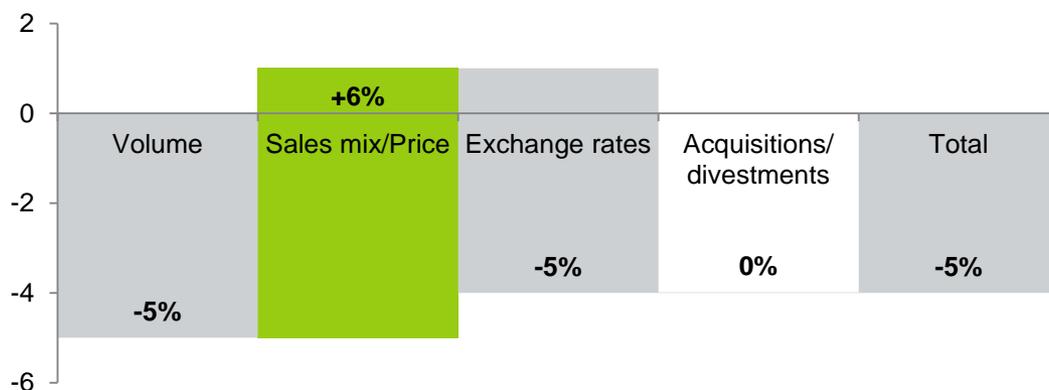
- For small-scale construction professionals
- Brand offering: Tikkurila, Finncolor, Teks and Tikkurila Coatings
- First shop opened in St. Petersburg in May 2013

SBU East 2013

EUR million	10-12/2013	10-12/2012	Change %	1-12/2013	1-12/2012	Change %
Revenue	41.7	44.6	-6.5%	231.9	242.8	-4.5%
EBIT*	1.3	2.6	-51.3%	24.3	32.5	-25.2%
EBIT*, %	3.1%	5.9%		10.5%	13.4%	

Revenue development 2013 vs. 2012

Increase/decrease, %



FY 2013 highlights

- Market sentiment deteriorated towards year-end in Russia
- Russian ruble weakened clearly
- Sales mix developed favorably
- Profitability was hampered by revenue growth and higher cost level

The figures on the graph above have been independently rounded to one decimal, which should be taken into account when calculating total figures.

* Excluding non-recurring items

Macro environment



Macro environment has been quite challenging

- GDP grew by 1.3% in 2013 (3.4% in 2012)
- Slowdown was driven by low investments and weak net exports
- Consumption has held up quite well, being the only bright spot
- GDP growth is estimated to be 2–3% in 2014, driven by recovery in investments and export, as well as consumption



Source: Rosstat, several sources

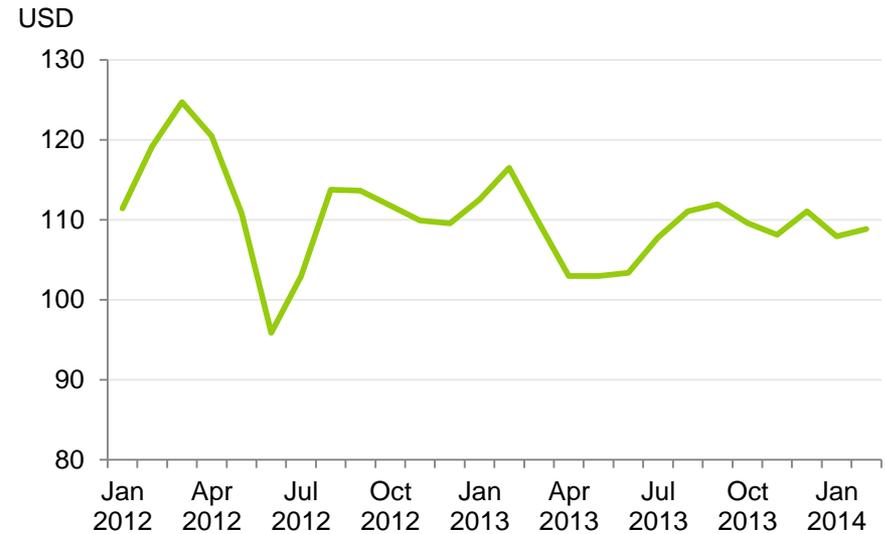
Major headwinds from foreign exchange rates

Euro ruble exchange rate



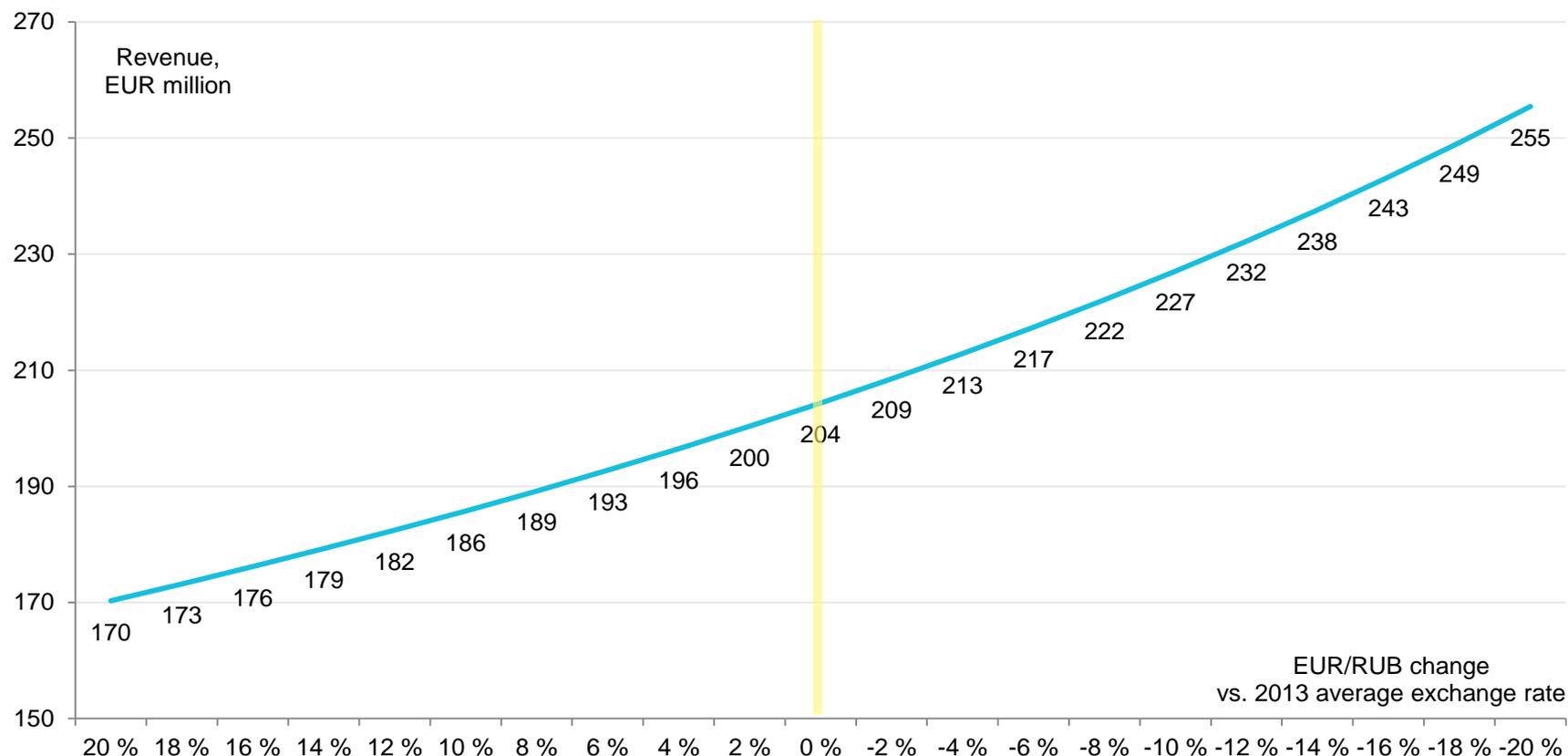
- Ruble exchange rate has clearly weakened during the past few months

Oil price development



- Oil price has held up pretty well

Effect of EUR/RUB exchange rate changes on the revenue development in Russia



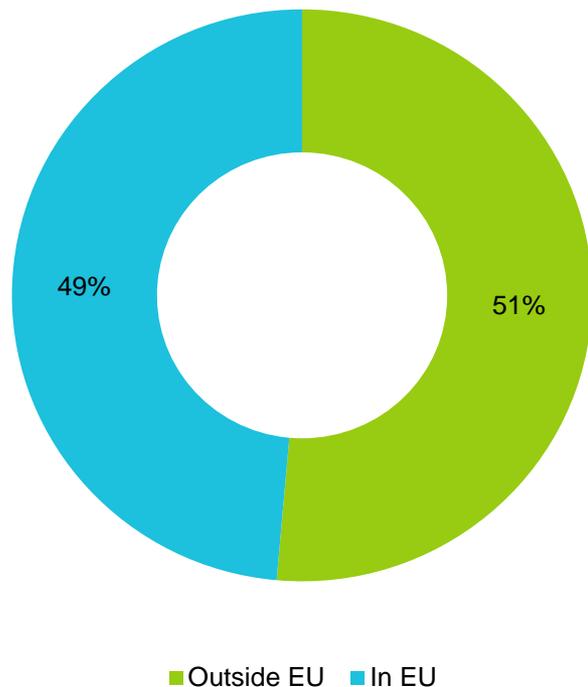
Graph is based on the actual revenue for Tikkurila in Russia in 2013 (EUR 204 million)

Annual average EUR/RUB rate as quoted by the Bank of Finland in 2013 has been used as the basis for the calculation (EUR/RUB 42.34)

Graph is a simplified illustration

In good position to grow further in Russia, other CIS Countries and CEE countries

Tikkurila's production capacity



Production and raw materials

- 11 production facilities in 8 countries
- Local production increases flexibility, clear advantage specially during unstable market conditions
- Production of water-borne products increasing; ~60% of total, ~70% of decorative paints
- 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

Near-term focus in Russia to support growth

- Upgrading product mix towards higher quality and environmentally sound paints
- Boosting particularly point of sale marketing efforts
- Increasing the sales of paint-related services (design services, painting work etc.)
- Streamlining our distribution structure and Increasing the amount and geographical scope of our Color studios and Profe shops
- Evaluating certain supply chain related investments



Thank you!

