Half year financial report January-June 2018

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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.

Contents

Development during the review period

Second quarter highlights

- Euro-denominated revenue decreased by 5%, but grew by 3%, excluding currency effects and divestments.
- Sales volumes increased in all key countries.
- Adjusted operating profit increased by 8%. Fixed expenses decreased. Sales price increases were not sufficient to compensate for the higher raw material costs.
- Efficiency program is proceeding as planned. Additional actions are coming for the latter year-half.

Cost discipline

Volumes

Sales prices

Delivery reliability

Raw material inflation

Currencies

Review period key figures

EUR million	4–6/2018	4–6/2017	Change %	1–6/2018	1–6/2017	Change %	2017
Revenue	**173.7**	183.2	-5.1%	**303.8**	320.2	-5.1%	582.4
Adjusted operating profit	**21.5**	20.0	7.8%	**25.1**	25.2	-0.2%	28.8
Adjusted operating profit, %	**12.4%**	10.9%		**8.3%**	7.9%		4.9%
EBIT	**21.2**	20.0	6.0%	**21.1**	25.2	-16.1%	19.3
EBIT, %	**12.2%**	10.9%		**7.0%**	7.9%		3.3%
EPS, EUR	**0.35**	0.28	22.9%	**0.30**	0.41	-26.7%	0.24
ROCE, %, rolling	**5.0%**	12.9%		**5.0%**	12.9%		6.3%
Cash flow after capital expenditure	**-6.5**	-33.4	80.6%	**-52.1**	-63.9	18.5%	4.4
Net interest-bearing debt at period-end				**157.3**	157.2	0.0%	90.1
Gearing, %				**104.6%**	83.3%		50.2%
Equity ratio, %				**28.1%**	34.8%		42.0%
Personnel at period-end				**3,030**	3,228	-6.1%	3,037

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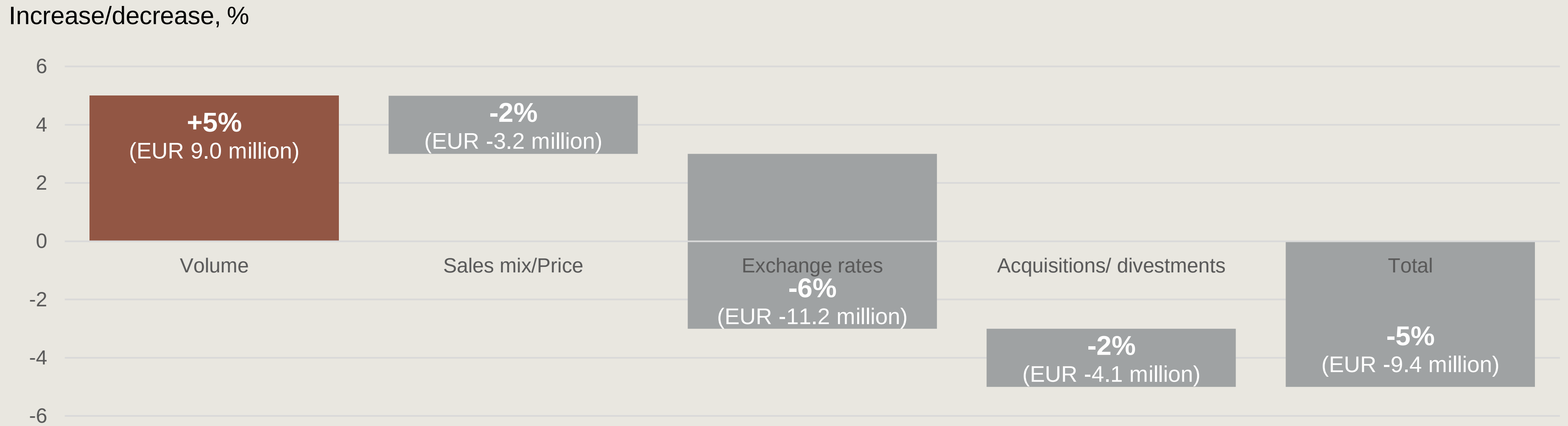
Revenue: clear headwind from currencies

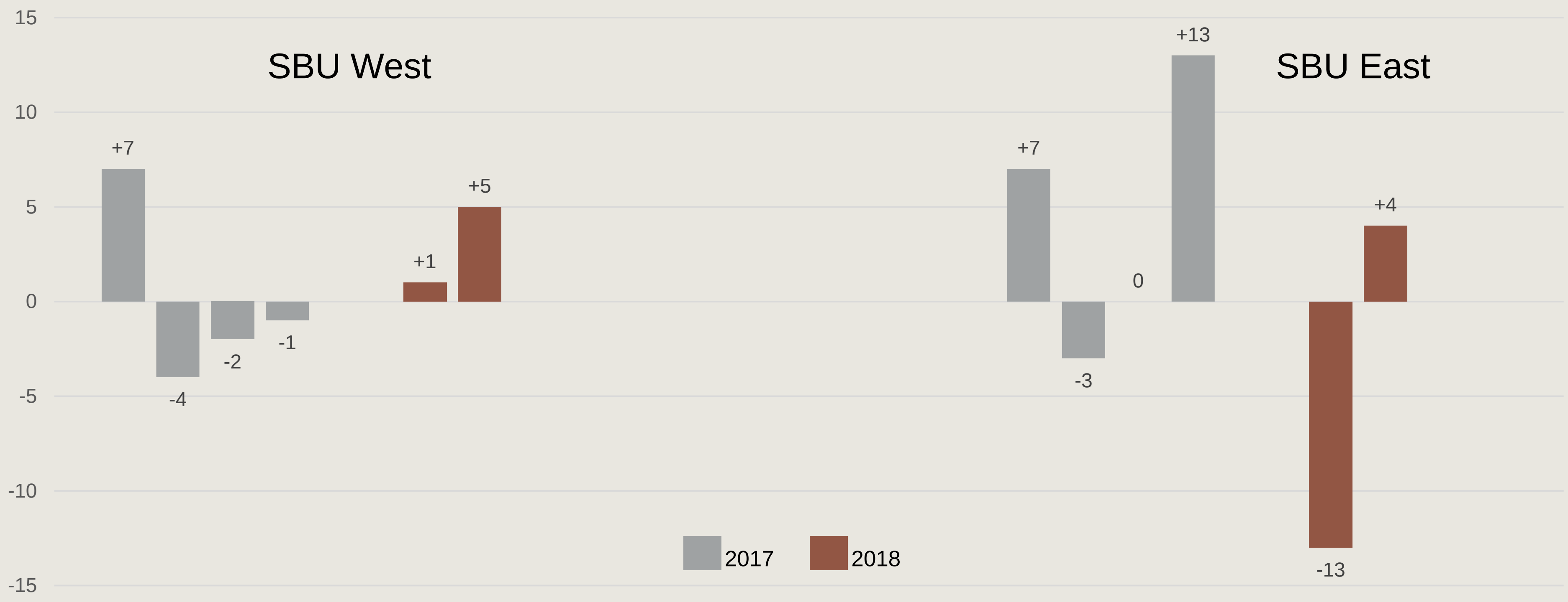
EUR million	4–6/2018	4–6/2017	Change %	1–6/2018	1–6/2017	Change %
Revenue	**173.7**	183.2	-5.1%	**303.8**	320.2	-5.1%

Group's revenue development Q2/2018 vs. Q2/2017



Volumes are increasing

Sales volume development by quarter, effect on revenue, % change from the comparison period



Delivery reliability improved, new ERP system brings benefits

Enables to harmonize functions and processes in the new, centralized organization and leading model

Harmonizes the systems and key processes

Increases transparency and improves reporting, which enables more efficient and faster steering

Provides capabilities to increase efficiency and further harmonize operations

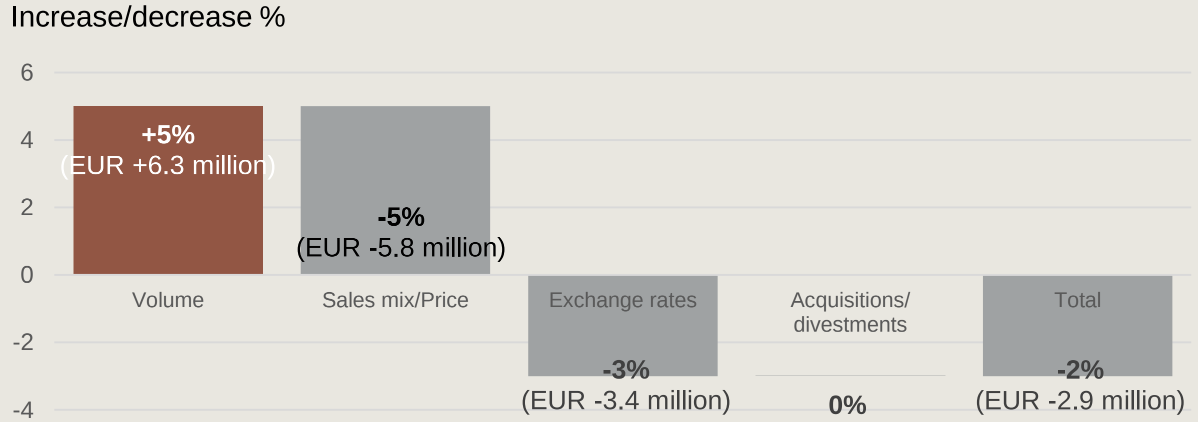
Risk management: previous systems were at the end of their life cycle

Strategic Business Units

SBU West Q2/2018

EUR million	4–6/2018	4–6/2017	Change %	1–6/2018	1–6/2017	Change %	1–12/2017
Revenue	**115.1**	118.0	-2.5%	**215.5**	216.9	-0.6%	379.8
Adjusted operating profit	**16.2**	15.5	4.5%	**23.5**	22.6	4.1%	18.1
Adjusted operating profit %	**14.1%**	13.2%		**10.9%**	10.4%		4.8%

Revenue development Q2/2018 vs. Q2/2017



Q2/2018 highlights

- Revenue remained unchanged excluding the currency effect
- Sales prices were increased but not enough to compensate the raw material inflation
- The unfavorable sales mix was due to distribution channel changes in Sweden and growth of the relative share in professional and industry customers
- Reduced fixed expenses improved profitability

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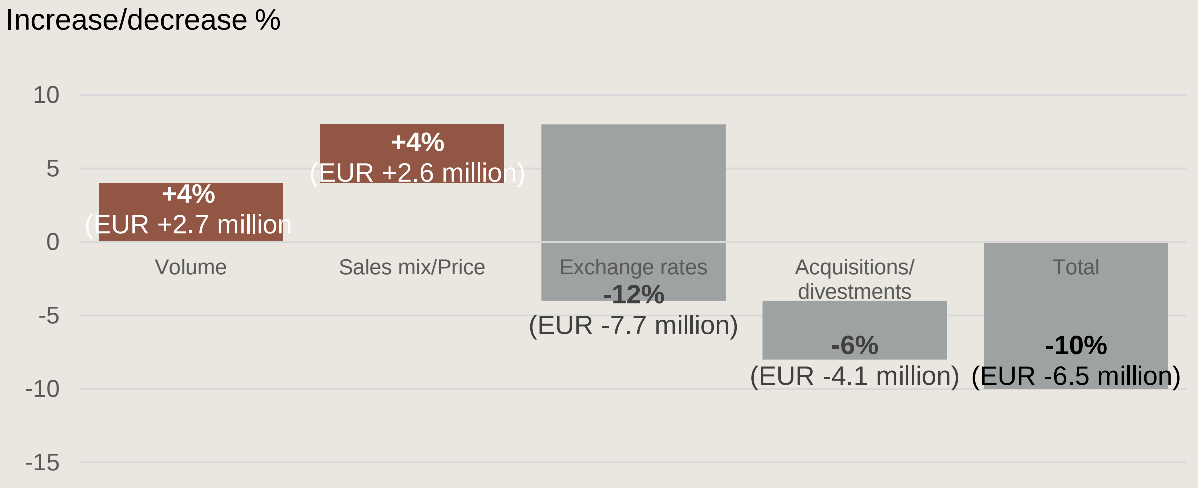
SBU East Q2/2018

EUR million	4−6/2018	4−6/2017	Change %	1–6/2018	1–6/2017	Change %	1−12/2017
Revenue	**58.7**	65.2	-10.0%	**88.3**	103.3	-14.5%	202.6
Adjusted operating profit	**6.8**	6.4	6.3%	**4.1**	5.4	-23.6%	15.2
Adjusted operating profit %	**11.7%**	9.9%		**4.7%**	5.2%		7.5%

Revenue development Q2/2018 vs. Q2/2017



Q2/2018 highlights

- Revenue increased by 8% excluding the currency effects and divestments
- Sales prices were increased but not enough to compensate the raw material inflation
- The relative share of premium products of sales increased
- Increased sales volumes, hikes in sales prices and favorable sales mix development had a positive effect on profitability

Proceeding of efficiency program and strategic actions

The way forward: clarity, direction, focus

EFFICIENCY
- Structure and processes
- Production footprint
- Harmonization of portfolio and operations
- Sourcing

GROWTH
- Sales price increases
- Market growth
- Common sales processes

LEADERSHIP AND UNIFIED CULTURE
- Direction and expectations
- Continuous improvement
- Performance management and measurement

STRATEGY
“Surfaces that make a difference”

- Positioning in the market
- Changes in the operating environment
- Strategic choices
- Innovations

CORPORATE CULTURE
Based on values and sustainability

VALUE PROPOSITION
”Nordic quality from start to finish”

VALUES

We are trustworthy

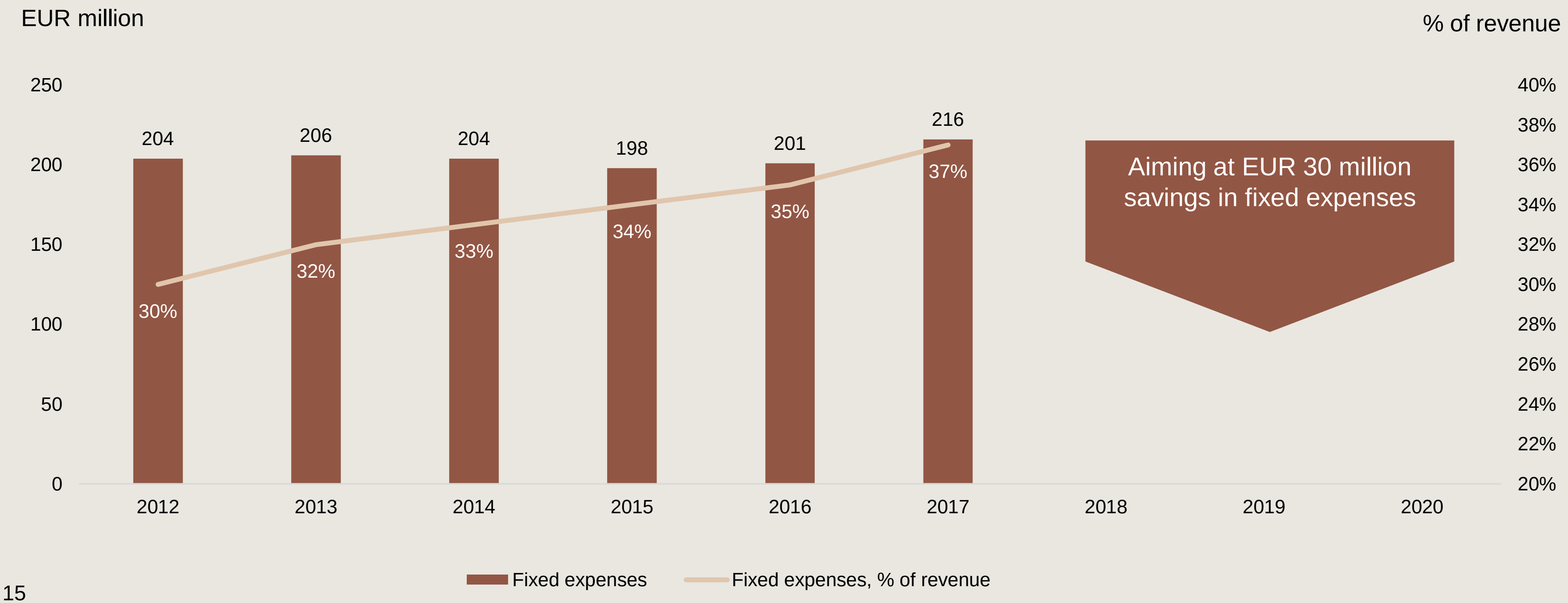
We are innovative

We are professionals

SHORT TERM **LONG TERM**

Absolute and relative share of fixed expenses of revenue has increased

Development of Tikkurila's fixed expenses and cost savings from the efficiency program



Program to boost profitability

1. Fixed expenses	• Tikkurila's planned headcount reduction will be around 15 percent, i.e. 500 employees, compared to the end of 2017. • Other fixed expense reduction
2. Optimizing the production network	Tikkurila has implemented several actions relating to optimizing production and logistics, and more are planned for the future. The factory project in Russia is progressing according to schedule.
3. Harmonizing the portfolio	Optimization of manufacturing formulas, raw materials and SKUs is underway at Tikkurila, the goal is to reduce the number of product titles by half by 2020, including the divestment of business operations.
4. Streamlining sourcing	Tikkurila has many opportunities to streamline both direct and indirect purchases. Other goals include reducing committed capital and seeking alternative raw materials and suppliers to boost competitiveness.
5. Sales management	The efficiency of sales management will be improved by introducing digital sales monitoring and management solutions, and through the automation of services.

Difficult actions are needed to improve competitiveness

Planned personnel reductions

As the result of closing down and divesting certain business operations and other headcount cuts, Tikkurila estimates that its personnel will be reduced by 15 percent, i.e. by 500 employees, compared to the end of 2017.

- Divestments and closing down of businesses -250 employees
- Estimated additional headcount reduction need -250 employees

The reductions are planned for 2018.

Tikkurila will begin the processes relating to the planned reduction in headcount in the forthcoming weeks. Different procedures and schedules will be used depending on the country in question.

EUR 30 million efficiency program will be implemented in 2018 − benefits will be visible in total in 2019

EUR 10 million in savings, to be realized in 2018 and 2019	EUR 20 million in savings, to be realized in 2019	Continuous improvement
Initiative: • Divestment of the Balkan business operations • Closing down the German business operations • Closing down the factory in Stary Oskol, Russia Costs: • Closing down the operations in Germany and planned headcount reductions are estimated to amount to approximately EUR 10 million costs affecting comparability in 2018	Initiative: • All in all around 15% lower headcount in comparison to the year-end 2017, incl. divestments • Other fixed expense reduction • Improved sales management efficiency • Streamlining sourcing • Optimization of the portfolio (raw materials, formulas, SKUs)	Initiative: • Optimization of the production network • Improved sales management efficiency • Streamlining sourcing • Optimization of the portfolio (raw materials, formulas, SKUs) • Process development and enhanced automatization

Efficiency program and strategy progressing

1. Structural and organizational change
2. Plan to construct a new factory in the St. Petersburg
3. Initiating the efficiency program
4. Updated strategy

2017

1. Divestment of the Balkan business operations
2. Initiating the optimization process of raw materials, formulas and SKUs
3. Clarification of roles and responsibilities

H1 2018

1. Closing down the German business operations
2. Closing down a factory in Russia (Stary Oskol) and other optimization of the production network
3. Planned Group-wide headcount reductions
4. Streamlining sourcing
5. Improving sales management efficiency
6. Unified culture

H2 2018

STRATEGY
"Surfaces that make a difference"

1. Strategic choices (taking changes in the operating environment into account)
2. Innovations
3. Continuous improvement
4. Sustainability in the core of our operations

2019 →

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Good prerequisites to return to profitable growth

WELL-KNOWN BRANDS

According to external surveys, Tikkurila Group’s strategic brands are either the best known or among the best-known paint brands in their respective market areas.

STRONG MARKET POSITION

Tikkurila is the market leader in decorative paints in Russia, Sweden, Finland and the Baltic countries.

SKILFUL EMPLOYEES AND HIGH CUSTOMER SATISFACTION

The NPS (Net Promoter Score) measured in a survey was very high. Positive feedback was especially given for our customer service and the quality of our products.

INSPIRING VISION AND MISSION

Surfaces that make a difference.

Nordic quality from start to finish.

Focusing on improving customer experience, differentiating with successful end-result

Customer segment	Share of revenue[1]	Key market trends	actions conducted in 2018
CONSUMERS 	**50%**	• Simplicity, easiness, digital solutions • Sustainability • Share of private labels increasing	• Increasing customer understanding • Updating brand strategies • Integrated marketing campaign to support exterior paint growth • Positioning and packaging renewal (Beckers) • Developing and implementing new retail concepts
PROFESSIONALS 	**35%**	• Volume growing due to urbanization and growing middle class • Higher price sensitivity • New generation painters, digital solutions	• Increasing customer understanding through customer segmentation • Clarifying ProClub service concept • Launching renewed mineral façade products • Launching new façade 760 color collection
INDUSTRY 	**15%**	• Metal infrastructure, PC (protective coatings) and power generation demand growing • Certified painting systems required • High price competition and complex customer needs in general Industry • OEM and interior wood segments	• Developing distribution network • Developing key accounts • New functional coatings (fire protection, anti-corrosion, weather durability)

1) Management estimate

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Surfaces that make a difference: Sustainability promises for 2018–2022

WE DRIVE OUR PORTFOLIO TOWARDS MAXIMIZED PERFORMANCE WITH MINIMUM ENVIRONMENTAL IMPACT.

WE IMPROVE AND PROTECT AIR QUALITY WITH OUR PRODUCTS AND PROFESSIONAL SERVICES.

WE DRIVE AT BETTER RESOURCE EFFICIENCY WITH QUALITY, SAFETY AND DURABILITY ON TOP OF OUR MINDS.

WE ARE A RESPONSIBLE AND ACTIVE PARTNER IN OUR COMMUNITIES.

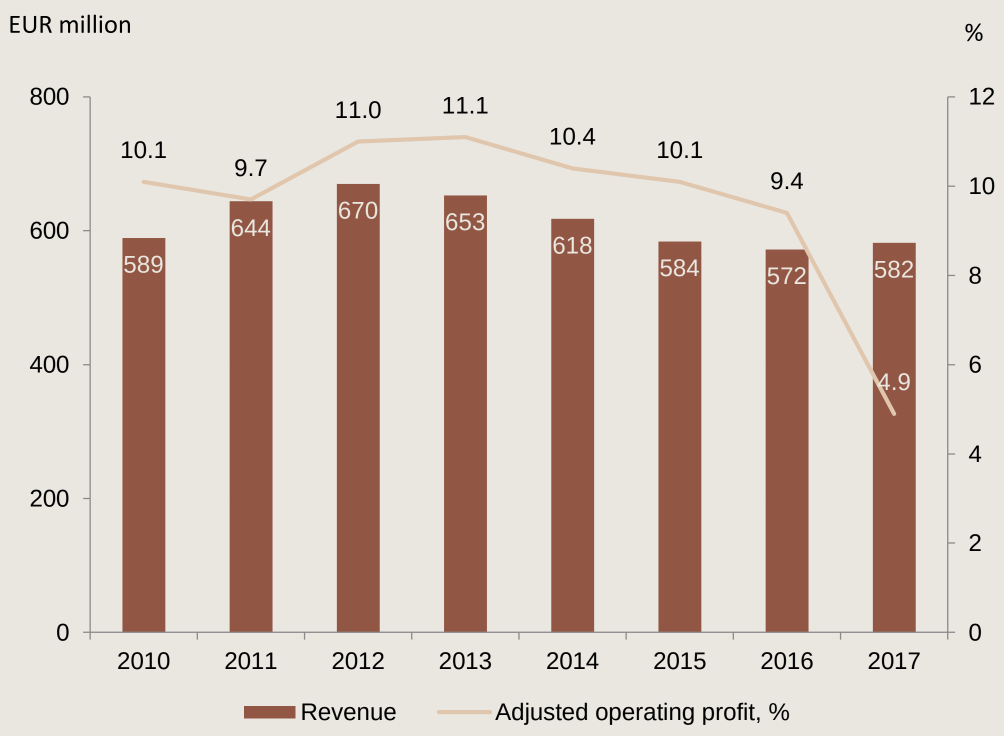
Conclusions and outlook

Conclusions

- Program to boost profitability is proceeding as planned, significant actions planned for the latter year-half
- Market outlook is fairly good for the rest of the year, positive volume development is expected to continue
- Raw material prices are anticipated to continue to rise, we will continue to increase our own sales prices

Guidance for 2018 intact

Revenue and profitability of Tikkurila 2010−2017



Outlook and guidance for 2018

The market outlook for the current year is relatively good, although uncertainty has increased in the housing market. Economic growth is anticipated to continue in Tikkurila's key markets and consumer confidence is high. The importance of professional segment is on the rise which will affect the sales split of the Tikkurila Group. The identified problems with the deployment of the ERP system have mostly been resolved, and inventory levels have been significantly raised in order to ensure deliveries.

The prices of raw materials and packaging materials are anticipated to continue rising during the remainder of the year. Some challenges with availability may also still occur. In order to compensate for increased costs, Tikkurila will continue to raise its sales prices and to take action to boost profitability.

Tikkurila's revenue is expected to remain at last year's level and adjusted operating profit to improve.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NORDIC QUALITY FROM START TO FINISH SINCE 1862.