



Half year financial report January-June 2017

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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.



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Development during the review period



Second quarter highlights

- Revenue increased by 2 percent due to sales price increases and changes in the sales mix as well as due to changes in the exchange rates
- Tikkurila was not able to fully meet the market demand due to the problems related to the ERP implementation and raw material shortages. Moreover, weather conditions were poor in the Nordic Countries and Russia
- Adjusted operating profit fell to 10.9 percent (Q2/2016: 15.8) of revenue. Profitability was weakened by decreased sales volumes and the costs being higher than in the comparison period. The costs were higher due to the increased raw material prices as well as the direct and indirect costs arising from the introduction of the new ERP system
- Cash flow was weakened by lower profitability and costs related to implementation of new ERP system. The growth in net working capital was primarily due to the increase in trade receivables
- Focus will be on bringing operations to the normal level. An extensive program to boost profitability has been initiated



Review period key figures

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	2016
Revenue	183.2	179.3	2.1%	320.2	309.8	3.4%	572.0
Adjusted operating profit	20.0	28.4	-29.6%	25.2	40.9	-38.4%	54.0
Adjusted operating profit, %	10.9%	15.8%		7.9%	13.2%		9.4%
EBIT	20.0	27.6	-27.7%	25.2	40.1	-37.2%	53.1
EBIT, %	10.9%	15.4%		7.9%	13.0%		9.3%
EPS, EUR	0.28	0.54	-47.7%	0.41	0.77	-46.6%	1.01
ROCE, %, rolling	12.9%	19.6%		12.9%	19.6%		18.5%
Cash flow after capital expenditure	-33.4	-23.2	-44.0%	-63.9	-56.7	-12.7%	22.7
Net interest-bearing debt at period-end				157.2	135.2	16.3%	58.7
Gearing, %				83.3%	70.2%		28.1%
Equity ratio, %				34.8%	36.6%		50.9%
Personnel at period-end				3,228	3,157	2.2%	3,033

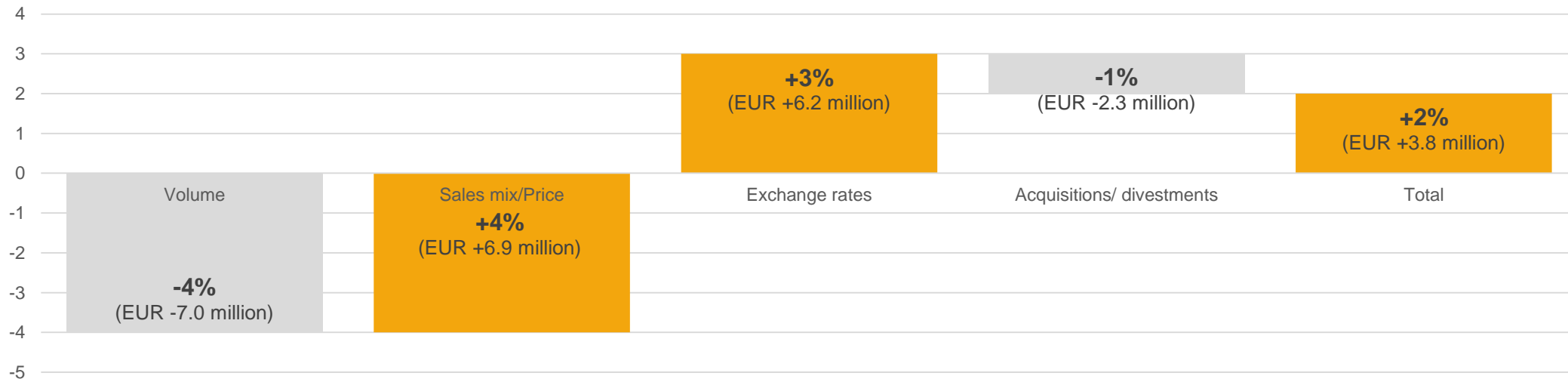


Poor weather and low supply chain reliability decreased volumes

EUR million	4–6/2017	4–6/2016	Change %	1–6/2017	1–6/2016	Change %
Revenue	183.2	179.3	2.1%	320.2	309.8	3.4%

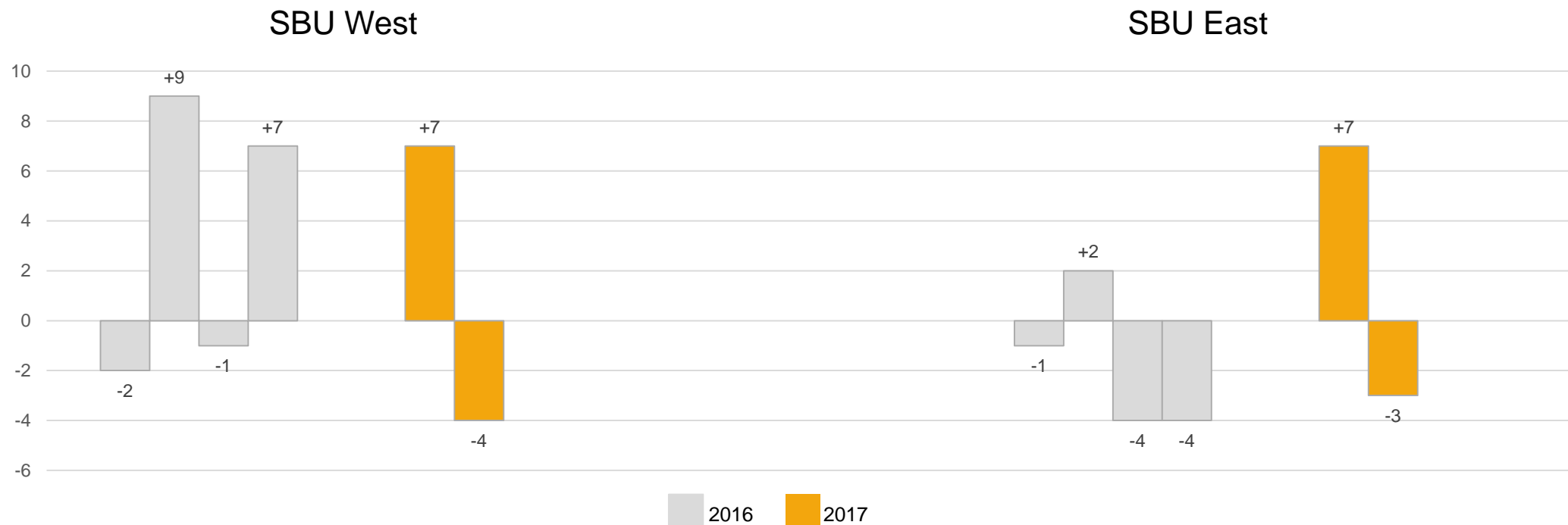
Group's revenue development Q2/2017 vs. Q2/2016

Increase/decrease, %



Tikkurila was not able to fully meet the market demand

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





Strategic Business Units

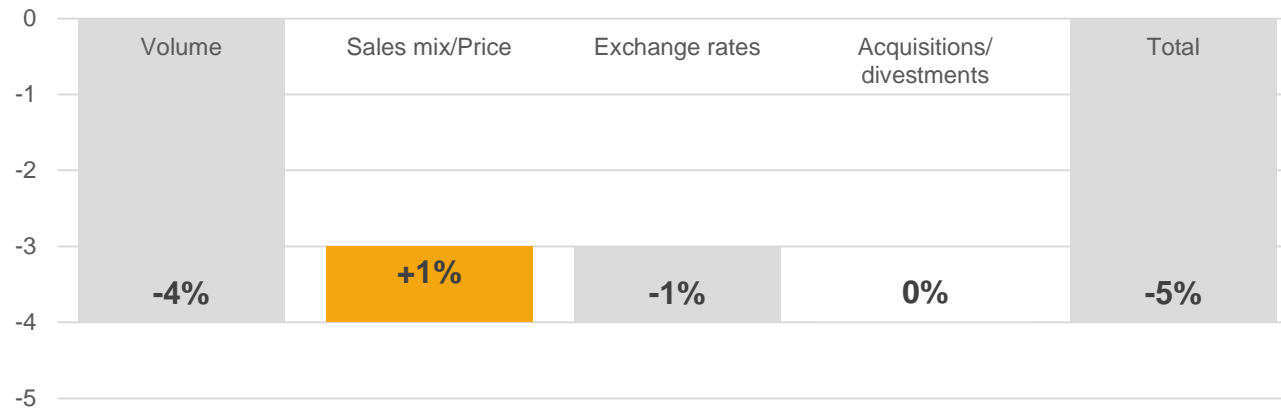


SBU West Q2/2017

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	1-12/2016
Revenue	118.0	123.5	-4.5%	216.9	223.1	-2.8%	395.2
Adjusted operating profit	15.5	22.2	-29.9%	22.6	36.4	-38.0%	45.3
Adjusted operating profit, %	13.2%	17.9%		10.4%	16.3%		11.5%

Revenue development Q2/2017 vs. Q2/2016

Increase/decrease, %



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

Q2/2017 highlights

- The decreased sales volumes were caused by poor weather conditions, lack of raw materials, and the introduction of a new ERP system
- Sales volumes decreased in Sweden and Finland, but improved well in Poland and the Baltic countries
- The weakened profitability was caused by decreased revenue and higher cost level

STREET ART ACROSS FINLAND

To celebrate the Finland 100 centenary, Tikkurila has donated murals across Finland. In addition, Tikkurila will compile the favorite colors of Finnish homes into a color card covering the whole of Finland. So far, more than 3,300 Finns have taken part in compiling the color card:

tikkurila.fi/suomi100

Mural in Tikkurila, Laurea University of Applied Sciences campus

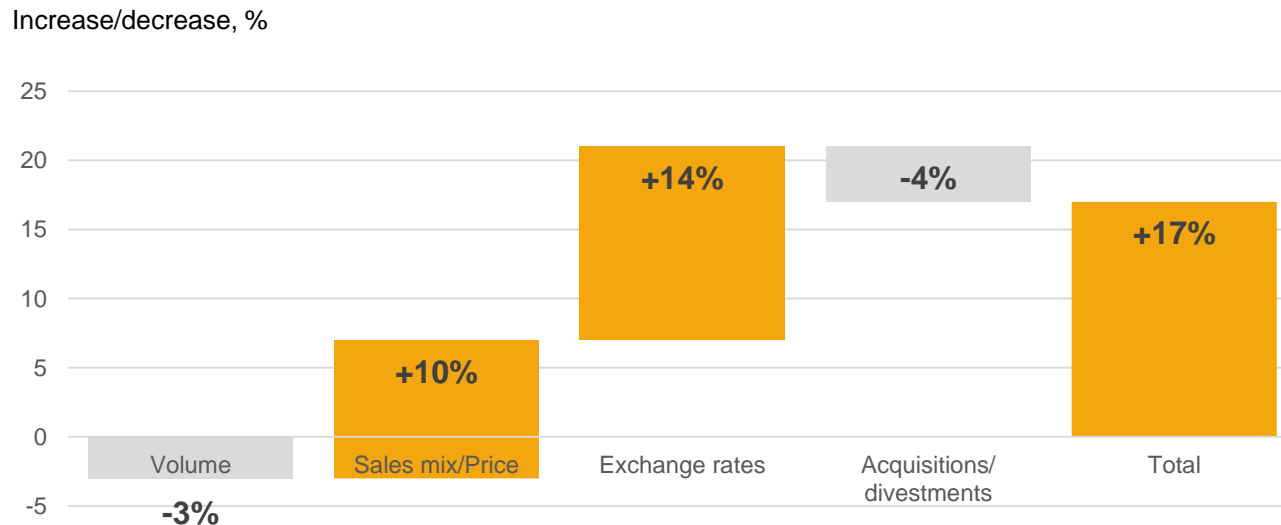




SBU East Q2/2017

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	1-12/2016
Revenue	65.2	55.8	16.8%	103.3	86.7	19.2%	176.8
Adjusted operating profit	6.4	7.6	-15.4%	5.4	7.0	-22.1%	13.4
Adjusted operating profit, %	9.9%	13.6%		5.2%	8.0%		7.6%

Revenue development Q2/2017 vs. Q2/2016



Q2/2017 highlights

- In Russia, demand was reduced by weather conditions and weakened purchasing power; development was good considering the market situation
- Stronger Russian ruble increased the euro-denominated revenue
- Sales prices were increased in Russia at the beginning of the year. Sales mix also developed favorably
- Profitability of SBU East deteriorated due to the higher cost level and China's weakened sales mix



NEW FACTORY IN RUSSIA

Tikkurila has signed a Letter of Intent to buy a seven hectare industrial site near St. Petersburg, Russia. The aim is to start the construction work of a greenfield factory in 2018. The annual capacity of the factory will be 30 million liters with an expansion possibility in the future. The new site will also include a Research, Development and Innovation (RDI) center as well as extensive warehouse premises for raw materials and finished goods with railway connection, which will improve and enhance the efficiency of Tikkurila's distribution facilities. The total investment amount will be around EUR 30-35 million depending on the final set-up. Design of the facility will start immediately and construction is scheduled to begin late next year. The production is set to commence in 2020. The new factory will produce decorative and industrial products and it will replace the two existing solvent-borne production units in St. Petersburg.

Conclusions and outlook

CONCLUSIONS

The economic situation in Tikkurila's key markets remained strong in Sweden and Poland, improved in Finland and stabilized in Russia. Tikkurila was not able to fully meet the market demand due to the problems related to the ERP implementation and raw material shortages

Significant upward pricing pressure has been imposed on raw material prices

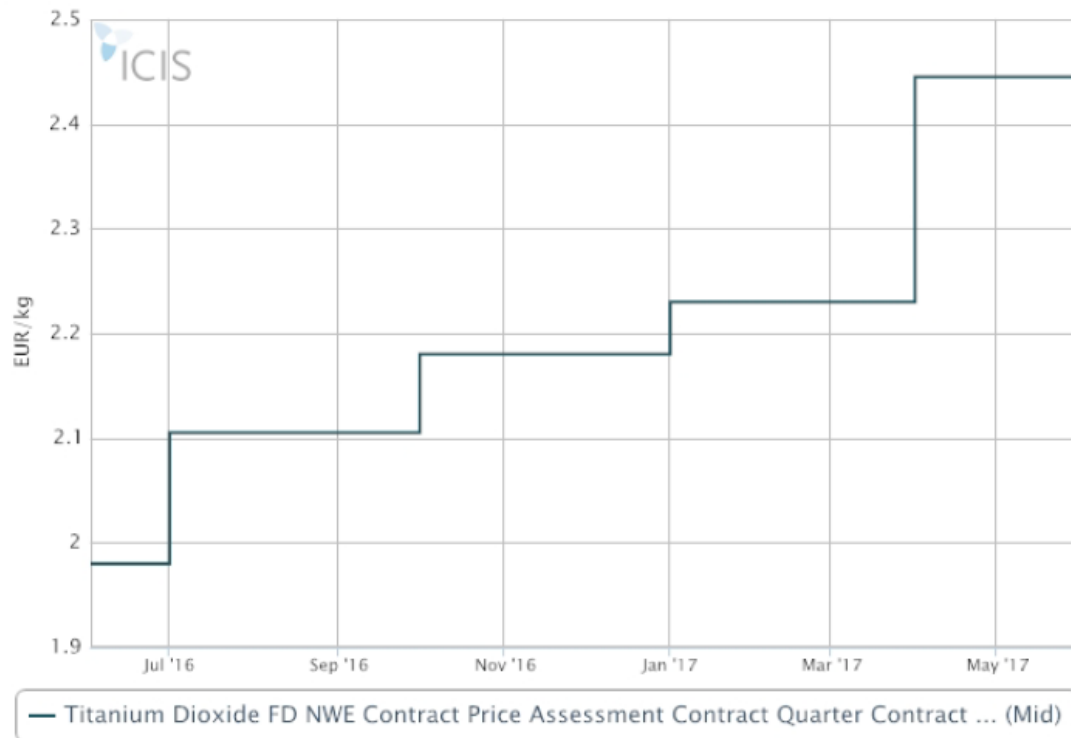
Focus will be on bringing operations to the normal level and raising revenue

The problems related to the ERP system have been solved to a large extent but they will still affect our operations in the latter year-half

An extensive program to boost profitability has been launched. The previously launched organizational and structural transformation will also be continued; additional costs will be generated by the restructuring activities

TiO₂ prices increasing, also problems with the availability

Price development of titanium dioxide in June 2016–June 2017



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Source: ICIS, June 2017

- Market price for titanium dioxide has increased by more than 20 percent during the past year
- Major price hike was seen in Q2/2017; prices are expected to increase by a similar magnitude, if not more in Q3/2017
- Tightness in European TiO₂ supply is linked to e.g. producers' strict inventory controls, restructuring measures and Huntsman's TiO₂ plant fire in Pori, Finland
- Situation is expected not to ease until towards the end of 2018

Implementation of the new ERP system

Implementation schedule for the new ERP system



- Implementation of the new ERP system was started in March 2016
- Among Tikkurila's key markets, the system has been introduced in Sweden, Finland and Poland; the most significant problems in implementation have occurred in Sweden and Finland
- Currently, stabilizing phase of the system is underway (improving the functionality, efficiency and performance of the system); the problems in implementation will still affect our operations in the third quarter
- ERP system will be introduced in Russia at the turn of the year



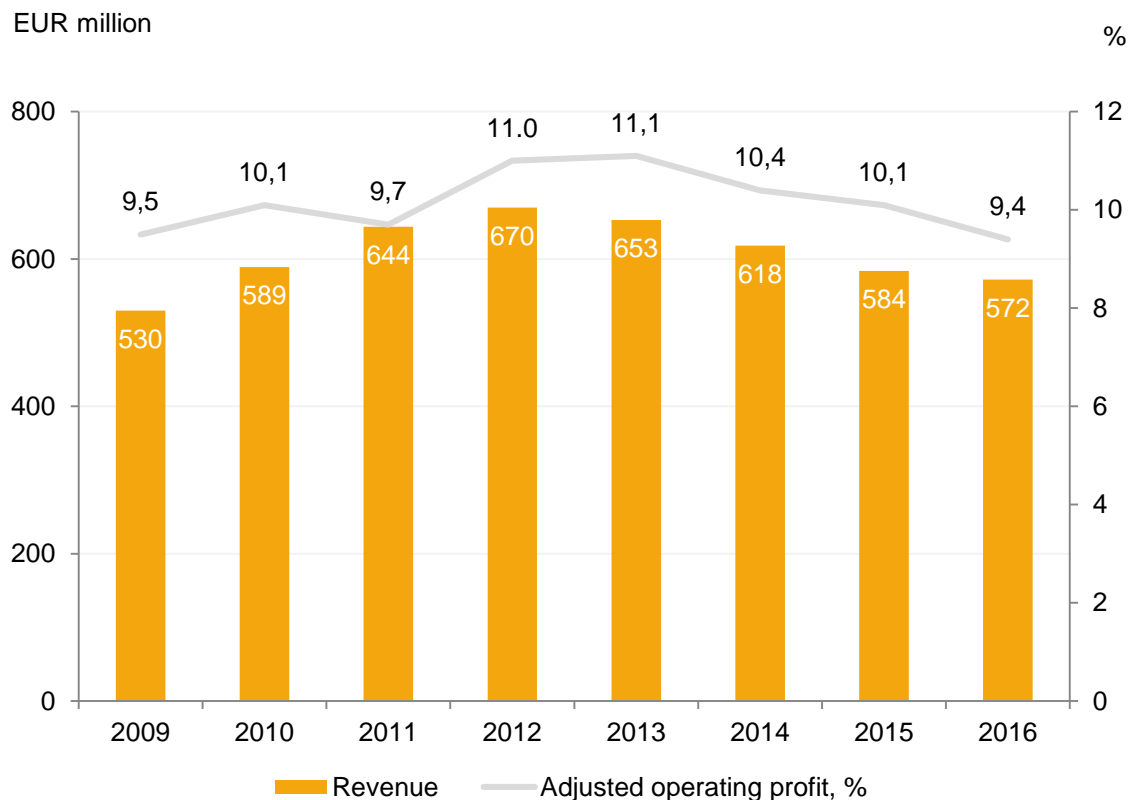
Program to boost profitability

- An extensive program to boost profitability has been initiated
- The aim is to generate at least EUR 30 million in savings
- As part of the program, a study on the future production network has been started
- The previously launched organizational and structural transformation will be continued. The aim is to clarify decision-making and responsibilities and eliminate overlaps. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities
 - New Tikkurila Management Board was appointed as of May 1, 2017



Guidance for 2017 (updated on July 13, 2017)

Revenue and profitability of Tikkurila 2009–2016



Outlook and guidance for 2017

Among Tikkurila's key markets in Sweden and Poland, the fairly strong economic growth is expected to continue in 2017. The economies of Finland and Russia are also anticipated to grow slightly. Demand for paint is predicted to moderately increase in Tikkurila's operational area during the current year. The importance of the professional segment is growing, which affects the sales structure of the Tikkurila Group.

The problems related to the introduction of the new ERP system and the availability of raw materials meant that Tikkurila could not fully meet market demand during the first half of 2017. The problems related to the ERP system has been solved to a large extent but they will still affect our operations in the second half.

Raw material prices are expected to rise, but Tikkurila will aim to compensate for this impact by intensifying its raw material procurement, increasing local purchasing in Russia, and by increasing its sales prices. Furthermore, there are risks related to the availability of titanium dioxide.

Additional costs will be generated by restructuring activities and the introduction of the new ERP system.

Tikkurila expects its revenue to remain at last year's level and adjusted operating profit for the financial year 2017 to remain below the 2016 level.



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