



Transcription

Nokian Renkaat Q4 2021 / Interim report

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PRESENTATION

Operator

Hello and welcome to the Nokian Renkaat Q4 2021 interim report. Throughout the call, all participants will be in listen-only mode and afterwards there will be a question and answer session.

Today, I'm please to present Päivi Antola. Please go ahead with your meeting.

Päivi Antola

Thank you. Good afternoon from Helsinki, and welcome to Nokian Tyres Q4 and Full Year 2021 Results Conference Call. My name is Päivi Antola, and I am the Head of Investor Relations in Nokian Tyres. And together with me in the call, I have Jukka Moisio, the President and CEO of the company, and Teemu Kangas– Kärki, the CFO of Nokian Tyres.

So, in this call, as usual, we will go through the Q4 and full year results followed by Q&A. So Jukka, please go ahead.

Jukka Moisio

Thank you, Päivi, and welcome on my behalf as well. I would start the presentation with prepared notes, and I have a PowerPoint presentation having this record high sales with improved profit in 2021.

And I move to page two just to reflect the quarterly net sales. We recorded €513 million, about 18.4%, up from prior year in comparable currencies. And demand continued strong in all main markets. And also, net sales increased in all business units and all business areas.

Segment operating profit at €88 million versus €80.1 million in 2020, and that was driven by higher sales volume. And we also had price increases to combat cost inflation, and that led to higher net selling prices.

I move to page three. In full year, we had a strong performance across the whole organization in 2021. All in all, we reported a net sales of €1.714 billion, which is 29% – almost 30% – above 2020. And €1.7 billion is all time high in our reported net sales. And this is with comparable currency, so 30% above prior year. Of course, the prior year 2020 was still impacted by the COVID pandemic, and so therefore, the increase is significant. However, the reported top line is the highest we have ever reported.

All business units have contributed to the growth. Heavy Tyres also had an all-time high full year net sales and segment operating profit. We also improved our market position in all key areas. Segments operating profit at €325 million for full year, up from €190 million in 2020. That was driven by increased sales volumes and also, we tackled cost inflation with price increases and careful cost control. And the Board proposes a dividend of €1.32 per share, and that is to be paid in two instalments: one in springtime and one in the final quarter.



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Go to page four. There are highlights of the financials. I call out some key numbers on that one. And first of all, the top line growth, 18.4%; segment operating profit in the final quarter, 17.2% versus 19.4% a year ago; full year segment operating profit at 19% versus 14.5% full year 2020. Return on capital employed increased from 9.3% in 2020 to 15.8% in 2021, and balance sheet remains strong with equity ratio of more than 68%.

Also, cash flow in the final quarter was quite significant. We had an operative cash flow almost €500 million versus slightly over €400 million in 2020. Therefore, the full-year cash flow is almost €400 million despite the increase in working capital and receivables.

Net interest-bearing debt at the end of the year is €-98.7 million, which means that we have €100 million of positive cash in our balance sheet and no debt. Capital structure, no net debt and capital expenditure at €60 million in the final quarter and €120 million in the full year. We've guided that on the average, we have a capital expenditure at around €150 million which we had in 2020. This year, 2021, we have a little bit lower.

If I then go to page five and reflect our progress towards the financial targets that we announced in September 2021, said that we are targeting net sales of €2 billion midterm. Right now, we are at €1.71 billion in full year 2021. We said the segment operating profit ambition is 20%. We are full year at 19%. And return on capital employed, we target 20% and we have 15.8%. As we discussed already at the time when we announced these targets, we said that biggest gaps will be in net sales, and we made good progress in 2021 and also in return on capital employed, where we also made a significant progress from 2020 to 2021. However, work remains to be done to achieve our financial targets.

We also had a financial target to grow ordinary dividend and beat €1.32 per share. That's a 10% increase over the 2020 level, which was €1.20 per share, and that is more than 50% of net earnings as our financial ambition is.

At this point, I hand over to Teemu Kangas-Kärki, our CFO, to talk about the financials in segments and in the business. Please, Teemu, go ahead.

Teemu Kangas-Kärki

Thank you, Jukka. Let's start with the Passenger Car Tyres business. We had a strong volume growth in the fourth quarter. So, all in all, the year '21 was extra super strong, and we recorded in comparable currencies for the full year almost 38% growth, and for the last quarter, a comparable currency growth of 24%. The net sales for the fourth quarter was on a level of €342 million, and the segment operating profit close to €78 million.

The net sales grew in all markets, and we were able to increase the average sales prices as we have been indicating in our previous calls. The main driver was naturally the higher sales volumes. And because of the good demand, our Russian factory ran at full capacity last year and we have added more shifts in our Finnish and US factories to meet the demand.

And if we go to the next page, where we can see the bridges. And if I start with the net sales bridge in the fourth quarter, you can see that the sales volume was up by 16%, and the price mix development was positive almost 8%. And as we have been indicating this year, the BA mix has been negative, which is visible in the price mix, and therefore, the pure price impact is around 10% in this price mix column.



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Then moving to the segment operating profit in the fourth quarter. Here, you can see the negative headwind coming from the material costs. And in the fourth quarter, the headwind was around 38%, which is a significant change to the prior year Q4. The price mix and sales volumes are naturally then in green, which is then helping us to improve the profit to the level of €73 million excluding the currency impact. In the SG&A, you can see that certain activities were visible in the fourth quarter, in line with the growing demand and increasing sales.

If we then move to the Heavy Tyres, and I'd like to start with the full year performance. As stated by Jukka, '21 was a record year for Heavy Tyres in terms of net sales and operating profit, all-time high numbers, and we are extremely happy about that.

Then moving to the fourth quarter, the net sales was on a level of €65 million. The growth in comparable currencies was around 19%, and then the segment operating profit, around €4 million. The segment operating profit decreased slightly, which is due to the higher raw material costs and other cost components, which were partly offset by price increases. In the segment operating profit, you can also see the timing of certain activities, and therefore, the cost level was on a higher level.

Inventories in the Heavy Tyres are at a low level. And we also would like to especially note the excellent development in safety, which is part of our sustainability targets as well. Two years without lost time injuries is an excellent achievement.

Then moving to Vianor. There, the sales performance was on a good level in all countries. Our net sales reached a level of €123 million in the fourth quarter, and in comparable currencies, that corresponds to a 2.8% increase. The segment operating profit, it was on a level of €8.4 million. And there, we also had some operative one-off items that we have recorded in the segment operating profit.

And then some of you have had time to read our release as well. We recorded some non-operative items. We did some impairment charges, and then the main component was the goodwill allocated to the Vianor business. And there is no change in the economic value of our overall business. It was rather a function of how goodwill was originally allocated to cash-generating units between Passenger Car Tyres and Vianor. And as you know, we view this as a whole, and therefore, we view that there is no economic value or change in the economic value. We continuously look at our assets prudently and this then led to the impairment of the Vianor goodwill.

Then if we move the next and please, Jukka, take it from there.

Jukka Moisio

Teemu, thank you. Just to reflect on page ten that we keep on launching new products. In 2021 in the winter season, we benefited from the last year announcement, the introduction of Hakkapeliitta 10 in SUV EV and also Russian version. We have kept on announcing and launching new products, and the latest ones at the end of 2021 have been new friction tyre, Hakkapeliitta R5. And also, we announced winter tyres for vans, Hakkapeliitta C4 and CR4. As well as earlier, we announced a new product for the summer, Nordic summer, Hakka Blue 3 and Hakka Blue 3 SUV. Also, we announced Nokian Tyres Outpost AT for all seasons. So this continues. You can expect that the launches of new products will continue also in 2022.



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And Hakkapeliitta R5, indeed it will be then available in the market for winter season; 22, so in 4Q '22. While Hakka Blue will be in the summer and C4, CR4 will be in the autumn '22. Outpost is available in the market for pre-orders right now. Several other products also you can see which have been launched during the year. And also, Heavy Tyres have been quite active in announcing new products throughout the year.

Move to page 11. We will then improve our sustainability performance, and we have new nonfinancial targets. All in all, we have 30 different targets, but we've chosen five to specifically report and focus and allow then the investment and analyst community to see that certain things happen. And you can then follow these measures throughout the year and into '23 and beyond.

First one is the safe and eco-friendly tyres. Our ambition is that recycled or renewable materials to 50% by 2030. Also, a reduction in CO2 emissions. And that, by the way, will be also a management incentive for 2022, so reduction in CO2 emissions. Safety, LTIF reduction from 8.3 in 2018 to 1.5 in 2025. Sustainability, 100% of significant high-risk suppliers audited by 2025 and also developing human rights policies.

On the next page, on 12, you see the status in 2021. So, 25% of selected tyres have recycled or renewable materials in 2021. We will report CO2 emissions actual achievements in sustainability report in 1 months' time roughly. LTIF, unfortunately, declined in 2021 versus 2020. We are LTIF at 4.1 in 2021, while we were 3.7 in 2020. This is a clear area for improvement. In terms of high-risk suppliers, 65% have been audited. And equality score in personnel survey is 66, where we have a clear improvement, opportunity and requirement.

So, these are some of the key targets that we will report continuously throughout the coming quarters and years. Indeed, we have 30 different targets and ambitions to be achieved by 2025 and 2030.

We also, in connection of our R5 introduction in January. We showed the concept tyre. Indeed, 93% of the materials are recycled or renewable. So this paves way and shows what can be achieved in months and quarters to come. And indeed, the tyre can be made with 93% of materials recycled or renewable. We will keep on working towards our target of 50% in this content, but more can be achieved. And we also have announced sustainable tyre innovation channels, fast race, big change, which is an open competition to fight climate change and accelerate innovation for sustainable tyres. And that Hackathon for student start-ups, academics and businesses actually will happen this spring.

Go to Page 14, which is assumptions for 2022. We expect that the replacement car tyre demand will grow. Demand for Heavy Tyres core products estimated to continue strong. We have uncertainties due to the COVID-19 pandemic, current geopolitical situation and Russian rouble, which is an important currency for us. Raw material and logistic costs are estimated to increase significantly especially in H1 versus 2021. And as said earlier, capital expenditure on an annual rolling basis we expect to be at the level of €150 million.

And based on those assumptions, our guidance for 2022 will be Nokian Tyres net sales with comparable currencies are expected to grow significantly and segment's operating profit is expected to grow. And again, here on the bottom part, we repeat these basic assumptions that were elaborated on the previous page.

On page 16, I recap our revised growth strategy: Ambitious Leap Forward. As mentioned, we aim to have a €2 billion of net sales, we are at €1.71 billion in 2021. Full year, our financial target is to have a 20% segment's operating profit. We



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reported 19% full year in 2021. And segment's return on capital employed at the level of 20% also, and there we reported 15.8% in 2021. Dividend-wise, cash flow-wise, very good year in 2021.

And going forward into '22, we expect that the top line grows significantly, and we expect that the segment's operating profit grows. And this completes my prepared and our prepared presentation. Thank you. And we are now open for questions. And Päivi, please.

Päivi Antola

Thank you, Jukka. Thank you, Teemu. And now Operator, as Jukka mentioned, we would be ready for the questions from the audience, please.



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PRESENTATION

Operator

Thank you very much. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad.

Our first question is from Giulio Pescatore from BNP Exane.

Giulio Pescatore

Hi, thanks for taking my question. The first one on cost, I mean, it's going to be a big topic for you in 2022, so I was wondering, if you could give us an indication of what we should expect in terms of raw material headwinds and also non-raw material-related costs for the year.

And maybe a second question that is strictly related to this one. Your pricing and mix effect: do you think you'd be able to offset most of these raw material cost increases with pricing in 2022? Is that your goal? And what should we expect for mix as well? Thank you.

Teemu Kangas-Kärki

Thank you for the question. In terms of the material cost headwind in '22, our current forecast is around 20% for the full year. And that means that in the second half, it would be over 30% – in the first half, over 30%; and in the second half, around 10%, ending to the level of 20% including the inbound logistics. And then in terms of pricing and offsetting the cost headwind, as we have been commenting in our earlier calls, our plan is to fully offset the material cost headwind on a rolling basis, meaning that we continue increasing prices in year '22.

Giulio Pescatore

Okay. And the comment on the mix perhaps?

Jukka Moisio

Mix in terms of – we expect that if we look at our product mix, so winter tyres, summer tyres, all-season, believe that the share of summer tyres and all-season tyres are going up, and winter tyres are coming slightly down, as evidenced in 2021. In terms of markets, the growth we expect is 2% to 7% depending on the market. That's basically LMC forecast of the replacement tyre growth.



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Operator

Thank you. Our next question is from Gabriel Adler of Citi Group. Please go ahead.

Gabriel Adler

Hi, thanks for taking the questions. My first is on the impairments. Can you please just provide a bit more detail on what factors now that you're required to write down the goodwill in Vianor? And what do the other asset impairments relate to that were non-Vianor?

And then my second question is on the cash flow. Please, could you explain the drivers behind the significant working capital inflow in Q4 and whether you expect this to unwind in the coming quarters?

And then my last question is just on Heavy Tyres. Maybe you can elaborate on why the price cost pressure seems so significantly Heavy Tyres in particular in Q4.

Teemu Kangas-Kärki

I'll start with the cash flow in Q4. As you might know that our fourth quarter is always the strongest quarter in terms of cash flow, and therefore, this quarter wasn't any surprise in the big scheme. Naturally, we performed also well in the fourth quarter in terms of overall performance within the last quarter. And it was a function of good working capital management, we have increased or extended our payment terms towards our suppliers. And also, we were able to collect our receivables faster especially in Russia because the sell-out has been strong in '21.

Then in terms of the impairment relating to Vianor specifically. As you know, Vianor is part of our overall business, and we don't view it as a standalone. And as I said, it has been sensitive to several assumptions. And at this point of time, we view that it's rather prudent to write off the goodwill allocated to Vianor even though it hasn't had an economic decrease in our overall business. And as you know, Vianor supports our Passenger Car Tyres business.

Then the smaller component in the impairment was related to the increase in capacity in Nokian Tyres and our factory layout changes. And that was a smaller part of the impairment related to the €20 million that we reported in the fourth quarter.

Päivi Antola

Do you want to continue regarding the Heavy Tyres cost pressure and why it was so significant in Q4?



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Teemu Kangas-Kärki

Yes. And as I said, the Heavy Tyres raw material, or the material unit cost headwind, was more or less in line with the Passenger Car Tyres business. And on top of that, there were certain activities that were done in the fourth quarter. And I would say that that's rather a phasing issue of the activities between quarters.

Jukka Moisio

Nevertheless, the full year Heavy Tyres result was a good one in record top line and profitability as well. Also, maybe you can pay attention to the balance sheet, that of course the inventories are higher level than prior year as well as the receivables simply because inventories reflect the higher raw material prices. Nevertheless, the cash flow, as Teemu was saying, was quite strong.

Operator

Our next question is from Thomas Besson of Kepler Cheuvreux.

Thomas Besson

Thank you very much. It's Thomas Besson. I have to come back to this write-down question that Gabriel just asked because I started working for an accounting firm before being an analyst. So I don't really understand why you do need to write down now the related goodwill to these assets, which has actually been improving its operating performance. So, can you just give us more details when did you allocate goodwill to Vianor and why do you have to write it down now, knowing in particular that when I look at the rest of what you show, you've been reversing a lot of bad debt provisions, which I think may have been an issue eventually for auditors for that business but seem to be improving now? So, I'd like just to be clear to understand that better. And I have other questions afterwards.

Teemu Kangas-Kärki

Thank you for your questions. The goodwill was, or is, originated from the acquisition done already several years back. And at that time, it was allocated between Passenger Car Tyres and Vianor. And the majority of the goodwill has been on the Passenger Car Tyres.

Then the goodwill impairment test has been every year really sensitive to several assumptions. And this year, when we prepared our impairment testing and took a slightly different view to certain assumptions, we ended up in a situation where the impairment needed to be written off, if we would view the Vianor as a standalone basis.

And as I said, it is more as a function how the goodwill was at the time of the acquisition allocated between Passenger Car Tyres and Vianor. And nowadays, we don't view Vianor as a standalone business but as an integral part of our overall business.



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Jukka Moisio

Just to reflect that the overall goodwill in our balance sheet at the end of '21 is now €65 million, and our total balance sheet is €2.4 billion. So, obviously, the goodwill part is quite a limited part of our balance sheet at this point of time.

Teemu Kangas-Kärki

And as we have been indicating in the earlier calls, we have taken a more prudent view on our asset base, and we will evaluate those every year in order to have a realistic view of the assets and the impact on our return on capital employed.

Jukka Moisio

Yes. As Teemu was saying that indeed, the focus on the return of capital employed is something that is important for us, and going forward, we look at the top line margin but also return on capital employed.

Thomas Besson

Okay. Thank you. So, it's not a question of size versus your balance sheet, it's more that you've missed balance expectations by a large amount. And a decent portion of that miss can be explained by the write-down to [? 00:31:35] to understand it better.

Okay. So, if I move on to something else. I would just like to make sure I understand the guidance properly. So, you say that the revenues will grow significantly, and operating profit will grow, so it means your margins is expected to decline. Is that correct in percentage terms?

Jukka Moisio

Yes, as we said that we seek to offset the raw material cost, and that means that, indeed, the cost mitigation takes place. And that means that the top line will grow significantly because there's a volume growth and price growth. But then when we mitigate the raw material cost and we may not be able to increase so quickly as the raw materials cost, so there is a pressure on the margin. So hence, profit will grow, and net sales will grow significantly.

Thomas Besson

Clear. Thank you. Last question, please. In 2014, the market has been stressed because of the Russian president getting into territories that were not before his. He might do the same again, and so I'd like to have your appreciation on the risk it represents for Nokian. I know you've diversified with a US plant today; but basically, do you see any risk that potentially sanctions against Russia may involve the impossibility for you to ship your tyres from Russia, out of Russia? Or do you think it's a non-existing risk? Or what kind of probability would you put to that risk if I ask it differently?



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Jukka Moisio

Probabilities will be difficult to assign to this kind of a situation, but let us put it this way: we follow the situation very carefully, we have contingency plans, and we are ready to put together an action group if there's an important sanction or situation that happens. But at this point of time, we go with our normal business plan, so which means that significant growth on the top line and growth in segment operating profit.

Now, if there's a significant change in that, then we are prepared with the contingency and, as said, our financial situation is quite strong, we have a negative net debt of about €100 million positive cash after the interest-bearing debt. And we believe that with these elements and being prepared, we can face the situation whatever comes.

Of course, the political and geopolitical situation is out of our hands, and so therefore, we, of course, develop intelligence what may or may not happen. And consequently, we have contingency plans in place, and we are ready to execute if and when something happens. Let's hope that nothing happens. Obviously, we all hope that the situation will be peacefully solved.

Operator

Thank you. Our next question is from Artem Beletski of SEB.

Artem Beletski

Hi. Thank you for taking my questions. I actually have three to be asked, and I can take one by one. So first of all, when it comes to your guidance for this year, could you maybe provide some colour on what you mean by significant sales growth and growth in operating profit or segment operating profit? I recall you previously have been communicated some numeric ranges for basically this wording, so do you have any further colour on it?

Jukka Moisio

Yes, we can give a little bit of colour. So, significant means double digit, and growth means that it grows on the current absolute basis. And we hope, of course, that it goes as high as possible.

Artem Beletski

Okay. This is very helpful. And maybe a second question is relating to price mix versus raw materials impact. So, looking at Passenger Car Tyres, so net impact was €50 million negative in the quarter. When do you expect basically this price mix versus raw material impact to basically reverse during 2022?



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Teemu Kangas-Kärki

I think with our earlier comments that on a rolling basis, the plan is to offset fully the negative headwind. And this is a moving target, and therefore, I don't want to specify any certain point of time when that is reached.

Jukka Moisio

But we watch the prices and the raw material development carefully every month and every quarter because, as Teemu said, it's a moving target.

Artem Beletski

Yes. That's clear. And maybe the last one to Teemu relating to US ramp-up costs in '22. What do you expect the magnitude to be? I think it was €31 million last year.

Teemu Kangas-Kärki

We are expecting that to be on the same level this year because of the delayed ramp-up due to the COVID, and it's not a linear development. So, this year, it will be on a level of €30 million.

Jukka Moisio

We will start getting the additional equipment to date towards the end of this year. And so therefore, there will be a start of the new equipment, et cetera, which will happen late this year or early next year and during the course of next year as well.

Operator

Thank you. Our next question is from Panu Laitinmäki of Danske Bank.

Panu Laitinmäki

Thank you. Most of my questions were answered, but I still have two. Firstly, on the guidance, can you give any colour in which divisions you maybe see more margin pressure this year? Or is it similar across the board? And then secondly, on the bridge that you gave on EBIT, the SG&A costs were up quite a bit more in Q4 than in Q3. So, what was behind that?



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Teemu Kangas-Kärki

So, the material unit cost headwind, I would say, it is quite similar both in Passenger Car Tyres and Heavy Tyres. And then Vianor, it's quite stable in the big scheme of things, if you try to forecast the profit development as stated also in earlier calls.

And then in terms of the SG&A increase in the fourth quarter, as I said, it is a function of increased activities going hand-in-hand with the increase in volumes, related to sales and marketing. And then also for the full year, because of increasing performance, also the incentive payout has an impact on the overall SG&A base in '21.

Operator

Thank you. Our next question is from Pasi Väisänen of Nordea.

Pasi Väisänen

Great, thanks. This is Pasi from Nordea. To start with this issue related to Ukraine, so what is currently your sales volume to the area? And then looking at the kind of in a Group level and production volumes, so how much actually you are going to get more volumes from this Finnish and from this data factory in this year on a year-on-year basis and looking at the increases in the staffing and the new lines?

And maybe lastly, regarding this kind of pricing and raw material issue, so what's going to be the delay in pricing for you currently? So, if it would happen that the prices do not move anymore, are you going to ramp up the pricing in three months, four or six? Or what's the kind of period for that?

Jukka Moisio

Teemu, will you take the pricing, so I'll comment to Ukraine. So, we have a few hundred thousand tyres in Ukraine. Typically, we don't sell them through Russia. We sell them via Central Europe because that's how we do it. But it's not a significant part of our top line as such, but it's a market where we actually sell products.

In terms of how much capacity we get from Nokia and Dayton, as we said, that we moved up towards 26 million tyres by 2024, so this development is relatively linear. So, we have a good volume increase coming from Nokia. And also based on our plan, we are pretty much on track with Dayton so that we move from that 1 million tyre in 2021 into about 4 million tyres by 2024. And you can look at the linear development based on that. But there is a significant opportunity – important volume opportunity coming in 2022 based on the capacity increases in Nokia and in Dayton. As we said, the Russian factory was running flat out in 2021, and will keep on doing that in 2022.



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Teemu Kangas-Kärki

And then in terms of pricing, if I got your question correctly, Pasi, you were asking the timing of the raw material changes. And that is varying between different raw materials from four to six months. And then in terms of our price increases in the current environment, which is not a normal way of doing business, these price increases can be pushed forward within the time frame of a couple of months.

Jukka Moisio

I'll get back to these volumes in Ukraine. We obviously had more demand than we could supply in 2021. So in case that volume is not available, then it can be easily replaced and sold elsewhere. So in fact, what we had the situation in 2021 was that more demand than we could supply throughout the year.

Teemu Kangas-Kärki

And maybe just an additional comment to the pricing, it's not only how the raw material prices are developing, it is also a function of competitive landscape. And therefore, we also need to pay attention to what our competitors are doing.

Pasi Väisänen

Yes, that's understood. And just coming back to just kind of production volume issue, so would it be a fair assumption that this year that we are going to see 1.5 million to 2 million tyres more than last year on an annual comparison?

Jukka Moisio

Yes. I think we had a record volume in Passenger Car Tyres and Heavy Tyres in 2021. And we have that ballpark type of a number to be increased in 2022, which you mentioned.

Pasi Väisänen

Yes. Okay. Understood. That was all from my side.

Jukka Moisio

Hopefully more than your higher end, but we will see. I mean this is, of course, something that we work on the continuous improvement and find more capacity and capability.



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Operator

Thank you. Our next question is from Pierre Quéméner of Stifel.

Pierre Quéméner

Yes. Can you hear me?

Jukka Moisio

Yes, we can.

Päivi Antola

Yes, we can hear you.

Pierre Quéméner

Thank you. Just one left on my side. It would be on the volume component in 2022. Volumes have been soaring in '21. And in my understanding that you haven't met all the demand available in the market. Do you expect volumes to grow as well in the first two quarters of '22 or the comps are maybe a bit tough to reckon [ph 00:44:55] on significant volume growth once again in the first two quarters of 2022?

Jukka Moisio

Yes. We are planning to have a relatively even volume growth throughout the year. But yes, we understand the comparables compared to 2020 and 2021 are quite demanding. But nevertheless, maybe good to remember that in 2021, still the replacement tyre market in the Nordics or in Central Europe or even in North America, we are not at the level of 2019 or 2018 level, so there's still some upside potential to catch the 2019/2018 level. However, of course, the comparables are quite demanding in the second quarter.

Pierre Quéméner

Okay. And maybe just one follow-up in terms of regional mix that have directional elements there. Will Russia be, I would say, a pivotal driver for volume this year? Or should the Russian effect, I would say, soften in 2022 with more importance being focused on Central Europe and NAFTA?



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Jukka Moisio

Yes, we basically see when we look at the volumes of PCs, we see good opportunity in Russia at this point of time. Now of course, the geopolitical discussion we had already, and we have contingencies for that and action team if needed and when needed. But obviously, we also see Central European demand, Eastern European demand and North American demand all developing based on our strategic ambition.

Maybe the least development or least demand growth in PCs will be in the Nordic markets simply because it's a mature market and you don't see that kind of an opportunity to increase either market share or even the volume growth. But in the other markets, you will see an opportunity to progress.

Operator

Thank you. Just as a reminder, if you wish to ask a question, that's 01 on your telephone keypad.

Our next question is from Michael Jacks of Bank of America.

Michael Jacks

Hi. Good afternoon. Thanks for taking my question. I just have one. Just want to come back and clarify on your 20% cost inflation assumption. For inbound and, I guess, and outbound logistics, does your number already factor in annual contract price increases for steel freight? Or is there potentially still a risk that these could drive higher cost increases if negotiations don't go to plan with your shippers?

Teemu Kangas-Kärki

We have a certain contract with our logistic partners. And with the current best understanding, we have estimated the cost impact. Having said that, it is a competitive environment. And depending on what is the situation in the market, we cannot rule out any adverse development. But with the current view, the 20% includes the logistic cost increase that we see at the moment.

Operator

Thank you. There are no further questions at this time, so I'll hand back over to our speakers.

Päivi Antola

Thank you.



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Jukka Moisio

Thank you.

Päivi Antola

So if there are no additional questions, it's time to finish the call. Thank you, Jukka. Thank you, Teemu. And thank you all for participating, and have a good day.

Jukka Moisio

Thank you. Have a good day.