



**Transcription**

# **Nokian Tyres Q2 2022 / Interim report**

02 August 2022



## PRESENTATION

### Operator

Hello and welcome to the Nokian Tyres Q1 2022 Interim Report. Throughout the call, all participants will be in a listen-only Mode, and afterwards there will be a question and answer session. I'll now hand the floor to Head of IR, Päivi Antola. Please go ahead.

### Päivi Antola

Thank you good afternoon from Helsinki and welcome to Nokian Tyres' Q2 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.

In this call we will go through Q2 results and an update on the progress with the exit from Russia, with the new capacity and our focus in the coming quarters. And this all will be presented by Jukka and Teemu, and followed by a Q&A. So Jukka please go ahead.

### Jukka Moisio

Thank you Päivi and welcome on my behalf as well. I would like to go through the prepared notes in the presentation, where the heading is war in Ukraine overshadowed H1.

And I'm moving to page two. Some quick reflections before I go into highlights of the numbers. Exit from Russia initiated. So the Board decided to initiate the controlled exit from Russia as it's no longer feasible nor sustainable to continue operations. Right now at this moment we are evaluating different options. We have hired external advisors and we are in discussions with possible candidates as we speak. A part of the process is impairment and drive-down of about €300 million were recorded in quarter two results.

Actions to increase the capacity outside Russia are ongoing so we are increasing capacity at the Finnish and US factories for passenger car tyres. These programmes were initiated already in 2021 and they have continued throughout 22, and we'll still include investments and equipment in the latter part of this year so that they will be installed readiness for 23 and also as mentioned about the US factory readiness for 24, and we are on our way to achieve 4 million tyres capacity in the US and between 5 million and 6 million in Finland.

Investment in new factory in Europe is proceeding. We have shortlisted possible locations in place. We are doing the evaluation. Engineering has been done and we are finalising the steps to make the decision to start the investment. Outsourcing options are also being developed so we look to have alternative suppliers to help us during that time when the capacity is being built in Europe and these offtake options are being developed currently as well.

I move to page three to have a highlight of the numbers of quarter two. Net sales increased by 7.4% in constant currencies. So we recorded 482 million in net sales versus 416 million in 2021 in the same quarter. Tyre demand continued good, and



## Nokian Tyres Q2 2022 / Interim report

volumes were down due to supply constraints in our company. Operating environment was increasingly more challenging due to the war and tightening sanctions. Segment operating profit at 86 million versus 89.6 million in quarter two 2021.

We increased prices to combat cost inflation and that led to higher net average selling price. Our team performed extremely well. It was a demanding quarter in terms of sanctions having an impact as well as the logistics becoming increasingly more difficult to take raw materials to Russia and also ship tyres from Russia to other markets, and under these circumstances I want to thank our team and also congratulate them because it has been a very demanding environment and we did well in that environment.

I move to page four. We have a strong balance sheet. Cash flow was impacted by higher working capital. I call out some key numbers in the financials. Net sales up by 7.4% as mentioned and year to date we are about 14% in constant currencies ahead of the prior year. So, at about almost €900 million in the first six months versus 758 million in 2021.

Operating profit percentage in the quarter was about 18% versus 21.5% a year ago and year to date we are at 17% versus 18.5% in 2021 and 19% in full year 21. Segments earnings per share. So, before the write-off and so on: 55 cents versus 51 cents a year ago and in the first six months 93 cents versus 80 cents in 2021. Return on capital employed at 15.2% before the write-offs.

Our equity ratio including write-offs is 64% so that shows that we have a strong balance sheet, and this part of the write-offs continues to be strong. Obviously the currencies and various other matters are impacting that, but nevertheless so 64% equity ratio. Cash flow was weaker, and we incurred higher working capital. Both the inventories were high because of the more expensive raw materials; also the receivables far higher because of the good net sales; and also the currencies impacted in our working capital by increasing the absolute euro amounts of working capital.

Gearing at 14.8% and interest-bearing net debt at the end of June at 243 million versus 140 million a year ago. Capital expenditures are 18.7 million in the quarter and 33 million year to date, both below last year's numbers. However, as we've said, we will start incurring more capital expenditures towards the new factory in the latter part of the year.

And with that, I hand over to Teemu to more to talk about financials and segment profitability. Teemu, please.

## Teemu Kangas-Kärki

Thank you, Jukka. Let's go through some key figures by business unit and starting with the passenger car tyre. In the second quarter, our net sales was on the level of 335 million, net sales increased and the tyre demand continued on a good level. However the segment operating profit declined, partly because of lack of tyre supply impacting especially our business in Central Europe.

We are happy about how our average sales price has been developing. We have been able to increase prices in all our markets strongly and therefore we have been able to offset higher raw material and other cost inflation in the second quarter and the first half. Our inventories in the passenger car tyre business are on a higher level than in the comparison period in order to safeguard better supply in the second half. As we all know now we cannot get any tyres from Russia.

Then moving to look our net sale development by quarters, and let's focus on the price mix. Here, you can see how it has been developing in the first quarter and in the second quarter. And if we exclude Russia, you can see there in the callout



## Nokian Tyres Q2 2022 / Interim report

box that the price increases without Russia has been on a level of some 9% in the first quarter and around 20% in the second quarter, meaning that the price increases in Russia/Asia has been exceptionally high in the first half, impacting also our absolute profit for the second quarter.

Then if you look at our bridges and focusing on the segment operating profit part. Here, if we looked at the price mix component, we see that we have had a positive development of 87 million versus the material headwind of 58 million. So we have been able to offset that one. And then the supply chain bucket, a negative development of 20 million and the majority of that is coming from increased logistic costs because we have been taking extraordinary measures to get the tyres out of Russia. We have leased ships and full trains. So, therefore on top of the cost inflation, the cost level has been on an extraordinarily high level which then should benefit us a little bit in the second half in order to sell the volumes.

Then moving to the heavy tyres performance in the second quarter. There you can see that our net sales for the Q2 was on a level of 74 million and our segment operating profit close to 16 million. And if we then also look at the relative profitability, that was on a level of 21%; a clear increase from the comparison period. The performance is a result of strong demand in all product segments, and we have also been able to improve our production efficiency and therefore the profit development was according to the numbers that I highlighted earlier.

In heavy tyres, the inventory levels are on a low level, unlike in the passenger car tyre business. And this is the indication that the demand has continued to be on a good level, and we haven't been able to increase the inventory levels in the heavy tyres.

Lastly the Vianor business units. The second quarter had good seasonal sales which lasted longer than normally. Therefore the net sales was on a level of 99 million and the segment operating profit a little bit below €10 million. Because of the longer season, it also increased some of our cost and therefore that it has had an impact on our profit and profitability.

Moving to the assumptions for this year. As we have been communicating already earlier, the controlled exit from Russia will have an adverse effect on our supply capacity, impacting especially our Central European business, and the raw material and logistic costs are estimated to have an adverse negative impact also in the second half. Nevertheless, the demand for passenger car tyres and heavy tyres is estimated to continue strong.

Our guidance for this year is unchanged, meaning that our net sales are expected to decrease or to be at previous year's level and segments operating profit is expected to decrease significantly compared to 2021.

And back to you, Jukka.

## Jukka Moisio

Thank you, Teemu. And moving on, it's important that we continue building the new Nokian Tyres; so, something old something new. The old and the important thing is that we have a strong innovation pipeline for the future. Look at some of the key products on page 12 that were launched; Hakka Blue for summer in the Nordics, Nokian Tyres' Outpost AT. Also introduced the R5 Hakkapeliitta friction tyre and new Nokian Tyres Hakka Truck Coach. And these are following a succession of product launches last year, like Nokian Tyres have Hakkapeliitta 10, Seasonproof, et cetera, et cetera.



## **Nokian Tyres Q2 2022 / Interim report**

This is something important, something old, and this will continue to renew our product offer and product pipeline. This coming season, coming autumn, we will have Hakkapeliitta R5. It's a new flagship for Nordic non-studded winter tyres that will be launched and will be available to consumers in this autumn. It includes one third of the tread compound of renewable and recycled materials. It also has a Hakkapeliitta R5 SUV with Aramid Strong sidewalls and Hakkapeliitta R5 EV with ultra-low sound levels, with SilentDrive technology. This product will come with over 160 SKUs and available to consumers as of fall 2022, and the main markets will be Nordic and North America, and this product will be made in Nokia.

Priorities for the coming quarters, something new. We will pursue capacity. So, we are working on the final site selection, final engineering, and also preparing ourselves for starting the project and starting the actual building. We will continue exiting Russia. So, the process will continue with our external advisors and potential candidates. We will also keep costs in strict control and protecting our cash flow temporarily, especially in quarter two, because of the extraordinary measures we took and also that we build inventories of ready-made products.

We have high working capital. We expect that step by step we release money from the working capital. Business units and areas will implement the specific plans and in the Nordics, North America, Central Europe, and heavy tyres. And we will keep on providing customers with world-class products and services, and we will keep our innovation pipeline up and running, and we will be looking forward to introducing R5 in the autumn. We are highly confident that this will be a very, very successful product. So, going forward we will focus on building the new Nokian Tyres.

These were the prepared notes for the presentation. Päivi, over to you.

## **Päivi Antola**

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



## Q&A

### Operator

Thank you. Our first question comes from the line of Giulio Pescatore of BNP Exane. Please go ahead. Your line is open.

### Giulio Pescatore

Hi. Thanks for taking my question. The first one on your profitability for the car segment. Can you give us any indication of how much of the segment operating profit was linked to your operations in Russia? I guess that's key as we move into H2 because of the lack of supply, because it looks like the majority of your operating profit in cars did come from Russia. So, any colour you can give us on that would be great.

And then moving to free cash flow. The cash burn in H1 was quite significant also considering that the CapEx are yet to increase. I understand [inaudible 00:18:44]. But can you help us maybe bridge maybe what we should expect for the full year? [inaudible 00:18:51] working capital reversal, should we anticipate in H2 and how much should the increase in CapEx be? Any colour on that would be super helpful. Thank you very much.

### Teemu Kangas-Kärki

If I start with the with the cash flow. And there we need to bear in mind at least two topics. First of all is the normal seasonality, which means that we are burning cash in the first nine months. And then the cash is coming in the fourth quarter, and we don't expect any major changes to this normal seasonality.

Then in the second quarter we took some extraordinary measures in order to secure the supply and the logistics out of Russia and therefore part of that is already visible in our profit. And the second part which is visible in our cash flow and balance sheet due to the fact that that we have now higher inventory as mentioned in in my prepared notes, not only for finished goods but also for raw materials. And the raw material part, we will consume that in the coming quarters being on a more normal level then after the year end.

Then your question regarding Russia and profit profitability. As I showed in the net sales bridged by quarters, it was visible that, especially in Russia, we were able to increase prices significantly, even though in other markets we also increased prices strongly; that also indicates that we had a strong profit generation in Russia. And then these extraordinary logistic measures that we took, those costs are visible outside Russia.

So, those are maybe a few comments to give you some colour.

### Giulio Pescatore

Thank you.



## Nokian Tyres Q2 2022 / Interim report

### Operator

The next question comes from the line of Thomas Besson of Kepler Cheuvreux. Please go ahead, your line is open.

### Thomas Besson

Good afternoon. It's Thomas Besson. I have a few questions, please. If that's okay, I'd like to ask them one by one. First could you help us understand the timeline for the Board decision and the communication of your strategy ahead?

### Jukka Moisio

Okay, so timeline of this strategy and the decisions will be such that we are working right now on these initiatives, and we expect that third quarter results, immediately after third quarter results, we will have new financial targets that we can talk about most likely. And then by that time we have a plan and decision to invest. And also we will then see how this exit from Russia will continue because obviously this is not totally in our hands. It also takes into account that there are other parties involved in that process. But basically our plan is that by the end of this year, we have new financial targets in place, and we've updated our expected financial performance in 23, 24 and beyond.

### Thomas Besson

Very clear, thank you. You had record inventories at the end of Q2. It's been discussed in the prepared remarks and in answer to the previous question. But I mean the extent of the increase is such that I wanted to ask whether you have eventually overproduced in Russia in the second quarter where you could still use that asset to secure potential revenues in H2? Or it's not the case and are you effectively fully rely in H2 on your capacities outside Russia?

### Jukka Moisio

It's our capacities outside Russia. When we serve the markets in Western Europe and North America and so on, also offtake and so on will then help in 2023. So the Russian capacity can operate and produce for Russia.

### Thomas Besson

So in the second quarter you have not overproduced in Russia for sales that will take place in Q3? Tyres you have put outside Russia and that you can use for sale outside Russia?

### Jukka Moisio

Yes, we have brought ready-made goods outside Russia to European and North American inventories.



## Nokian Tyres Q2 2022 / Interim report

### Thomas Besson

Okay. Can you give us an idea of the magnitude or the number of tyres that have been effectively already taken out of Russia for being sold in H2?

### Teemu Kangas-Kärki

Not to be precise, but just to give you some colour, we have increased the inventories in a way that it will give us some benefit in the third quarter. But it doesn't change the overall picture that we lack tyres in the second half.

### Thomas Besson

Understood.

### Jukka Moisio

If you look at the volume development quarter by quarter you'll see that, especially in the second quarter, the year-on-year volumes were down. But if you look at the fine print of the announcement, the production volumes were up in the first half.

### Thomas Besson

Yes, that's what I understood. Until you take the decision can you help us understanding what you're going to privilege between passenger tyres and heavy tyres, because it's going to be difficult for you to make both in sufficient numbers. So are you going to continue to make heavy tyres? Because right now they are 20% plus margins. Or are you going to privilege the studded winter tyres? Or how do you effectively assess the priorities?

### Jukka Moisio

There, we have an ongoing growth plan in heavy tyres so that will of course continue and then the most important priority at this point of time is to ensure that the passenger car tyres will get new capacity, both in those plans that are already ongoing but also the new factory, and then complemented by offtake in the coming years.

### Thomas Besson

Okay, thank you. I have a last question. You have still some operations in Russia, receivables in Russia. How do you effectively pay your operations in Russia on one side? And how do you get paid for your tyres in Russia, given the sanctions?





## Nokian Tyres Q2 2022 / Interim report

### Teemu Kangas-Kärki

So, now the Russia business needs to operate in itself so we cannot do any payments or receive money from Russia. And then how to get the money out of Russia? It's part of the controlled exit process, how we structure the possible deal to get the money out of Russia.

### Thomas Besson

Okay, I'll leave it here. Thank you very much.

### Operator

Thank you. Our next question comes from the line of Artem Beletski at SEB. Please go ahead, your line is open.

### Artem Beletski

Good afternoon, and thank you for taking my questions. Actually I will ask one by one. And one element of course of the H2 [ph 00:27:23] in Russia. Maybe you could provide us with some colour relating your cost structure, how it has been distributed between Russia and basically other countries? Just thinking about, for example, HG&A levels last year, administration costs, and the depreciation. So all the colour would be much appreciated.

### Teemu Kangas-Kärki

So, as you know, the cost level - and then now if we talk about excluding the production costs. So, the SG&A breakdown, if you were asking that one. So, the majority of our costs are outside Russia. So, the Russia SG&A level is clearly on a different level than outside Russia. So, majority of the costs are in the West.

### Artem Beletski

Okay. And maybe the other question is really you spoke about inventories and growth on that side. Could you also maybe comment on trade receivables as the growth there was some 40% year over year. Do you see some elevated level of uncertainty relating to these kind of receivables? Or do you see the situation is as normal as during previous years?

### Teemu Kangas-Kärki

How to put it in a way that - with the information we have at hand, I would say that there is no elevated risk with the comment that the situation might be different tomorrow as we have been seeing this year that what we say today might be totally different tomorrow.



## Nokian Tyres Q2 2022 / Interim report

### Artem Beletski

Okay, that's clear. And then maybe the last one from my side. Just also thinking about your guidance for this year. I think last quarter you provided some sort of additional colour in terms of segment EBIT decline for this year and making some comparison towards levels what you made in 2020. Could you provide colour around the full-year earnings outlook also at this stage?

### Jukka Moisio

I don't think that beyond this guidance we have, it's difficult to give us many moving elements and so on. So, let's say that this is going to be similar year to COVID year.

### Artem Beletski

Okay, very good. That's clear and all from my side. Thank you.

### Operator

Thank you. Our next question comes from the line of Christoph Laskawi of Deutsche Bank. Please go ahead, your line is open.

### Christoph Laskawi

Hey. Thank you for taking my questions as well. I'd like to start with the process from exiting Russia essentially. So, the first one there would be, could you potentially recover machinery and move it to Finland to increase your capacity? I guess this is part of the negotiations but I'm wondering if you would like to share any comment how likely that will be? And in case all the negotiations fail, could you consider running the plant as local for local?

And as you just elaborated on how difficult it is to repatriate cash from Russia to Europe, and you still have - I think in the release you said - around 400 million in net assets that you have in Russia and Belarus. What's the confidence that you really get the cash in from that? Is it also part of the negotiations? Or is there a way to channel it to you?

And then I appreciate that you will provide financial targets post Q3 for 23 and 24, but is there any comments you could currently give on what the potential size after the exit might look like on the passenger car side? Would it be fair to assume about 30% of the capacity? And how big could outsourcing, which you mentioned on the slide, really be given that there's not that much available capacity, I think, to outsource to? And lastly, even though I appreciate you might not comment, just the margin profile of the passenger car tire plant in the US and Finland to give us a rough proxy. Thank you.

### Jukka Moisio

Thank you. Maybe if I start with the equipment that clearly today getting equipment out of Russia is not possible. One day it may be, and therefore obviously when we go through the process then that could be one and might be one parameter



## **Nokian Tyres Q2 2022 / Interim report**

that we factor into the deal, including also, as Teemu was mentioning, about the cash repatriation and all that. So, obviously there are multiple ways of working on the deal and we will see how and what the final outcome is.

In any case, what has to happen is that Russia becomes localised. So, it operates locally. And that would be the only way going forward and then make it possible for any transaction to happen. So, that is ongoing right now.

And then the financial targets. I appreciate you asking and so on, but many moving elements at this point of time. We would love to come back when we have more clarity about the site selection and the outlook and long-term plans of our volumes. And when we have all that available, then we would love to come out and talk to all the investors about that. And as I said, by the end of the year hopefully after quarter three, ASAP. So, we will be ready to do that. But at this point in time it would be too early to talk about that because too many moving elements at this point in time.

Teemu, any additional comments you have.

### **Teemu Kangas-Kärki**

Maybe the repatriation of the cash. I think that's one of the fundamental elements in structuring the possible transaction and so far what we have been seeing and hearing, it should be possible.

### **Christoph Laskawi**

Thank you. Just one follow-up, if I may, on suppliers of yours. And I mean, in general, you have been sourcing for your footprint in Russia as well partially from Europe. Did suppliers already approach you and have been asking for a change in conditions how they supply you, given that your footprint will likely be smaller? And could there be any cost associated to that as well or so far or as it was before and no major changes?

### **Teemu Kangas-Kärki**

So far, no major changes. Things continue quite normal, with the exception of Russia of course, which is not normal, which is maybe unnecessary to say here.

### **Christoph Laskawi**

Yeah, indeed. Thank you.

### **Operator**

Thank you. Our next question comes from the line of Panu Laitinmäki of Danske Bank. Please go ahead. Your line is open.



## Nokian Tyres Q2 2022 / Interim report

### Panu Laitinmäki

Yes, thank you. I have two questions related to your plans on the new capacity. So, firstly can you give any colour on the shortlist of options that you have? I understand you haven't made the decision, but any colour on whether you would think it's a Greenfield or an acquisition or what size should we be looking at? That would be very helpful.

And the second is what do you think this will cost? Should we use the US factory as a guide of what it would cost? And do you think this can be done without new equity? Those are my questions. Thanks.

### Jukka Moisio

Okay, so let me comment about the options and Teemu will talk about the cost and expected investment amount. So options we have been through already, because obviously this process started quite some time ago. So, we've been through multiple countries and options, and we've zoomed into a few, and out of those few we are doing deeper [? 00:35:54] right now. And we have especially strong candidates on that and it's going to be Greenfield. So, it's not going to be brownfield or joint venture. It's going to be Greenfield.

Teemu.

### Teemu Kangas-Kärki

And then in terms of financing the investment, my current view is that we can do the investment without any equity, and then the US factory is a good proxy for the total investment amount. And in the US, how we are doing, it is 2 + 2 million. In the new CE factory, we are currently planning to do it in 3 + 3 million tire phases.

### Panu Laitinmäki

Thank you. That's very clear. Can I just ask you one follow-up? So can we use the US building of the factory as a proxy of how long will it take from the decision to getting tyres out from the factory?

### Jukka Moisio

Yeah, the concept is slightly different because we go with the ambition that we start using it as quickly as possible, so therefore we change the order of equipment, and we start without mixing department and so we actually build with the tyre building and we start from that end so that we get tyres faster to market, and then we bring mixes from Nokia and then build the mixing department concurrently when we are running the factory. So, that gives us fast time to market from the factory.

### Teemu Kangas-Kärki

And that is the playbook that we used in Russia. So, we made the mixings in in Finland and then moved them to the Russia site.



## Nokian Tyres Q2 2022 / Interim report

### Jukka Moisio

America is too far away from doing that, but Europe is close enough that we can take mixes from Nokia originally and then have a faster time to market.

### Panu Laitinmäki

All right, thank you.

### Operator

Thank you. Our next question comes from the line of Michael Jacks at Bank of America. Please go ahead. Your line is open.

### Michael Jacks

Hi. Good afternoon. Thanks for taking my questions. The first one if we can please just go back on the inventories' balance again. Can you please give us a sense for how much of the increase is contributed by higher raw materials and logistics costs versus the finished goods build up? Obviously because one will benefit revenues in the second half and the other one would have an impact on margins. That's the first question. Perhaps I'll just stop there, and I'll ask my follow-up after that.

### Teemu Kangas-Kärki

Maybe I start to answer this slightly differently. I think that the one big portion is the higher cost level that is visible in our balance sheet. And as you can read in our release, the year-on-year increase is over 40%, which is a significant impact on our balance sheet in inventories. And then the split between finished goods and raw materials; there I would say that the good proxy is some somewhere between 50/50.

### Michael Jacks

Okay, thanks. And maybe just as a follow-up to that. How is that split changed relative to the prior quarter?

### Teemu Kangas-Kärki

The prior quarter, we started to increase our purchases when the war started. So, inventory levels were on a lower level at the Q1 and now at the end of Q2, as said, both raw materials and finished goods inventories are on a high level compared to Q1.



## Nokian Tyres Q2 2022 / Interim report

### Michael Jacks

Okay. So, the proportion between finished goods and raw mats is similar, in other words.

### Teemu Kangas-Kärki

I cannot recall by heart what was the level at the end of Q1 at the moment. So, sorry to comment.

### Michael Jacks

Okay, thank you. And maybe then I guess following on from that. I guess you are going to see some pretty significant cost headwinds, as you mentioned, coming through in the second half. Do you expect pricing to be sufficient to offset that in the second half?

### Teemu Kangas-Kärki

We are continuing to increase prices and naturally we will get the benefit of already increased prices compared to prior year in the second half. So there we see a positive development continuing.

### Jukka Moisio

So, important to keep in mind that we have a relatively new product offer now for the winter season. Both the friction tyre R5 as well as the Hakkapeliitta 10 studded winter tyre, which was launched last year. So, therefore that allows us to look at the pricing.

### Michael Jacks

Thank you. That's clear. Last question from my side. Just on Dayton. Are there perhaps any thoughts as to potentially converting some of the capacity there to winter tyres?

### Jukka Moisio

Not at this point of time. We surely are looking to introduce more of our own tyres rather than - because if you remember when we started to ramp up the factory we had some offtake to other customers, but now we introduced more our own tyres to date then and ramp it up that way.

But winter tyres so far will be made in Nokia and that capacity is sufficient at this point of time to service the Nordic and the North American market, especially for studded winter tyres. Friction tyres, it remains to be seen. We will see how that will evolve. But the studding technology, studding equipment, to move that to North America at this point of time is not operationally clever. It's much better that they stay where they are and are fully utilised in their current location.



## Nokian Tyres Q2 2022 / Interim report

### Michael Jacks

Okay, that's very clear. Thank you very much.

### Operator

Thank you. Our next question comes from the line of Pasi Väisänen of Nordea. Please go ahead, your line is open.

### Pasi Väisänen

Great, thanks. This is Pasi from Nordea. So, just to confirm. So, do I understand right that this announcement regarding the Greenfield project is going to be kind of coming out in the coming months before the third quarter earnings announcement? And are you still thinking about this sub-contracting model, which actually could offer the missing European sales volumes for the period you are building up your own plant? Because you actually said that you have selected the Greenfield, not the joint venture, but does that exclude the subcontracting? And if you're using a capacity bridging for the European production, are you targeting at the full 5 million to 6 million for that bridging? And what could be the profitability of that possible outsourcing deal? Thanks.

### Jukka Moisio

Thank you, Pasi. Thank you for the question. So we are working with the new location in a professional way, and we will make the announcement as soon as possible. We expect that that will happen before the Q3 earnings. And then about the offtake; yes we will have that, and that will help to bridge the gap in missing volume in Central Europe. Obviously what is important is to look at that offtake and ensure that there is money in it enough that it makes sense. It's no clever business decisions to sell volumes and not make money. So, obviously that's a criteria that we're looking into. But within that criteria, yes we will have offtake and we will bridge the gap as much as is financially justifiable. So, all the plans that we've talked about are very much valid and continue as planned and as announced or as discussed.

### Pasi Väisänen

So you are able to keep up your market share and you are preferring to market share with your profitability in that sense?

### Jukka Moisio

We want to remain relevant in the market because it's important that Nokian Tyres is relevant and a brand that people recognise and value. And therefore this is important that we do that work while we are building the new capacity and capability, because then launching or bringing that into the market is far more easier than there is recognition and important market positions.



## Nokian Tyres Q2 2022 / Interim report

### Pasi Väisänen

Yes, precisely. And what was the target year or date for this 3 + 3 model in this new Greenfield? So, what's the year we are talking about to reaching 6 million tyres?

### Jukka Moisio

We will come back to that when we talk about the financial targets 23, 24, 25, and the investments and CMD or mini CMD, and financial targets, hopefully soon after Q3 results.

### Pasi Väisänen

Oh, then it must be 25 because if it's included in your kind of first storage period in that sense.

### Jukka Moisio

That's your conclusion, yes.

### Pasi Väisänen

Okay. Yeah, I hear you. Thanks.

### Operator

Thank you. Our next question comes from the line of Peter Kester at One Investments. Please go ahead, your line is open.

### Peter Kester

Hi. Thank you. Maybe just following on from Pasi's question. Can you talk a bit about the practicalities of getting high-volume outsourcing, thinking about moulds, the quality of your product versus the outsourcing available, and maybe whether they would have to come from other regions? Just so we can understand the framework around that please.

### Jukka Moisio

Again, maybe if we would leave that to the CMD after the third quarter when we have the plans and volumes and expectations available, and then we would be more far more qualified to talk about these expected volumes and profitability. It's very much a work in progress right now. We have internal information, but this is not the time to disclose it.





## Nokian Tyres Q2 2022 / Interim report

### Peter Kester

Yeah, okay. And then in the latter part in your release and the fair value part, you talk about the investment has been substantively commenced. I was wondering if you had already ordered equipment or signed the necessary equipment for moulds and maybe mixing facilities. Have you already made those decisions and started ordering? Or is that still to come?

### Teemu Kangas-Kärki

So, we have already made the first steps and during the balance of the year, in our CapEx, it will be visible our down payments in order to accelerate the equipment deliveries.

### Peter Kester

Right, okay. And then just a question on - just so we can maybe get some understanding of profitability in your existing organisations. And if you look at direct labour as a percentage of sales plus logistics comparing Nokia to Russia, can you just give us some sense as to what the difference is between those two in a normal year?

### Teemu Kangas-Kärki

So, to give you a flavour about the impact of our Russian factory versus other, what we have been discussing in the recent calls is the €10 rough difference per tyre produced in Russia or outside Russia. So, that gives you a high-level indication of the headwind that we are getting when we now have lost supply from Russia to other markets.

### Peter Kester

Okay. And would you expect to be able to do better than Nokia in a new ramped-up facility? Or would it be similar because Nokia is more depreciated? Or how would you think about a new facility versus Nokia?

### Teemu Kangas-Kärki

There, I'd like to go back to the CMD from 2018 where we put to the scale the three factories – Russia, Nokia, and Dayton - because that is the relevant comparison also of today there we indicated that from the production efficiency point of view, there are no major changes between the factories. One factor impacting the cost level is the pure scale. So, depending what is the scale of the factory, that will reduce the cost per tyre so. And then on top of that, nowadays, the electricity or the energy as a factor and let's see how that will develop in the coming years.

### Peter Kester

Thank you. Then the last question, please. It's just if you could maybe give us a split of the net working capital and total between Russia and outside of Russia. Even in order of magnitude would be nice.



## Nokian Tyres Q2 2022 / Interim report

### Teemu Kangas-Kärki

So, before the crisis, our main finished goods warehouse or one of the main was in Russia and then the raw materials were in Russia in that order. Russia played a significant role. Then going forward, I would say that the working capital component, naturally we don't have that in Russia anymore, and that is then split short term between two locations and then in the future between three manufacturing locations on top of the normal sales warehouses in selected markets.

And then if I continue with the trade receivables, because that is a key factor impacting positively to our working capital in the coming years, because in Russia we have had this classic consignment model, meaning that we have been financing, with certain terms, our customers. Now, in the future we don't have Russia in our portfolio, our trade receivables should come down. That is the planning hypothesis.

### Peter Kester

Okay. Is there a split of current receivables in Russia? Just to help with the finished comment on the working capital.

### Teemu Kangas-Kärki

Can you repeat?

### Peter Kester

Is there a split of the current account receivables between Russia and ex-Russia? You gave the kind of concept on inventory and how things are [? 00:52:17]. I was wondering about the complete the picture on the accounts receivable currently.

### Teemu Kangas-Kärki

We haven't been disclosing that information, but Russia has been a significant area where we have trade receivables.

### Peter Kester

Okay. Thank you very much for all the help.

### Operator

Thank you. Our next question comes from the line of Akshat Kacker at JP Morgan. Please go ahead. Your line is open.



## Nokian Tyres Q2 2022 / Interim report

### Akshat Kacker

Yes, thank you. Akshat from JP Morgan. Two left from my side please. The first one on free cash flow going forward. If we exclude investments in the new European plan that you've been talking about, and the working capital seasonality, do you think the underlying operations as of today can generate positive free cash flow? That's the first question, please.

And the second question is on the current annual production run rate for both Dayton and Nokia please. And where do you expect this to be at the end of 2022? Thank you.

### Teemu Kangas-Kärki

If I start with the cash flow and my earlier comment about, 'Do we need the new equity in order to finance the investment?' As I said, my current view is that we don't need any new equity in order to finance the cash flow, and therefore maybe that's the comment I want to make at this point, and let's come back to that after Q3 in our mini-CMD.

### Jukka Moisio

Thank you, Teemu. And the production run rates. So, as said, that we are heading to Nokia with the equipment that we are installing right now and in the coming months and so on between 5 million to 6 million in 23/24. And we are heading towards 4 million in Dayton, and we said that about 1 million in last year and then linear into 4 million as we install more equipment. We are working on that plan. It's still the same plan.

### Akshat Kacker

Thank you.

### Operator

Thank you. Our next question comes from the line of Rauli Juva of Inderes. Please go ahead, your line is open.

### Rauli Juva

Yes, hello all. Rauli from Inderes here. Actually my original question was well covered earlier but maybe one on the heavy tyres. Can you maybe say if that's running on full capacity utilisation at the moment? And how's the capacity growth investment proceeding there? Thanks.

### Jukka Moisio

Yeah it's running at full capacity at this moment. It's very low. So we actually - whatever we make we sell, and the capacity increases - the new lines are coming as we speak. So, we are preparing and installing them and so they will help step by step our production volumes.



## Nokian Tyres Q2 2022 / Interim report

### Rauli Juva

Very good. Thank you.

### Operator

Thank you. And our final question comes from the line of Pierre-Yves Quéméner of Stifel. Please go ahead, your line is open.

### Pierre-Yves Quéméner

Yes, good afternoon. Pierre-Yves Quéméner of Stifel. One last from me, please. You made 152 million in Russia and Asia in the second quarter in terms of revenues. How should we think about that bucket into the third quarter and the fourth quarter? Obviously, it should significantly go down in the third quarter, but once you exit from Russia would that region completely disappear out of your disclosure? Thank you.

### Jukka Moisio

What will happen with Russia is that as we work to localise and operations continue, but this Russia, and then when we get to a point that the process comes to completion in terms of signing and closing, then obviously it will disappear. It's very difficult to say when that happens and so on, but until the transaction has been made, the Russia localisation will continue running in the coming months and quarters.

### Pierre-Yves Quéméner

Okay, but you won't be able to monetise anything since the region is under clear sanctions. So, that will appear in revenues possibly in the third quarter, but you won't be able to channel cash out of Russia, right?

### Jukka Moisio

As Teemu was saying earlier, that part of the transaction and discussion some with the potential partners in this process, the cash component, monetisation of that money that is accumulated in the balance sheet and received and so on, is one element in that discussion. And as Teemu was saying, it appears to be possible to monetise it through that kind of a transaction. And so this is what we work on.

### Pierre-Yves Quéméner

Thank you, Jukka. Thank you, Teemu.



## **Nokian Tyres Q2 2022 / Interim report**

### **Operator**

Thank you. And as there are no further questions at this time, I'll hand the floor back to our speakers for the closing comments.

### **Päivi Antola**

Thank you very much. As there are no further questions, this ends today's conference call. Thank you all for participating and have a good day.

### **Jukka Moisio**

Thank you very much. Have a nice day.

### **Teemu Kangas-Kärki**

Thank you.