Nokian Tyres Q3 Interim Report

Tuesday, 1st November 2022

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Operator: Good day, ladies and gentlemen, and welcome to the Nokian Tyres Q3 Interim Report Conference Call. Please note this call is being recorded and for the duration of the call, your lines will be in a listen-only, however, you will have the opportunity to ask questions. This can be done by pressing a star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator. I'll now hand you over to Päivi Antola. Please go ahead.

Päivi Antola: Thank you. Good afternoon from Helsinki and welcome to Nokian Q3 Results Conference Call. My name is Päivi Antola. I'm the head of Investor Relations in Nokian Tyres. And together with me in this 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 the Q3 results and discuss the recent events, i.e., the agreement for the sale of the Russian operations, which was signed last week, and also the new factory, which will be built in Romania, which we announced earlier today. And what I can inform you about already now is the Capital Markets Day and the timing of it. Together with new financial targets, we will organise a capital markets state once the Russian exit deal has been closed. But now I'm handing over to Jukka and Teemu.

Jukka Moisio: Thank you, Päivi. Good afternoon on my behalf and welcome to this call. And I would like to go through the presentation - prepared presentation where the heading is building New Nokian Tyres [inaudible] factory in Romania Agreement for the sale of the Russian operations. I move to page two and indeed taking the first steps to build the new Nokian Tyres.

So we announced earlier today that we will build a new clean sheet factory in Romania. All in all, the investment is €650 million, and your capacity for that amount is 6 million tyres. And we have the site which has potential to expand further in terms of capacity and number of tyres. We expect that the first tyres will be manufactured in the second half of 2024 and we aim that the commercial production will start in 2025 and construction of the site will begin in early 2023. This will be the first Greenfield zero CO2 emission factory in the tyre industry.

We also are adding further supply capacity. So we are increasing capacities in this Nokia factory and also in the Dayton factory in the US as early announced. And this continues according to our plans and according to our earlier communication. We have also acquired land and property in Finland to secure opportunity to develop further the Nokia site. This means that the property nearby the factory has been acquired by us. This will allow us to open the capacity in Nokia. Those plans are in the development phase at this point of time. And when we are ready and we are clear with the plans, we will then announce what kind of steps will be taken in Nokia. Also, at the same time, we are developing outsourcing options to supply especially Central European markets.

And final point of building new Nokian tyres is that the exit is soon. Controlled exit from Russia was made in June and during the third quarter. Lots of discussions and negotiations and also in the early part of fourth quarter were conducted. And then we announced an agreement for sale on October 28 when we signed the agreement and the debt free cash final purchase price is expected to be around €400 million. The final purchase price is affected by net cash, working capital adjustments and changes, of course, in the ruble/euro exchange rate.

I move to page three just highlighting the Q3 net sales and profit. First of all, the - excuse me, the net sales were €466 million, minus 6.4% with comparable currencies. Obviously, we see that the currency tailwind was quite strong because our headline sales were higher than in third quarter 2021. Lower passenger car tyre supply volumes there [inaudible], as the imports from Russia to Europe and North America ended in July, heavy tyres also had slightly lower net sales due to supply constraints.

Segment operating profit in the quarter, €54.9 million versus €96.9 million in 2021. Lower [inaudible] results, lower passenger car tyre supply volumes. Of course, the factory mix when lower production in Russia impacted our profitability. But at the same time we were able to increase prices to combat cost inflation and therefore we had a higher average selling price of tyres.

I move to page four. There are some key financial numbers. I call out few numbers here. First of all, the segment's operating profit percentage in the third quarter, 11.8% versus 21.8% in 2021. And the first nine months segment's operating profit at 15.2% versus 19.7% in 2021 corresponding period. Segment EPS at €0.36 in the quarter and year-to-date at €1.19 cents full year. In 2021, we had €1.84 cents. Our balance sheet remains strong. So equity ratio is 64% versus 65.7% in 2021. Cash flow from operations was slightly weaker in third quarter 2022 and year-to-date at minus €323 million versus minus €96 million in 2021. Big impact on the working capital is higher raw material cost and also quite high inventory of ready-made tyres, which is still in our distribution network. Gearing at 22% versus 15.9% in 2021. Interest bad net debt at €374 million and capital expenditure at the same level in 2022 versus 2021 in the first nine months.

Now I hand over to Teemu, and Teemu will talk about passenger car, heavy tyres Vianor financials and look at the outlook and assumptions. Teemu, please go ahead.

Teemu Kangas-Kärki: Thank you. Let's start with passenger car tyre performance in Q3, especially our net sales was om a level of €348 million. Reported growth was on a level of 5.6% growth. And with comparable currencies, the change was negative of 9.5%. Our segment operating profit for the quarter was on a level of €55 million. As we have been commenting already earlier, the lower tyre supply will impact and has impacted our net sales negatively, especially in the Central Europe. We have been able to increase our average sales prices with comparable currencies, and especially in Russia, the increases have been significant. Our customers have been securing their availability of tyres and now the inventories in the distribution are on a high level.

In terms of our segment operating profit, naturally, the lower sales volumes have an adverse impact as well as the change in factory mix due to the lower production in Russia. We started adjusting our cost base in Central Europe and now we have aligned resources there for the coming quarter sales.

Then moving to the net sales development by quarters. You can see here the trend lines; the sales volume drop is clearly visible there and is significant. And then when we move to the price mix, we can see strong, positive development for the full PCT business as well as in the callout boxes. You can see the price mix without Russia, which is also on a strong level. And then in the third quarter, another positive factor to impact that is the changing region mix where the share of the Nordic is increasing and Central Europe is decreasing.

Then moving to the breaches. And here we can see the net sales components, sales volumes minus almost 32%, price mix, 22%. And then a strong currency tailwind of almost 15%. And then if we look our segment operating breakdown, you can see the impact from sales volume and the positive development from the price mix worth of €73 million, which then offsets the material headwind but don't offset fully both the material and supply chain impact. And the currency impact for the third quarter in passenger car tyre was plus €17 million on the segment operating profit level.

And then moving to the heavy tires. Our net sales in the heavy tyres business unit was €68 million. Reported development was minus 0.9%, and with comparable currencies, it was minus 3.3%. Here we can see that supply constraints impacted the net sales in the quarter. Our segment operating profit was on a level of €9 million. Yeah, we can't say the same factors as in passenger car tyres, lower sales volume and then raw material and cost inflation showing a headwind in the business.

Then moving to the Vianor business unit. As we all know, the third quarter is seasonally low quarter. But if we look our top line, we can say that we reached net sales of €76 million, change in comparable currencies, 9.3%. And as always in the quarter, we show a loss of this time, €5 million. Top line is driven with the price increases to combat the inflation.

Moving to the assumptions for the full year. As we all know, the war in Ukraine and sanctions have a severe adverse impact on our supply capacity. And it will hit especially our central European area. Overall, the demand for both passenger car tyre and heavy tyres is estimated to be healthy this year and that the raw material and logistic costs continue to be on a high level.

Then moving to our updated guidance that we announced last week Friday, we increased our top line outlook. Now the new guidance is that the net sales is expected to be at previous year's level or increase. No change in the segment operating profit guidance, which is decreased significantly compared to the year 2021. And I'm handing back to you, Jukka.

Jukka Moisio: Thank you, Teemu. And just recapping the discuss on our presentation, also the material in the quarterly release. In the past eight months since the war started in Ukraine, lots of activities and actions have taken place in the past eight months in terms of, first of all, to secure that we keep on supplying our customers secondarily to secure controlled exit from Russia. And working on that also simultaneously and parallel to that, to identify a site for the new plan and prepare the investment plans for the new factory in Romania, as well as expansion opportunities in Nokia and keeping on increasing capacity in Dayton as well as increase in capacity in Nokia.

All of those have taken place simultaneously parallel during the past eight months. Now, when we have announced that the transaction has been signed in Russia, we move into securing the closing of the transaction as well as now that we announced that the plan for Romanian plant is approved and we will go into an implementation. So there will be a time and period of implementation of these announcements and plans that will come in the coming quarters. So of course, quite important.

So first of all, to secure that we are able to supply customers, keep on supplying them. So we keep on adding capacity and making sure that both Nokia and Dayton plants are running well and adding capacity as planned. And also then the new Greenfield Factory project that will get to a good start as well as that we secure offtake volumes to help our revenue development and customer service in Central Europe.

Then closing the transaction to exit Russia, quite an important implementation steps in coming months. We will also ensure that we are not - and our operations all over the world we supply the successful winter tyres. Hakkapeliitta 10 is testing[?], is a strongly performing studied winter tire and our new product R5, Hakkapeliitta R5 is also an excellent product and that has come to market this autumn and we will ensure that the volumes and capacities of that tire is available to our customers.

Business units and business areas continue to implement their specific plans. In Nordic is a high season and important emphasis right now, North America the same. And then Central Europe we have - as Teemu mentioned, we have reduced our cost and we've taken cost actions and also adjusted headcount and the cost level to expected volumes. Heavy tyres are working on their expansion plans, including Nokia site expansion, and Vianor has the high season in this quarter.

While handling all of that, it's important that we keep costs in strict control and we protect our cash flow. And we are pleased of the achievements of the quarter and year-to-date that at this point of time when we go forward, we can say that we will focus on building new Nokian tyres and the new Nokian tyres will be a company once we exit - sign the agreement - close to agreement to exit Russia, we have no operations in Russia. We will be a company that operates in Western Europe and North America, and that is a significant change to our company. And building that company will be exciting journey in coming quarters and years.

So thank you for your attention and I'll now hand over back to Päivi.

Päivi Antola: Thank you, Jukka. Thank you, Teemu. And now, operator, we would be ready to move to the Q&A.

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question from the queue, please press star two. But again, please press star one to ask a question. We'll take the first question from Michael Jacks from Bank of America.

Michael Jacks: Hi. Good afternoon Jukka, Teemu, Päivi. Thanks for the presentation. I have a few questions, if I may. The first one. Could you please provide the current net working capital position on the Russia balance sheet, including cash? And just give us a sense for how much of this, if any, is already factored in pre-disposal value of €400 million. I'll stop there.

Teemu Kangas-Kärki: So the €400 million value that is the enterprise value without debt and without cash. And then there is a fact that I cannot comment what is then the additional cash and working capital component. But the current net asset, as we have indicated in the release, excluding net debt, is on a level of €480 million, which majority is our working capital and that fluctuates during the year because of the seasonality. And then the cash, what we have been commenting already in our earlier quarterly calls at the end of Q3, it was some €50 million.

Michael Jacks: Thank you. And then just with regards to the remaining inventory balance of ready-made tyres exported from Russia that is sitting outside of Russia, are you able to provide some information on the balance - the remaining balance there?

Jukka Moisio: We can basically comment that in the passenger car tyres, the finished goods inventory at the end of quarter three was roughly at the same level as it was a year ago.

Michael Jacks: Understood. Thank you. And then just with regards to the fixed cost savings or the cost savings in Central Europe that you mentioned, could you give us a sense then, please, for the magnitude of these cost savings that have been implemented and whether or not we should expect any cash restructuring impacts attached to these?

Teemu Kangas-Kärki: So that cash restructuring impact is visible in our release, some €5 to €6 million coming in the coming months. And then the saving is roughly double off of that annual saving.

Michael Jacks: Yeah. Thank you. And then my final question. What will be the earliest date that you will begin to disclose the Russian operations as discontinued?

Teemu Kangas-Kärki: First, we need to close the deal and then Q3 is naturally then the earliest point.

Michael Jacks: Okay. And in the interim, are you able to give us any kind of a sense for the underlying profitability of the group ex-Russia as it currently –?

Teemu Kangas-Kärki: What we have been saying and commenting that Russia has a significant impact on our profit and it has a two-fold effect. First is there is the supply effect that we have been saying that now when we lose the supply, that the cost per tyre is some €10 per tyre higher without Russia. So there you can get the supply impact estimate. And then the commercial business impact in Russia is then the second one and traditionally it has been also a significant portion.

Jukka Moisio: Finally, the final impact on - especially in 2022, is that we have quite extraordinary high logistic costs because we took extraordinary measures to transport tyres from Russia to Western Europe and North America, and those costs are also in the P&L of 2022. Required an adjustment elimination so that we have the Western Europe - Western world profitability.

Michael Jacks: That's very clear. Thank you very much.

Operator: The next question comes from Akshat Kacker from JP Morgan.

Akshat Kacker: Thank you. Good afternoon. Three from my side, please. The first one on Greenfield investments announced in Romania. Can you just talk about the phasing of that capital expenditure over the next three to four years. And also the timeframe in which you expect to hit the 6 million tyre annual capacity? That's the first one. The second one is on contract manufacturing. How quickly can you get access to contract manufacturing for the tires that you cannot produce going into 2023? And are these arrangements already in place? And also, it'd be great to understand if you will use contract manufacturing only for summer and all-season tyres or for winter tires as well. Thank you.

Jukka Moisio: Capital outlay of the new plan will be a little bit in this year. So in terms of equipment, mostly in 2023/24 and then a tail end in 2025. And we would say that about 60 to

100 in this year, about - around 150 to 200 next year, 150 to 200 next year, and then the tail end in 2025. And expect that volumes will be running at close to full capacity towards the end of 2026, early 2027.

Teemu Kangas-Kärki: As we stated in the release, so the first tyres will come out at the end of 2024. Commercial production starts in 2025 and then we are in full speed in full calendar year 2027.

Akshat Kacker: Thank you. And there was a question on contract manufacturing.

Jukka Moisio: Yeah, we are working with the offtake. And we expect that the first significant volumes of offtake will be available in 2023.

Akshat Kacker: And is it only for summer and all-season tires or for winter tires as well.

Jukka Moisio: That, we will see?

Akshat Kacker: Okay. Thank you for the details.

Operator: The next question comes from Giulio Pescatore from BNP Paribas Exane. Please go ahead.

Giulio Pescatore: Hi. Thanks for taking my question. The first one on the capacity run rate that you currently have, can you maybe remind us at what run rate would you close the year in your remaining plants in Finland and the US? And also the second question, more on the deal with Tatneft, how do you plan to get the cash out of the country? Have you already spoken to the Russian authorities about this? And did you get any indication that they're in favour of positive signing of the transaction? Then the third question, if I may. On the winter season, it started on the British side so far in Europe at least. Are you worried or is it too early to say? Thank you.

Teemu Kangas-Kärki: So if I start with the announcement from Friday. Time flies. Now the process starts with all relevant authorities. And we expect that with a strong buyer like Tatneft, we are able to navigate through this process. As we all know, it contains a lot of uncertainties, but we do our utmost to repatriate the money according to our agreement. How long the process last? We cannot comment at this point of time because we don't know.

Jukka Moisio: In terms of capacity utilisation, as we've said, that when we don't have - as we don't have the Russian supply anymore. So both the Dayton and Nokia as well as the heavy tires are running flat out in available capacity. And based on our plans in 2022, Dayton is progressing towards that 4 million in 2024 and we are very much on track and Nokia is progressing towards 5 to 6 million tires, very much on track. Heavy tires also capacity fully at this point.

Operator: The next -

Giulio Pescatore: Sorry, in the winter season?

Jukka Moisio: The season. So we believe that winter season is quite well covered and we are quite optimistic about the winter season. But obviously it's early days, so we will see how it evolves. But in terms of product wise, product availability, we are well prepared.

Giulio Pescatore: So can I just go back on your initial point on getting the cash out of Russia. In case there were any problems with the process, how do you manage to finance the expansion project? I mean, I guess if you get that from the region[?] then we can all see how you finance the first few years of CapEx. But in case there were any delays or issues with that process, what are the other options?

Teemu Kangas-Kärki: As you know, our balance sheet has been traditionally strong. And in this kind of situation, that is our benefit that regardless with the money from Russia, we are able to finance these €650 million investments into in the coming years.

Jukka Moisio: Of course, we are very much focused on the operating cash flow EBITDA and of course, cash flow EBITDA, and we'll be ensuring working to make that finance also the operations and investments. So clearly, a strong focus area is EBITDA.

Giulio Pescatore: Okay. Thank you very much.

Operator: The next question comes from Christoph Laskawi from Deutsche Bank.

Christoph Laskawi: Good afternoon. Christoph Laskawi from Deutsche. Thank you for taking my question as well. Coming back to the €400 million and working capital from Russia, just to make sure I get this right. So the asset price would be roughly €400 million. And then on top of that, you will get cash for the existing working capital in the plants. Could you just roughly quantify that or did I miss it earlier? Basically. And then on the outsourced manufacturing or the contract manufacturing, you gave a comment on the business ex-Russia when it comes to production cost. Could you give a comment also on how the margin profile of this outsource capacity would look like, I guess probably slightly dilutive to your current facilities in Europe and the US?

And then lastly, on the heavy side, you just said the heavy production is also running flat out in terms of capacity. In the slides you mentioned and in the presentation you mentioned some problems in the supply chain for heavy. Is that comment then reflecting that all the problems are essentially already solved again and you can proceed quite nicely into Q4 or should we expect any disruptions also in the last quarter? Thank you.

Jukka Moisio: Let me start with the heavy tires. Basically, we have in Finland, in some other countries as well, very high sick leaves in terms of COVID and various things. And so that has caused a little bit the issues on the manufacturing. And this high sick leave rate has a little bit slowed down our productivity and output. We believe that those issues are behind us. And when we go into fourth quarter, we should not have those issues anymore. But of course it's something that we want to work on. And this is also related to how we see the COVID and various flu things coming in the autumn time or in the wintertime. But so far, so good.

Teemu Kangas-Kärki: Regarding the Russia transaction. At this point, I don't want to disclose more than the cash balance that I mentioned earlier in the call.

Jukka Moisio: Then finally, about the offtake. So obviously, offtake and outsourced is something that has a different margin profile, but also maybe just too important to keep in mind that they don't tie any manufacturing assets. So in terms of capital employed, offtake is a different kind of equation and we follow that based on capital employed and margin profile doesn't tie a lot of assets. So but clearly it's not the kind of profitability that we historically enjoy in our own manufactured products.

Christoph Laskawi: A brief follow-up, if I may, on that. Is there an indication that you would want to give or can give already with regards to the size of the contract manufacturing? I guess not as big as the Greenfield plant that you are currently looking to build, but could it be sizable or is it just a small addition?

Teemu Kangas-Kärki: It will be a stepwise, more important addition of our product portfolio. And over time, our plan is that we have three manufacturing sites. So Romania, Nokia, the US Dayton and support factory. We will have a virtual offtake factory so that will remain as an important element in our manufacturing or let's say a product portfolio alternative. And so progressively we want to develop that long-term.

Christoph Laskawi: Honestly, thank you.

Operator: The next question comes from Thomas Besson from KeplerCheuvreux.

Thomas Besson: Thank you very much. It's Thomas Besson. I have several areas that I like to ask about, so if that's okay. I'll ask Them one by one. First on the quota numbers. Though if you think that I don't fully understand, maybe you can help. Your Russian and Asian sales are up in Q3. Can you explain how it's possible you raise prices substantially and maybe you sold just a lot of tyres in the first ten days of July, but it seems to be difficult to understand. Second question on the accounts. You have record level of inventories and receivables at the end of Q3. Can you elaborate on that? And then can you explain the €7 million forex boost and whether we should expect something similar in Q4 or whether that was just a pure one-off? That's the first set of questions. Thanks.

Teemu Kangas-Kärki: If I start with the - with Russia there, the price increases have been significant. And that's the main - also main reason why our trade receivables have been increasing on our balance sheet. Then in terms of inventories, our inventories on a group level have been somewhat on the same level than prior year, but they are clearly higher in the best part and in Russia they are clearly lower. So those were the comments to the balance sheet topic on pricing.

Jukka Moisio: Yeah. Currency tailwind, difficult to anticipate. So again, looking at the currencies, it's - the forecasting there is difficult, but so far we've been able to enjoy a tailwind in currencies both in the US dollar as well as the Russian ruble year-to-date and in the third quarter.

Thomas Besson: Thank you for that. Moving to the second topic I wanted to address. If I understand correctly, with the plan, you're going to have Romania as a key new factory, plus a kind of flexible operation somewhere with your contract manufacturing operations. So you do not plan to build up a factory somewhere, right?

Teemu Kangas-Kärki: The current plan is that we will have phase three plans as stated by Jukka, and the fourth one is the virtual factory as we see today. Yeah.

Thomas Besson: Great. Thank you. And lastly, I'd like to come back to the sale. I'm sorry to ask that maybe a bit abruptly or directly. I often do that, it's nothing I can do again, that. I mean, you're the first company and we look at a lot of companies that manages to sell a Russian asset to a Russian company for an important sum of money. Most companies we've looked at exited Russia for one ruble, and we're happy to do that. So can you explain exactly both the legal and ethic considerations of the sale that happens that you've announced on Friday? And describe exactly what Tatneft is. You were keeping this asset in Q2 because you feared somehow it could be used for the long end, but now you're selling it. So I'd like to understand that. And also understand what additional write down we can already factor in? Can we already do that? The difference between €480 and €400, should we assume that necessarily €80 are going to have to be written down or is it dependent on the elements you can't comment on linked with working capital? Thank you so much.

Teemu Kangas-Kärki: If I start with the last comment or question you had about the possible write down. As we stated in our release, there are so many different factors impacting the final outcome so that we cannot estimate at this point because there are factors impacting to the process, to the timing of the closing, et cetera. So therefore it is impossible to quantify that at this point of time.

Jukka Moisio: Yeah. And then selling operation and sustainability of owning and operating factory in Russia after the sanctions became impossible. And so therefore, remaining options were considered. And then finding a buyer that is not sanctioned and will continue making passenger car tyres, both of SNC. And we believe that that's what we found. We did a lot of background work and did the work and this is the outcome.

Thomas Besson: Thank you very much, both of you.

Operator: We'll now take the next question from a panel from Deutsche Bank. I beg your pardon, Pennus[?] from Danske Bank.

Speaker: Yes, thank you. It's Pennus[?] from Danske. I have three questions. Firstly, on CapEx, thanks for guiding to factory investment well, but what is the maintenance CapEx level without the Russian factory going forward?

Teemu Kangas-Kärki: So roughly on a level of I would say now €100 million give or take.

Speaker: Okay. So it's not that much lower than it's been historically.

Teemu Kangas-Kärki: As one of - as Jukka's commenting earlier, in the coming years, some of the key metrics for us is the EBITDA. And also then we match our CapEx spend according to the EBITDA going forward on a cumulative basis.

Jukka Moisio: So through that, the mode investments are an important part of CapEx going forward that will actually skew our investments or CapEx higher.

Speaker: Okay. Makes sense. The second question was on profitability without the Russian factory. You already committed that. But if I ask it this way, that is Q3 a level that's even roughly representative of what you think you could kind of generate in terms of EBITDA margin going forward.

Teemu Kangas-Kärki: You cannot draw that kind of conclusion at all. So let's come back to that when we have closed the deal and published the restated figures. But as I stated, Russia has a significant impact, two-fold, the supply and the commercial side.

Jukka Moisio: We need to clean the numbers because there are lots of noise in our numbers, so that will have to be done before conclusions and comparables can be drawn.

Speaker: All right. My third question is on the Dayton Factory. Basically, two things about it. I mean, you are now saying that you should reach 4 million in 2024, but how is it taking so long as the first production, commercial production started in 2020 already? So have you kind of changed plans in terms of mix or something else in the factory? And then secondly, on

Dayton, do you have any plans of increasing the capacity above 4 million tyres once you get there?

Jukka Moisio: Dayton ramp up, again, as somebody was pointing out it's not the benchmark in terms of a quick ramp up. And clearly, if you remember that, unfortunately, the COVID came and we slowed down our ramp up. Now, currently increasing the volumes and so on are dependent on the equipment. So we are running flat out in Dayton. So all the capacity and capital, which is on the floor is being used, but then the new equipment come in and we install them and then we ramp up machine by machine. But I think that our plan to achieve 4 million tyres in 2024 has been there all along.

Speaker: Okay. On the plan of increasing it above 4 million.

Jukka Moisio: I think that, again, as I mentioned, that we basically achieved that. We increased capacity in Nokia and look at the Nokia factory expansions and then we built the new factory and then increase offtake. And we get to 2024, we will then explore the situation and see what needs to be done and what can be done. But obviously with these actions that we have a significant rebuild in the coming two years will take place, when we are in 2024 or late 2023, then we will see what needs to be done.

Speaker: All right. Thank you.

Operator: The next question comes from Pier Quemener from Stifel. Please go ahead.

Pierre Quemener: Good afternoon to you, Jukka, Teemu and Päivi. Just a couple of questions. But first off, [inaudible] I miss. What is your say, Jukka, regarding the Finnish factory end of this year and in 2024 regarding the passenger car tyres capacity.

Jukka Moisio: I think Finnish factory. I said that we have acquired real estate next to the factory and that historically we didn't have the opportunity to expand the footprint in Nokia because we were land restricted. Now we have acquired the real estate and we have opportunities to expand the Nokia factory and increasing the size of it and working on the plants. And as soon as we have the plant ready, then we'll get the board decisions and then we go ahead. So this is - we are working very much on Nokia expansion.

Pierre Quemener: But end of this year, what will be the actual capacity of Nokia?

Jukka Moisio: I didn't say anything. I said that -

Pierre Quemener: Okay.

Jukka Moisio: I didn't say anything. I said we are working towards 5 to 6 million in our plan as agreed, and we are installing new machines in Nokia in the latter part of this year and then prepare for next year, capacity increases.

Pierre Quemener: Okay. That's fair enough. Three questions, one on volumes development, Q3 versus Q4 and into next year, how much of the volumes of the shipments you made in Q3 were made out of inventories and how much were made out of regular production from or Dayton?

Teemu Kangas-Kärki: So far this year, our inventories are at the same level, roughly at the end of Q3.

Pierre Quemener: There is no drawdown on inventories. No drawdown on inventories. Okay. And last on Russia, sorry, to go back to the topic again, I would have to question. Like raising a previous question, you still had significant revenues from Russia in the third quarter, close to €113, €37 million in revenues. How should we think about the fourth quarter regarding Russia? And next year, I would suppose that there will be no longer Russian revenues, right?

Jukka Moisio: When we sign the deal, they still have the operation. When we close the deal, then we have no operation and we do not consolidate anything from Russia except, of course, the final impact of the purchase price. But between signing and closing, whatever we sell or deliver from inventory or manufacture in Russia will be part of our P&L. But sufficient to say that volumes, as you see that the first nine months, the share of Russian factory in our production has significantly reduced and we'll be at low level at the end of the year, towards the end of the year and until the closing.

Pierre Quemener: Okay. So Q4 should be basically the contribution from Russia in terms of revenues and profitability should be lower than what we saw in Q3. Right?

Jukka Moisio: So, again, we come back to the seasonality that some of the tires that are in inventory or warehouses in Russia they made in the early part of the year for winter season of this year. And those, of course, will be delivered to retail and distribution during the quarter. But again, it's not at the same level as previous year or what has been historically true.

Pierre Quemener: And last question regarding the asset transfer. Honestly, I still struggle to understand how you manage that kind of magic to monetise those Russian assets in a country which is under heavy sanctions, in my understanding, from both the EU and the US. But having said this, when you close the deal, will you be able to immediately repatriate the cash or can we assume that could be secreted somewhere in Russia until the war ends and then after you will be able to repatriate the cash, if at all? Thank you very much.

Teemu Kangas-Kärki: In its simplicity, we don't close the deal before we have the money.

Pierre Quemener: Okay. Very clear. Thanks.

Operator: The next question comes from Artem Beletski from SEB.

Artem Beletski: Yes, Good afternoon and thank you for taking my questions. Maybe I can start with a couple of questions relating to investments and firstly, starting with Romania. So you actually state that there is scope for further expansion beyond 6 million tyre. So could you maybe talk what is basically possible at that site, where it comes to a potential. Phase two or phase three? And could you also confirm that CapEx of €650 million also includes the mixing capacity investment on that side? And then just a quick follow up relating to a discussion, what comes to [inaudible] capacity expansion and basically land acquisition in Finland, is it basically relating to passenger car types where you are looking potentially to increase capacity or is it also EBITDA-related?

Jukka Moisio: So maybe if I start with Romania. So, yes - excuse me. It's a full business system. So including mixing tyre building as well as all the other distribution, et cetera., et cetera. So 650 million covers all that and could do [inaudible] but €100 million per $1 million tyres. So if you think about how the investment can be quantified. Also the site allows tripling the volume if we go that route. But I think that our learning, recent learning from Russia country risk and having all the eggs in one basket is probably a good guidance that we will not do that kind of an expansion. We may consider something else on that site or distribution or other things, but we will not build a new Russia in Romania. We will make sure that our production footprint will be more diversified and we have alternatives and sources to off tie us from multiple geographies, including also in the virtual factory of offtake. So I think this is the recent learning. Hopefully you all understand that this is a very important learning for all of us.

Then Nokia expansion, I believe that, of course, heavy tires is the main beneficiary of that. But at the same time, as we are installing new equipment in Nokia for passenger car tires right now and in towards the year end and be available for next year. So obviously, the combine of Nokia will then have a higher output of passenger car tyres as well as heavy tyres.

Artem Beletski: Okay. That is very clear. And then maybe just follow in with some questions [inaudible] relating to financials or the first one looking at the EBITDA breach in Q3. So there has been quite substantial negative item relating to supply chains of more than €60 million. Could you maybe a bit more discuss what is behind this negative development? Is it still basically higher logistical expenses, as you have mentioned in Q2? And then the second question is relating to price mix development, excluding Russia, up 28% year-over-year. Could you maybe indicate what is a portion of the mix in this development, as I guess you have been more selective, for example, in Central Europe when it comes to deliveries?

Teemu Kangas-Kärki: Starting with the supply chain basket there that the two biggest drivers are, as we have been discussing earlier, the logistic warehouse and that kind of stuff, plus the factory mix. Now, when we don't run our Russian factory with full speed, the negative delta is visible there. Those are the two main factors. And then you were asking about the price mix. Yeah. So in the price mix, without Russia, as I stated that the region mix has a clear impact due to that reason I said earlier. So when the share of Nordics is increasing and the share of CE is decreasing, that will be then the end result that we see here in our price mix without Russia. Not to quantify that more precisely.

Artem Beletski: All right. It's very clear. Thank you.

Operator: As there are no further questions, I would like to hand the call back over to your host for closing remarks.

Päivi Antola: Thank you. If there are no additional questions, then I would like to thank you all for participating and have a good day. Thank you.

Teemu Kangas-Kärki: Thank you. Have a good day.

Jukka Moisio: Thank you.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

[END OF TRANSCRIPT]