

An aerial photograph of a long, straight road covered in snow, winding through a dense forest of snow-laden evergreen trees. The sky is filled with soft, grey clouds, suggesting a late afternoon or dusk setting. The overall color palette is cool, dominated by blues, greys, and whites.

# SUSTAINABLE MARKET LEADERSHIP IN RUSSIA

DECEMBER 3, 2019

ANDREI PANTIOUKHOV

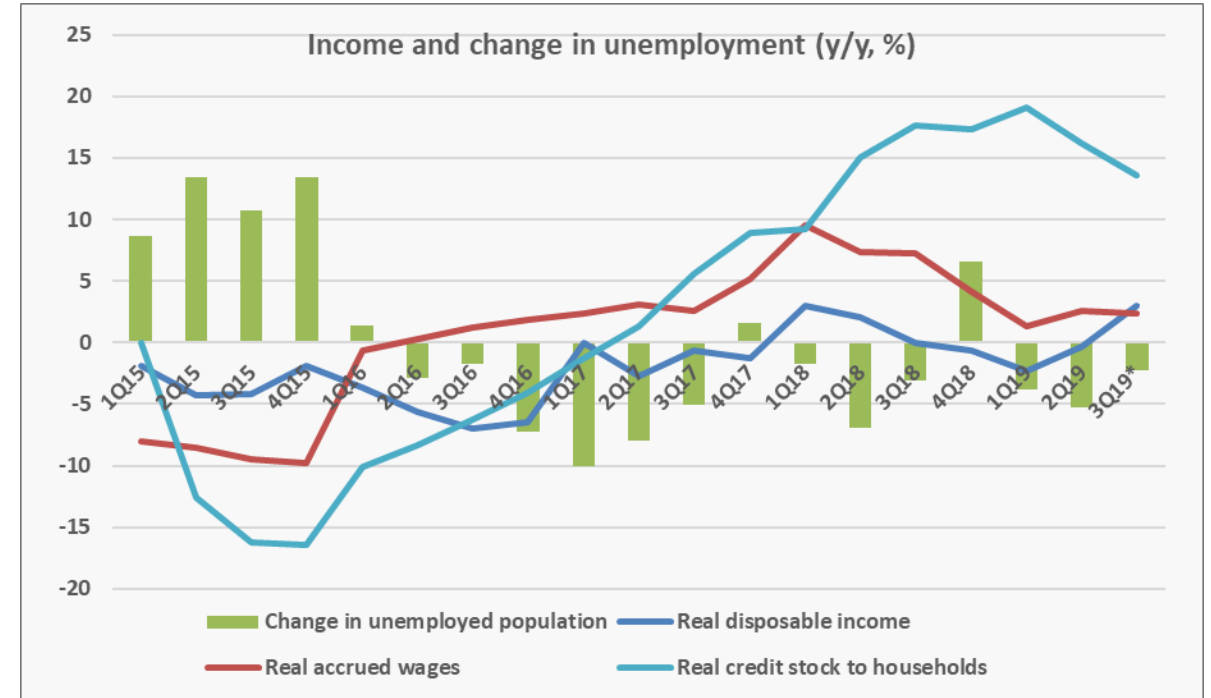
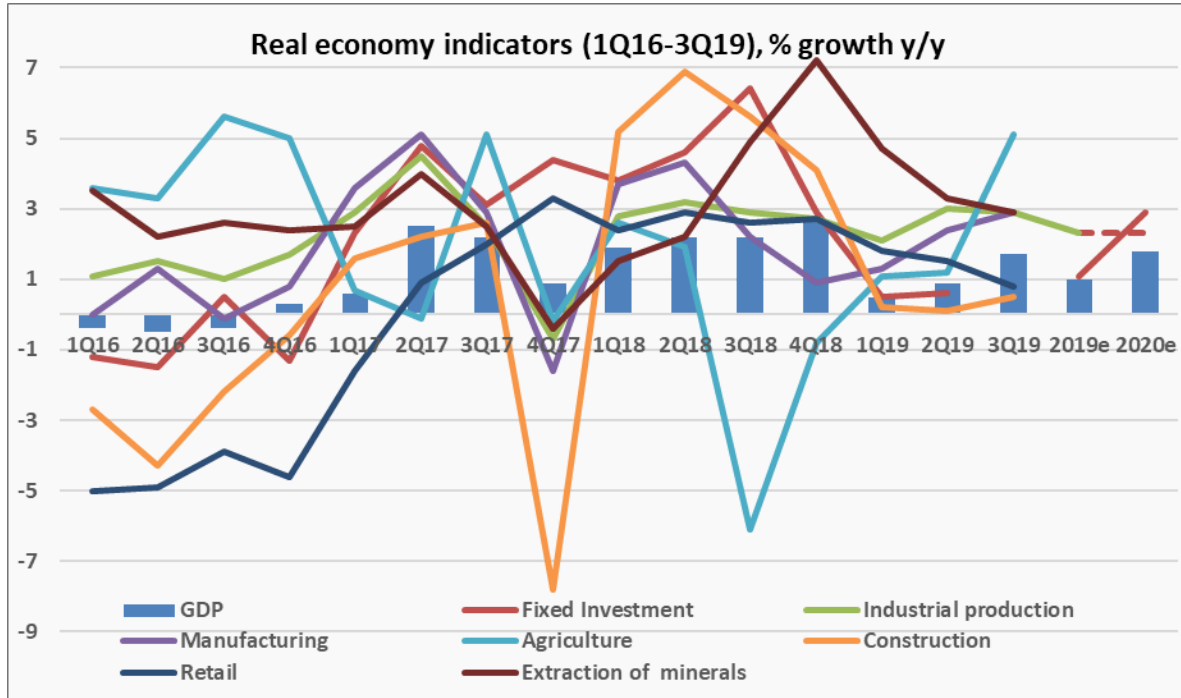
EXECUTIVE VICE PRESIDENT  
RUSSIA & ASIA

**nokian**<sup>®</sup>  
**TYRES**

# MARKET LEADER IN RUSSIA – IN ALL CONDITIONS

- Our market leadership is strongest ever
  - We continue to focus on the profitable A+B segments
  - Russia represents certain business risks, but we are well positioned to mitigate them
  - We have key building blocks for future growth that will enable us to outperform competition
- However, the market's short-term performance remains disappointing – no clear improvement in sight

# REAL ECONOMIC GROWTH AND INCOME GROWTH ACCELERATED IN 3Q19 BUT BOOST MAY BE TEMPORARY



## Real GDP growth nearly doubled from 2Q19, estimated at 1.7 % (y/y)

- In 3Q19, real GDP growth has accelerated more than expected (vs. 0.9 % in 2Q19), driven by a good yield in the agricultural sector (5.1 %) and stronger manufacturing, but most of the growth seems to have accumulated firms' reserves instead of sales. Also, export revenue declined considerably from last year (-8% (y/y) in 3Q19).
- Retail growth in 3Q19 has continued to weaken to 0.8 % (y/y) (vs. 1.6 % in 2Q19).

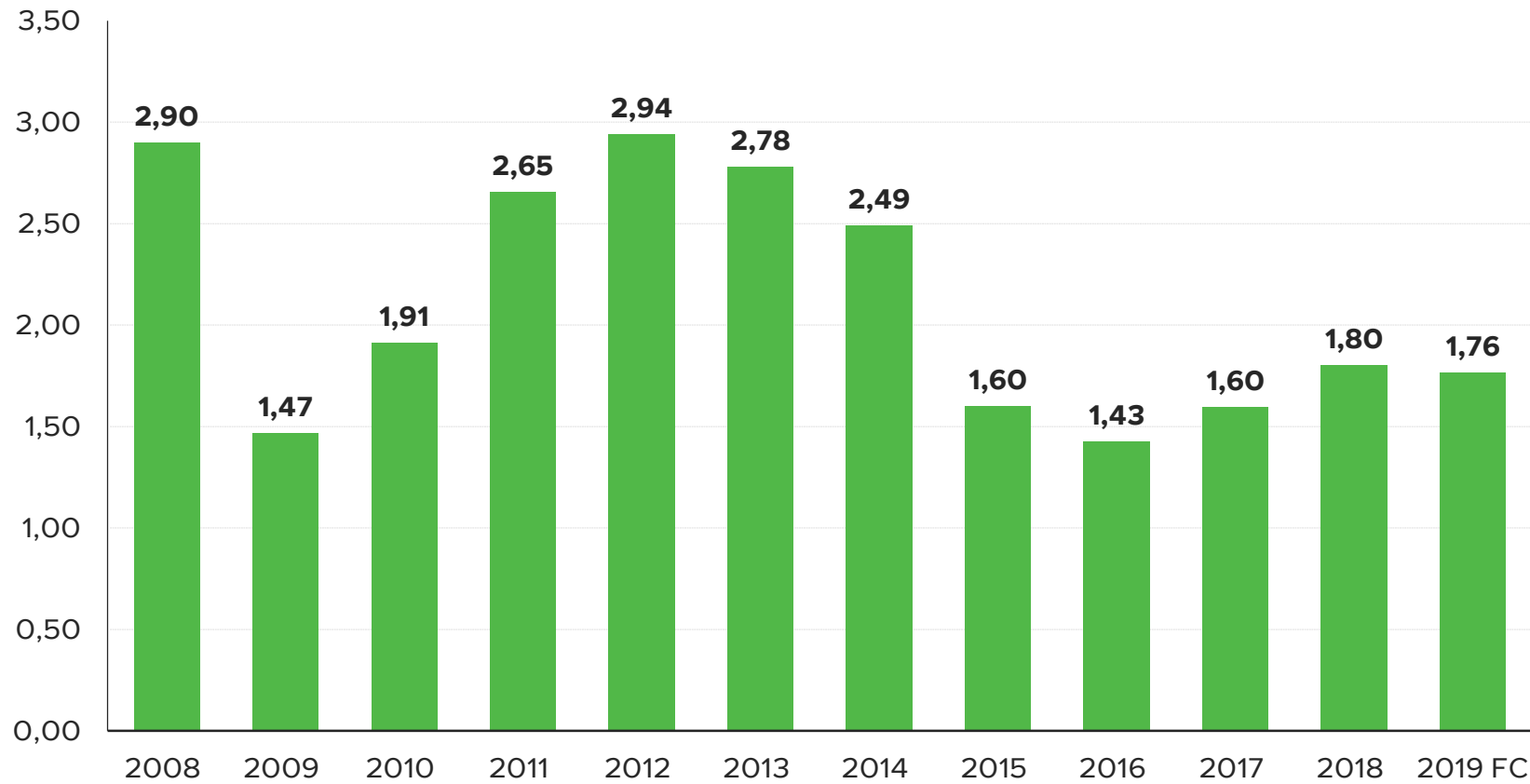
## Real disposable incomes increased fastest since 2014 in 3Q19

- Real disposable incomes grew by 3 % (y/y) in 3Q19 due to decelerated inflation, maintained growth in wages and the low base level from last year. Real disposable incomes are still below the 2013 level (-9 %). Some experts have cast doubt on the validity of the statistics.
- At the same time, unemployment rate remained at a historical low of 4.5 % (seasonally-adjusted) partly driven by the accelerating pace of decrease in the workforce.

# NEW CAR SALES IN RUSSIA STILL HAVE GROWTH POTENTIAL

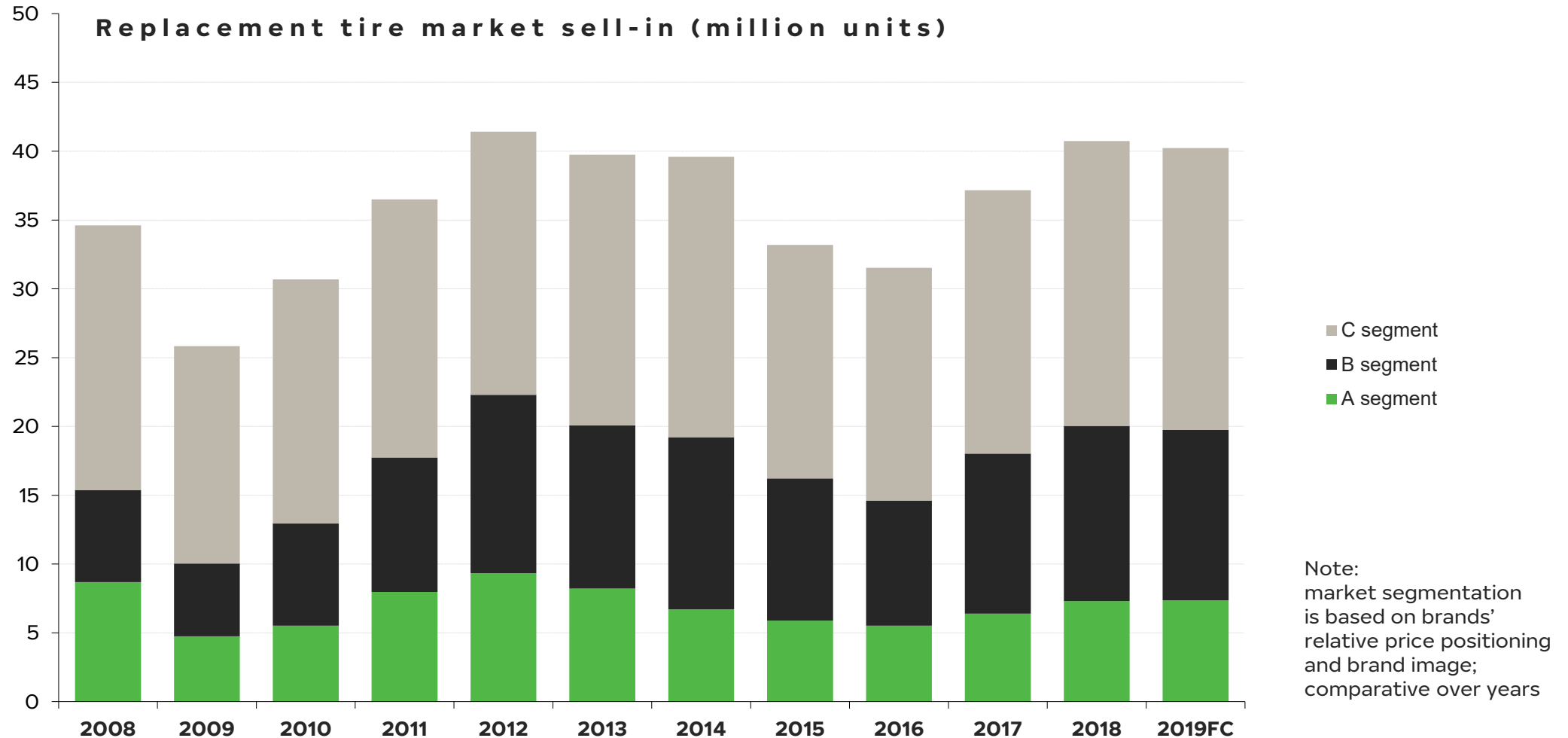
Market is well below its peak level and slightly declining in 2019

New car sales in Russia (mln units)



# RUSSIAN TIRE MARKET SLIGHTLY DECLINING IN 2019

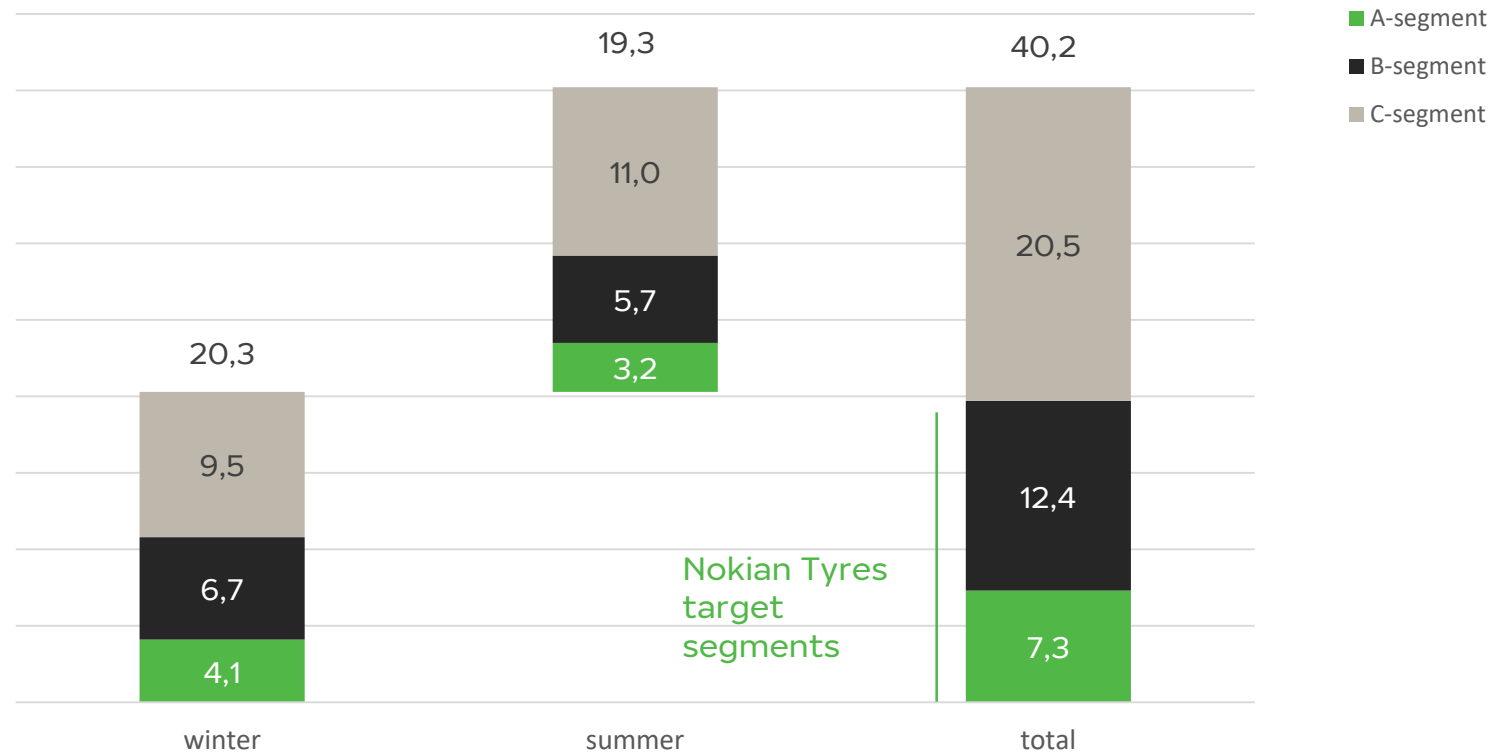
Winter tire sell-in flat with summer declining



# WE TARGET 50% OF THE REPLACEMENT MARKET

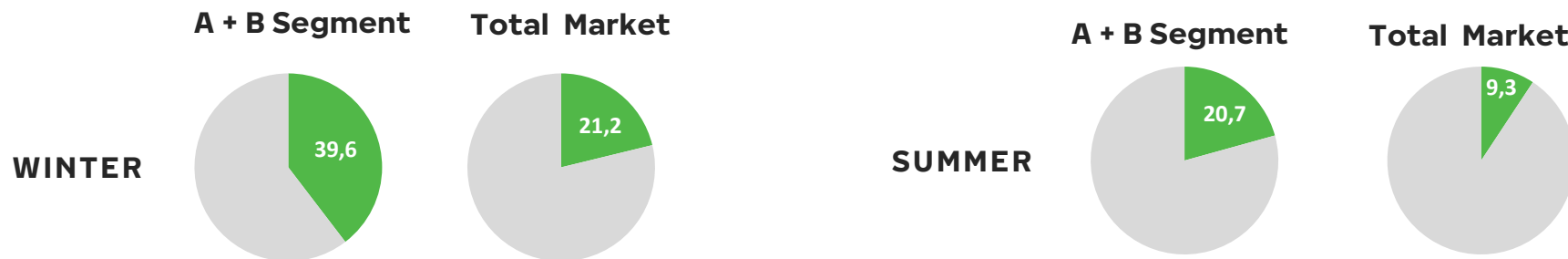
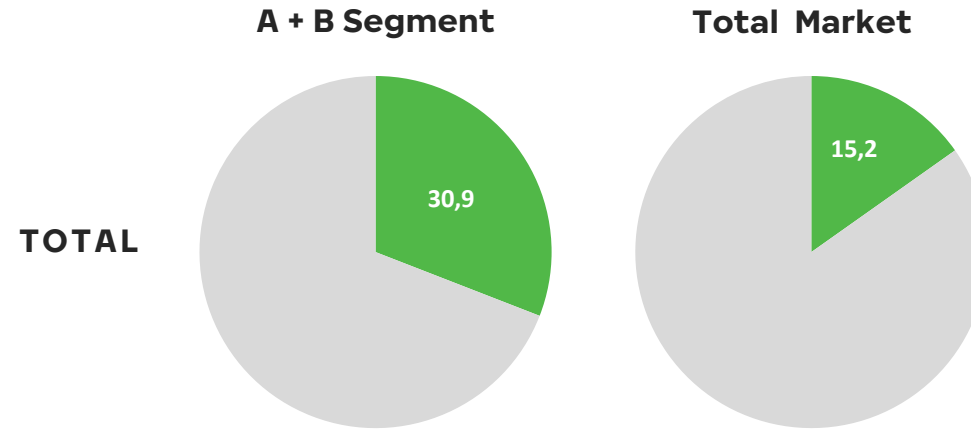
Focusing on winter and summer tires in A+B segments

Russia's estimated 2019 replacement tire market (million units)



# IN 2018, WE REACHED OUR HIGHEST EVER MARKET SHARE OF 30.9% IN A+B SEGMENTS

**2018  
market  
share (%)**



# COMPETITIVE LANDSCAPE REMAINS TIGHT IN 2019

## Fierce competition across segments

- All major tire manufacturers retain their commitment to the Russian market.
- Tire market is under pressure due to declining new car sales, personal incomes' stagnation and low consumer spending.
- Market keeps on shifting towards cheaper segments. C-segment players are improving positions especially in R13-R14 sizes.
- Premium-brand players are building up their offering in lower segments, often with old models and very competitive pricing. Boundaries between segments continue to blur.
- Competitors in all segments play more aggressively with pricing and sell-out support actions – special discounts, cash-back campaigns, special promotions, etc.
- Sales and imports of budget models is impacted by currency exchange rate dynamics.
- Obligatory tire marking, due to be implemented in Russia in 2020, is expected to result in consolidation among both tire manufacturers and retailers: smaller importers, especially from Asia, are expected to give ground to locally established manufacturers, whereas smaller retailers are likely to lose out to bigger chains.



# WE ARE WELL POSITIONED TO MITIGATE RISK

## Business risks

## Action

Market risks: economic slowdown or even recession leading to the further deterioration of consumers' disposable incomes and demand



Wide product range covering all segments: switch to cheaper segments in case of weak demand

Credit risks: potential bankruptcies of distributors, fraud



Flexible financial terms with distributors' stock audits; tighter requirements towards credit security. Evolution of business model to minimize credit risks.

Technical regulation risks: adoption of unfavorable standards & regulations



Lobbying, pro-active participation in technical regulation development and adoption; wide PR in cooperation with other tire manufacturers (TMA, EcoTyresUnion)

- ELT recycling
- Obligatory tire marking

Business interruption risks due to the actions of Russian authorities: official inspections, counter-sanctions, import/export restrictions



Close cooperation with the Russian authorities on all levels; pro-active support of their initiatives; compliance with legislation

# HIGHLY EFFICIENT LARGE-SCALE PRODUCTION IN RUSSIA IS A KEY COMPETITIVE ADVANTAGE



ONE OF THE MOST EFFICIENT TIRE FACTORIES IN THE WORLD

THE LARGEST EXPORTER OF CONSUMER GOODS IN RUSSIA



ANNUAL PRODUCTION CAPACITY

17 MILLION TIRES

24/7

OPERATION IN FOUR 12-HOUR SHIFTS 330 DAYS A YEAR



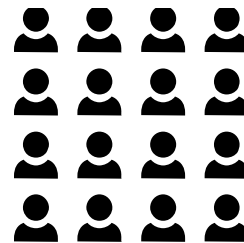
HIGHEST QUALITY LEVEL

EXPERIENCED TEAM OF HIGHLY QUALIFIED PROFESSIONAL EMPLOYEES



PERSONNEL ~1,600 PEOPLE

100 x



VERY HIGH COMPLEXITY OF PRODUCTION

# WE AIM TO KEEP OUTPERFORMING COMPETITION

Main building blocks for future growth



- Leadership in product performance and quality
- Comprehensive product portfolio
- Optimized price positioning within and across A+B segments



- Best tires for all conditions
- Ultimate choice by consumers
- High brand awareness and intent to buy
- Brand promotion through effective creative solutions



- Close partnership with distributors
- Flexible financial terms
- Effective support of sell-out
- Multi-channel distribution structure
- Upgrade of online solutions

**HIGHLY EFFICIENT LARGE-SCALE LOCAL PRODUCTION**

# SUCCESSFUL PRODUCT POLICY

Wide range of car, SUV & light truck tires

1



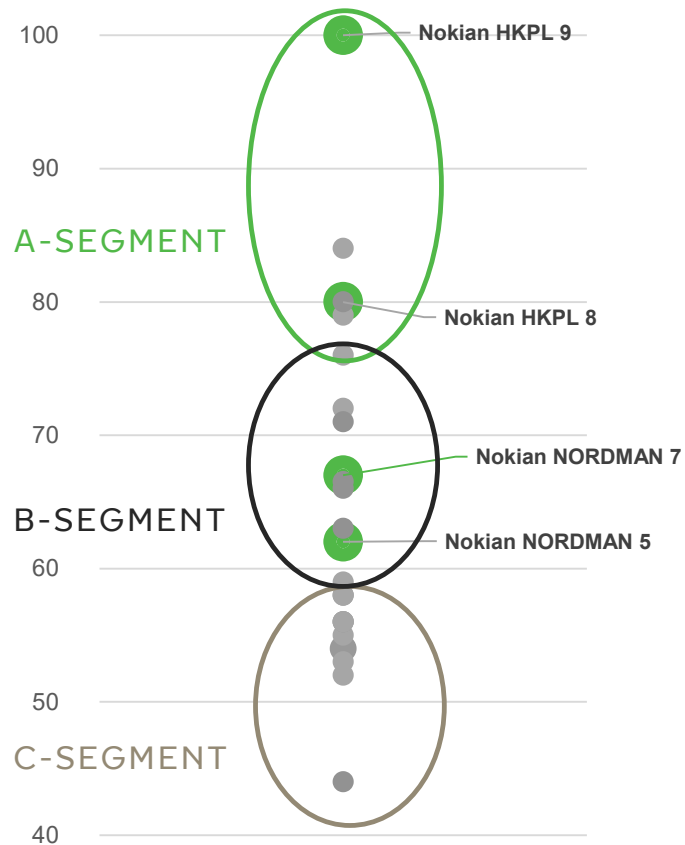
- Full coverage of **both A & B segments**
- 2 modern models in every segment of studded winter tires (HKPL 9 & HKPL 8, Nordman 7 & Nordman 5)
- Car tires: over **380** products from 13" to 22"
- SUV tires: over **330** products from 15" to 22"
- Light truck tires: about **100** products from 14" to 20"

# PRICE LEADER IN WINTER TIRES

Optimized product range and pricing are key for profitable market leadership

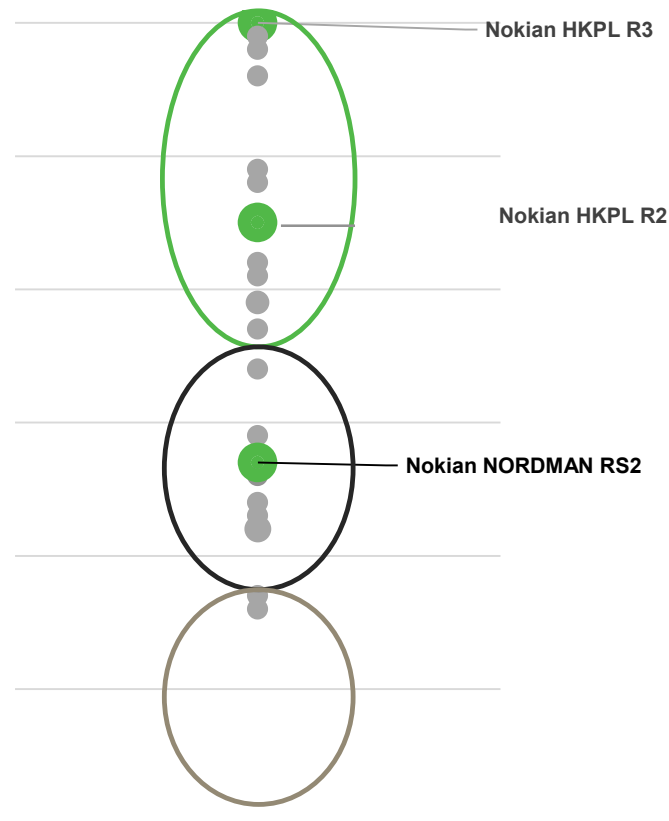
## STUDED TIRES

HKPL 9 = 100

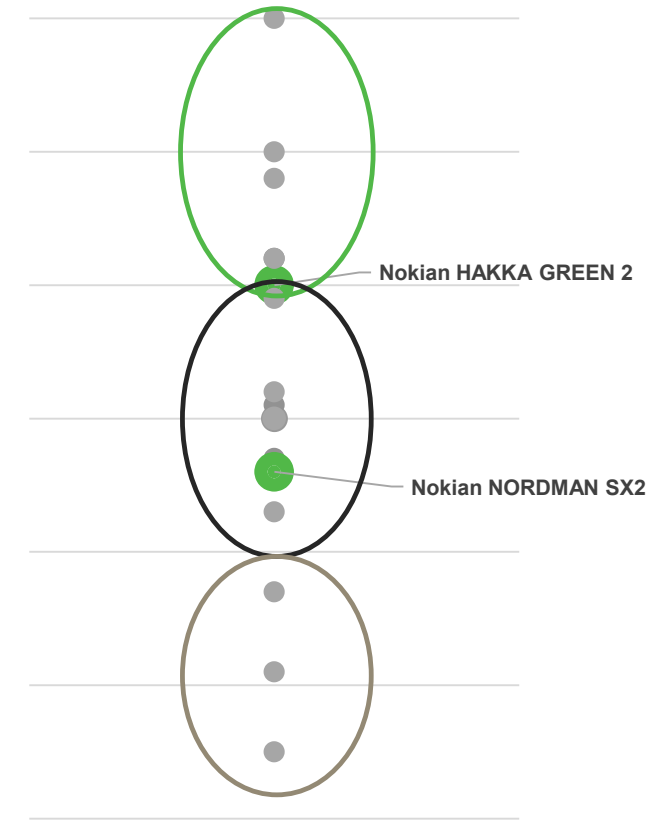


## STUDLESS TIRES

HKPL R3 = 100

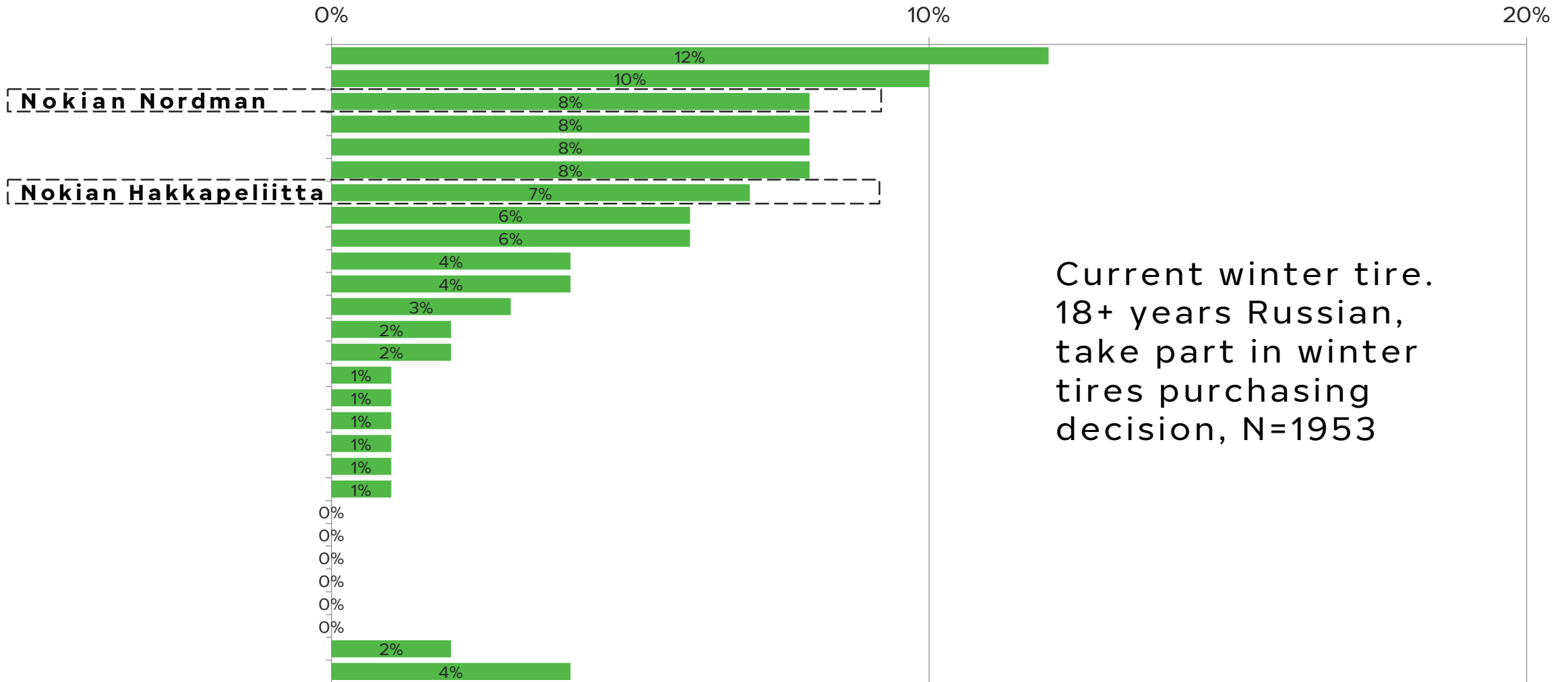


## SUMMER TIRES



# STRONG BRAND – LEADER OF WINTER TIRE BRANDS (1)

Currently 15% of all Russian consumers use Nokian winter tires

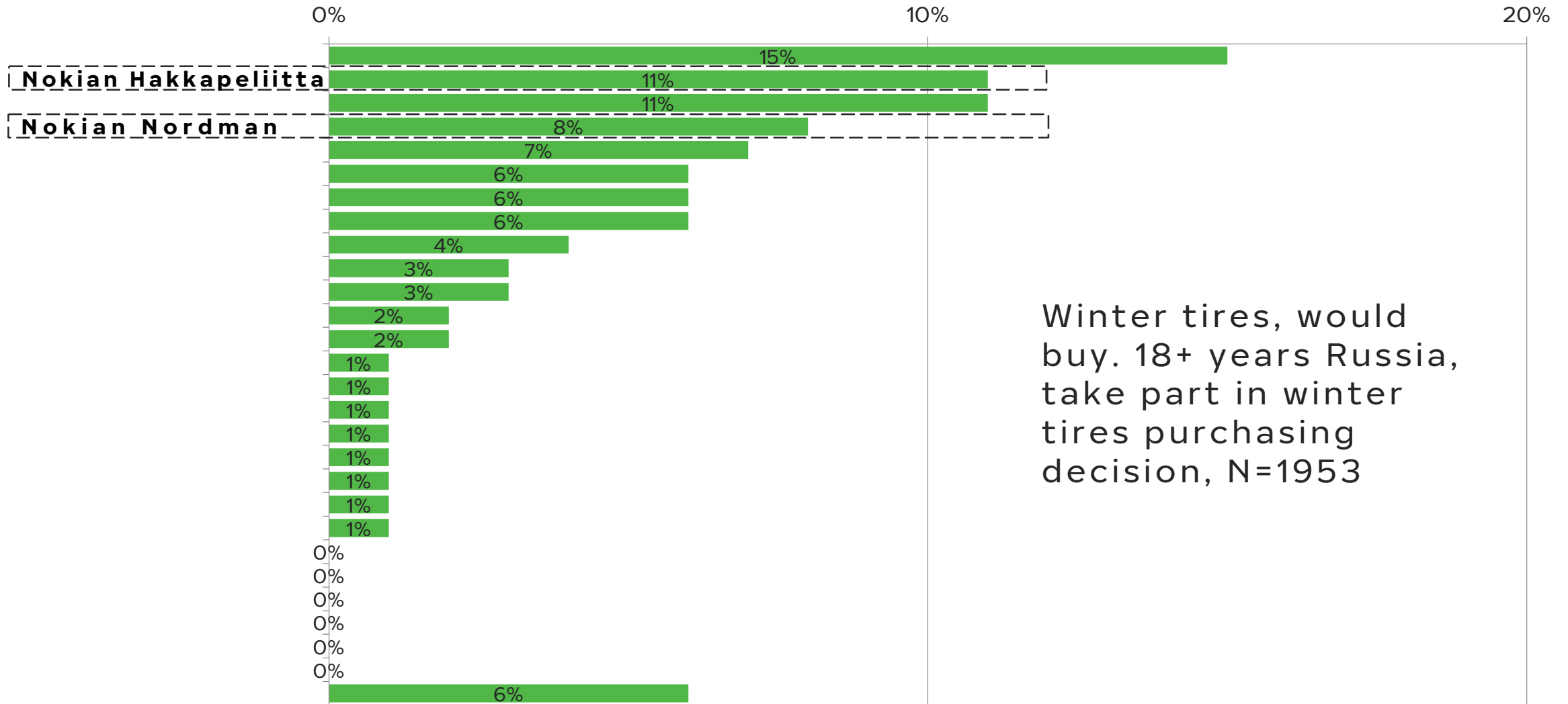


Current winter tire. 18+ years Russian, take part in winter tires purchasing decision, N=1953

# STRONG BRAND – LEADER OF WINTER TIRE BRANDS (2)

2

Almost 20% of all Russian consumers would buy Nokian winter tires – room for growth



Winter tires, would buy. 18+ years Russia, take part in winter tires purchasing decision, N=1953

# WE HAVE A MULTI-CHANNEL DISTRIBUTION NETWORK...

3

## Official distributors

- Integrated wholesale / retail operations
- Federal retail chains with active online presence
- Regional or federal wholesale operations

## Tire retail

- Professional tire retail
  - Hakka Guarantee network of ~2,900 POS
- Controlled / franchised tire retail
  - Vianor 334 shops
  - N-TYRE + NAD 139 shops
- Web-shops

## Automotive

- Car manufacturers (> 20)
- Loose winter tires and complete wheel programs
- Car dealers
  - Total ~ 3,100 POS

## Corporate Fleet Customers

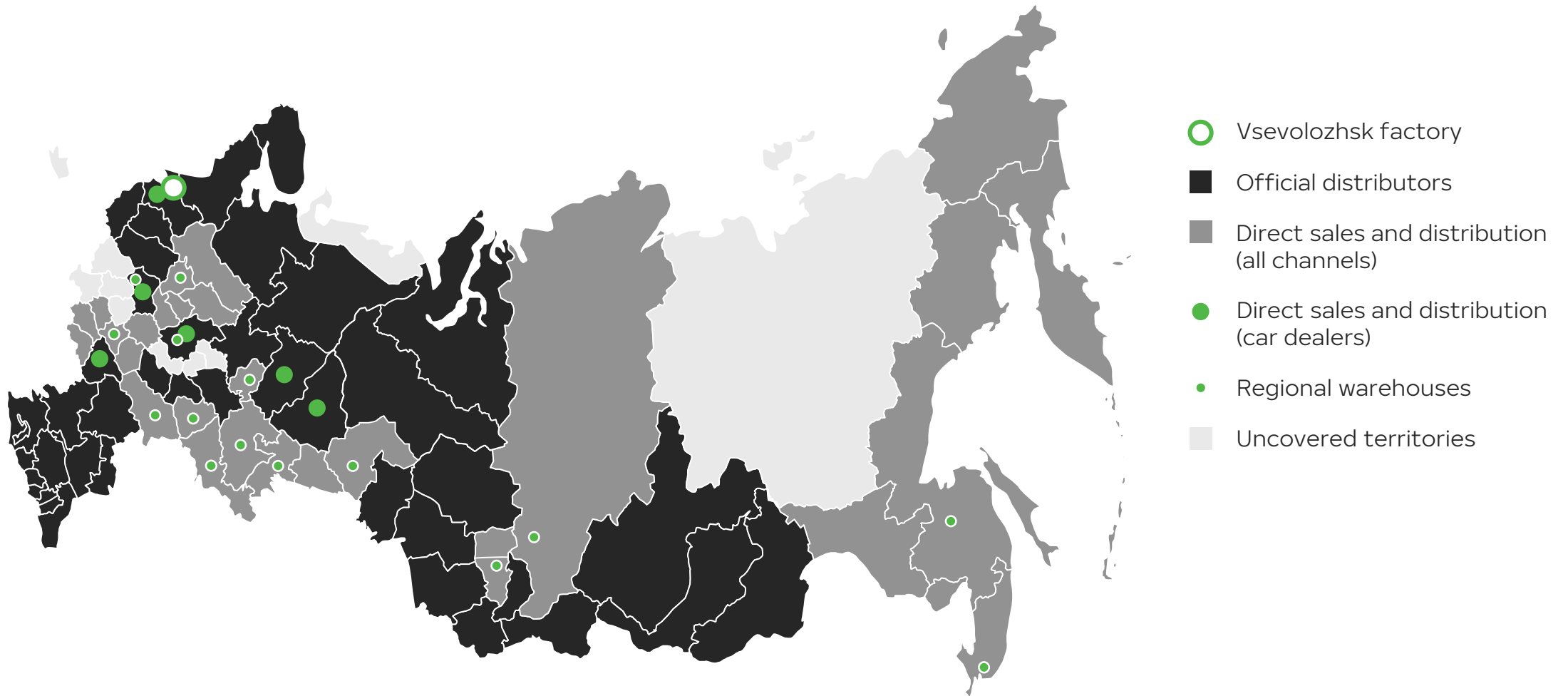
- Federal and regional-scale companies with own fleet
- Leasing companies
- Taxi operators
- Car sharing operators

**CONSUMERS**





# ...SUPPORTED BY VERSATILE DISTRIBUTION MODELS



# WE PROVIDE EFFECTIVE SELL-OUT SUPPORT

3

Examples of marketing campaigns and actions



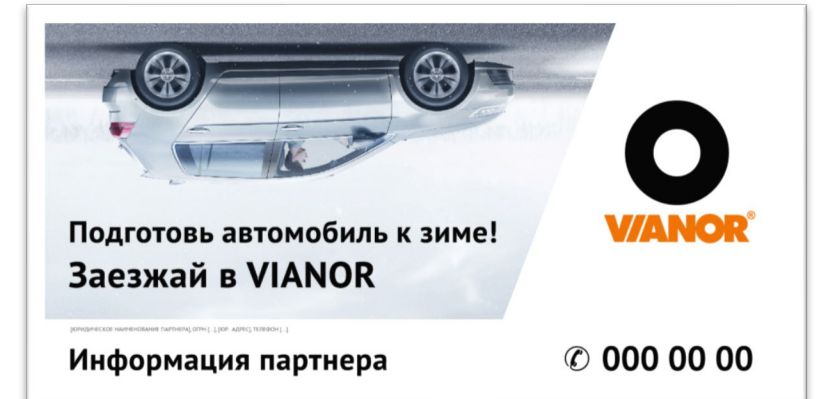
## Hakka Guarantee

- Extended Guarantee for Nokian Tyres products to support sell-out (free repair or replacement of damaged tire)
- ~ 2,900 POS participate in program
- About 700 Authorized shops to provide service



## Discounted tire mounting

- Marketing program for consumers to drive sell-out in selected professional tire retail
- Effective marketing tool to support price positioning
- Autumn 2019 – 212 joint campaigns with partners (~500 retail shops)

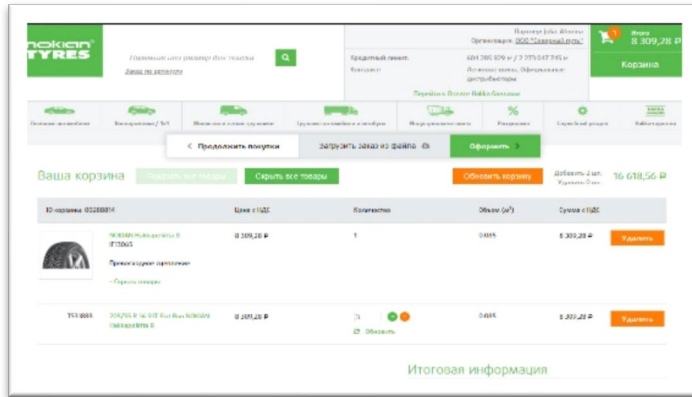


## Franchising support

- Seasonal advertising support for VIANOR & N-TYRE retail brands, including promotion of VIANOR.ru marketplace

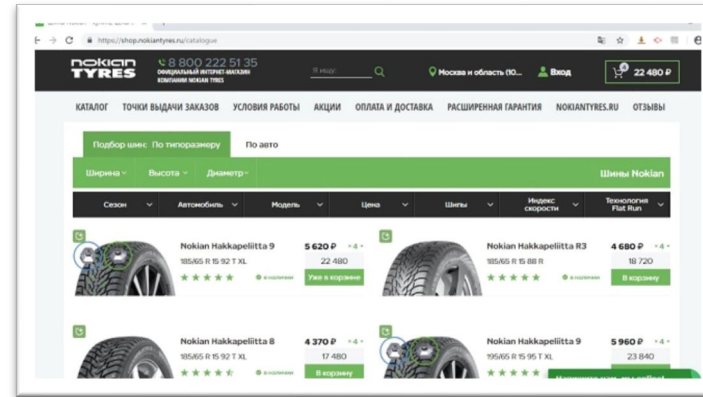
# PIONEERING IN DIGITAL TIRE BUSINESS

Examples of running e-commerce solutions and business models



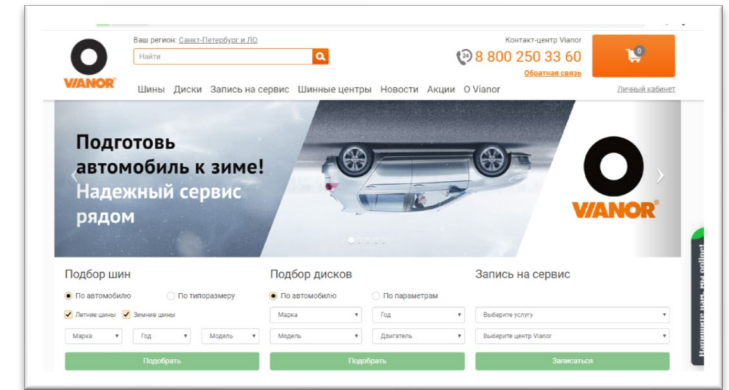
## B2B

- Comprehensive web platform for business-to-business customers
- Currently covering over 95% of all incoming customer orders



## B2C: since 2011

- Own Nokian Tyres web shop being converted into Nokian Tyres online marketplace



## vianor.ru

- Sustainable, flexible and user-friendly marketplace aligned with business needs of Vianor partners and preferences of online consumers

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Russia & Asia

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**TYRES**