

## CORPORATE GOVERNANCE STATEMENT

### I Introduction

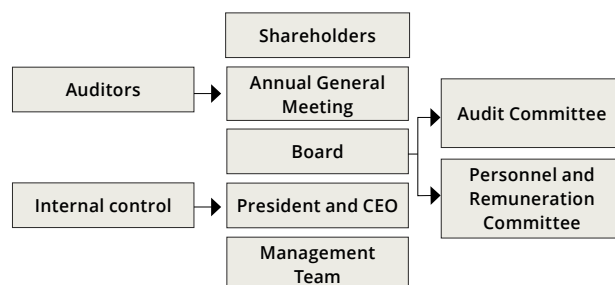
Nokian Tyres plc (hereinafter referred to as the "Company") complies with the recommendation concerning the Corporate Governance for Finnish listed companies (Corporate Governance 2015) that came into force on January 1, 2016, and the company has not departed from the recommendations in the said code. The code document is available in its entirety at [www.cgfinland.fi/en/](http://www.cgfinland.fi/en/). The Company follows the Finnish Limited Liability Companies Act, the Finnish Securities Markets Act, the Acts on auditing and accounting, EU-level regulations, the Nasdaq Helsinki rules and the regulations, and instructions from the Financial Supervisory Authority.

The Company publishes its Corporate Governance Statement as a separate document and as part of the annual report. The statement also includes a Report of the Salaries and Remuneration.

The Company's corporate governance is based on the annual general meeting, the Articles of Association, the Board of Directors, the President and CEO, the group's management team, the legislation and regulations mentioned above as well as the group's policies, procedures, and practices. The Board of Directors has approved the Corporate Governance Statement. The Company's auditors verify that the statement and its related descriptions of the internal reporting controls and risk management correspond to the financial reporting process. The statement will not be updated during the financial period; however, up-to-date information will be updated on the Company's website at [www.nokiantyres.com/company/investors/](http://www.nokiantyres.com/company/investors/).

### II Descriptions concerning governance

#### Nokian Tyres' administrative organization



### Annual General Meeting and Articles of Association

The Company's highest decision-making power is held by the Annual General Meeting, whose tasks and procedures are outlined in the Limited Liability Companies Act and the Articles of Association. The Annual General Meeting decides on such matters as the confirmation of the company's annual accounts, profit distribution, and discharging the Board of Directors and the President from liability. The Annual General Meeting elects the members of the Board of Directors and the auditor and determines their remuneration. In addition, the Annual General Meeting can make decisions on questions such as amendments to the Articles of Association, share issues, granting warrants, and acquisition of the company's own shares.

An extraordinary general meeting is summoned whenever the Board considers this to be necessary or if an auditor or a group of shareholders with a holding of a total of at least one-tenth of the entire stock requires it in writing in order to address a particular issue.

The Annual General Meeting is held by the end of May of each year on a date determined by the Board of Directors, either at the Company's registered place of business or in the city of Tampere or Helsinki. The Articles of Association state that the invitation to the Annual General Meeting must be published in one daily newspaper distributed nationwide and one distributed in the Tampere region. In addition, the Company publishes the invitation to the Annual General Meeting as a stock exchange release and on its website. The invitation lists the agenda of the meeting. The Board's proposals to the meeting are available on the Company's website before the meeting.

The Company's Articles of Association are available on the Company's website at [www.nokiantyres.com/company/investors/](http://www.nokiantyres.com/company/investors/).

The Annual General Meeting for 2017 took place on April 10, 2017 at the Tampere Hall in Tampere. The meeting confirmed the consolidated financial statements and discharged the Board members and the President for liability for the fiscal year 2016. All of the documents related to the Annual General Meeting are available on the Internet at [www.nokiantyres.com/company/investors/](http://www.nokiantyres.com/company/investors/).

The Annual General Meeting for 2018 will take place on April 10, 2018 at 4 pm in Tampere.

#### Shareholder's rights

According to law, shareholders are entitled to subject matters belonging to the Annual General Meeting's scope of power to be addressed at the meeting. This requires that the shareholder submit the requirement to

the Board of Directors in writing, far enough in advance that the matter can be added to the agenda on the invitation.

Shareholders registered in the company's shareholder register by the date specified on the invitation to the Annual General Meeting, 8 days before the meeting (the record date), are entitled to attend the Annual General Meeting. Shareholders can also authorize a proxy to act on their behalf at the Annual General Meeting. Owners of administratively registered shares can be temporarily added to the shareholder register in order to make them eligible to attend the Annual General Meeting.

At the Annual General Meeting, shareholders are entitled to use the entire number of votes that they own on the record date. Shareholders have the right to present questions regarding issues on the General Annual Meeting's agenda. In addition, shareholders are entitled to suggest draft resolutions concerning those matters belonging to the scope of power of the Annual General Meeting and included on its agenda.

#### Board of Directors

The Board is responsible for corporate governance and the appropriate conduct of ordinary activities pursuant to the Limited Liability Companies Act and other regulations. The board holds the general authority in company-related issues, unless other company bodies have the authority under the applicable legislation or articles of association. The policies and key tasks of the Board are defined in the Limited Liability Companies Act, the Articles of Association, and the Board's rules of procedure. The key tasks include:

- Consolidated financial statements, half year report, interim reports
- Proposals to the Annual General Meeting
- Appointing and dismissing the President and CEO
- Organization of financial control.

In addition, the Board deals with, and decides on, matters of principle, as well as issues that carry financial and business significance, such as:

- Group and business unit strategies
- The Group's action, budget, and investment plans
- The Group's risk management and reporting procedures
- Decisions concerning the structure and organization of the Group
- Significant individual investments, acquisitions, divestments, and reorganizations
- The Group's insurance and financing policies
- Reward and incentive schemes for the Group's management
- Appointing Board committees
- Monitoring and evaluating the actions of the President and CEO.

## CORPORATE GOVERNANCE STATEMENT

The Company has a separate Audit Committee and a Personnel and Remuneration Committee.

The President and CEO of Nokian Tyres is in charge of ensuring that the Board members have necessary and sufficient information on the Company's operations.

The Board assesses its activities and operating methods by carrying out a self-evaluation once a year. Members of the Board will not participate in making a decision where the law states they must be disqualified due to a conflict of interest.

### Composition of the Board

According to the Articles of Association of Nokian Tyres, the Board of Directors comprises no fewer than four and no more than eight members. The number of Board members and the composition of the Board shall be such that the Board is capable of efficiently carrying out its tasks, while taking account of the requirements set by the Company's operations and its stage of development. The elected Board members must be qualified for the task and able to allocate enough time for the Board duties. The proposal regarding the composition of the Board for the Annual General Meeting is prepared by the Personnel and Remuneration Committee. The Board shall have no fewer than two representatives from both genders. This goal has been met in the current Board. The principles concerning the selection of the Board and its diversity are shown on the Company's website at [www.nokiantyres.com/company/investors/](http://www.nokiantyres.com/company/investors/).

Members of the Board are elected at the Annual General Meeting for a one-year term of office that begins after the closing of the Annual General Meeting and ends at the end of the next Annual General Meeting. The Board of Directors appoints a Chairman and a Vice Chairman from among its members. The remuneration payable to the Board members is also confirmed at the Annual General Meeting.

The Board will decide on the committees and their chairpersons and members each year during the constituent meeting. In 2017, the Personnel and Remuneration Committee and the Audit Committee were operational.

The Board meetings usually take place in Helsinki. The Board also visits the main units of the Group and holds its meetings at these locations. When necessary, telephone conferences can also be arranged. The Vice President responsible for finance and control and other Group Management Team members as well as the internal auditor participate in the Board meetings, when necessary. The auditor participates in the annual meeting dealing with financial statements and

auditing plan. The Group General Counsel is the secretary of the Board.

### Information on the Board members

The Annual General Meeting on April 10, 2017 elected 7 members. Heikki Allonen, Tapio Kuula, Raimo Lind, Veronica Lindholm, Inka Mero, and Petteri Walldén were re-elected. George Rietbergen was elected as a new member. In addition to the people listed above, Hille Korhonen, who became the Company's President and CEO on June 1, 2017, was also a member of the Board until April 10, 2017.

### Petteri Walldén, Chairman of the Board (b. 1948)

Member of the Board since 2005. Member and Chairman (from November 14, 2017 onward) of the Personnel and Remuneration Committee.

Education: Master of Science (Engineering).

Key experience:

2007–2010 Alteams Oy, President and CEO;  
2001–2005 Onninen Oy, President and CEO;  
1996–2001 Ensto Oy, President and CEO;  
1990–1996 Nokia Kaapeli Oy, President and CEO;  
1987–1990 Sako Oy, President and CEO.

Key positions of trust:

Chairman of the Board: Savonlinna Opera Festival, Componenta Oyj  
Vice Chairman of the Board: Tikkurila Oyj  
Member of the Board: Efla Oy, Kuusakoski Group Oy.

### Heikki Allonen (b. 1954)

Member of the Board since 2016. Member of the Audit Committee.

Education: Master of Science (Engineering).

Full-time position: Hemmings Oy Ab, President and CEO

Key experience:

2016– Hemmings Oy Ab, President and CEO  
2008–2016 Patria Oyj, President and CEO;  
2004–2008 Fiskars Oyj, President and CEO;  
2001–2004 SRV Oyj, President and CEO;  
1992–2001 Wärtsilä Oy (Metra Oy Ab), Member of the Board;  
1991–1992 Metra Oy Ab, VP of Development;  
1986–1991 Oy Lohja Ab, VP/Assistant VP of Corporate Planning.

Key positions of trust:

Vice Chairman of the Board: VR Group Oy  
Member of the Board and Chairman of the Audit Committee: Detection

Technology Oyj

Member of the Board: Savox Oy Ab

### Hille Korhonen (b. 1961)

Member of the Board from 2006 to 2017, until April 10, 2017.

Member of the Personnel and Remuneration Committee.

Education: Licentiate of Science (Technology).

Full-time position: President and CEO, Nokian Tyres plc (since June 1, 2017)

### Tapio Kuula (1957–2017)

Member of the Board between 2015 and 11/2017. Chairman of the Personnel and Remuneration Committee until 11/2017.

Education: M.Sc. (Econ), M.Sc. (Electrical Engineering), B.Sc. (Econ).

Honorary Doctor in Technology (Lappeenranta University of Technology)

Key experience:

2009–2015 Fortum Corporation, President and CEO;  
2000–2009 Fortum Power and Heat Oy, President;  
2005–2009 Fortum Corporation, Senior Vice President;  
2000–2005 Fortum Corporation, President, Power and Heat Sector;  
1999–2000 Fortum Power and Heat Oy, Senior Executive Vice President;  
1997–1998 Imatran Voima Oy, Executive Vice President, member of the Management team and the Board;  
1996–1997 Imatran Voima Oy, Director, Distribution;  
1995–1996 Länsivoima Oyj, Deputy Managing Director;  
1993–1996 Jyllinkosken Sähkö Oyj, Managing Director;  
1989–1993 Koillis-Pohjan Sähkö Oy, Managing Director;  
1988–1989 Energy Utility of the City of Seinäjoki, Managing Director;  
1986–1988 Stuart Edgar Ltd. (G A Serlachius) UK, System Development Manager;  
1984–1986 G A Serlachius, System Development Manager;  
1980–1984 Koillis-Pohjan Sähkö Oy, Research Manager.

Key positions of trust:

Co-chairman: Northern Dimension Business Council  
Member of the Board: Fortum Corporation

### Raimo Lind (b. 1953)

Member of the Board since 2014. Vice Chairman (since November 14, 2017). Chairman of the Audit Committee. Member of the Personnel and Remuneration Committee (since November 14, 2017).

Education: Master of Science (Economics).

## CORPORATE GOVERNANCE STATEMENT

### Key experience:

2005–2013 Wärtsilä Oyj Abp, CFO, Senior Executive Vice President and deputy to the CEO;

1998–2004 Wärtsilä Oyj Abp, CFO;

1992–1997 Tamrock, President of Coal Division, President of Service Division, CFO;

1990–1991 Scantrailer Oy, Managing Director;

1976–1989 Wärtsilä Oyj Abp, Service Division, Vice President; Wärtsilä Singapore Ltd, Managing Director; Wärtsilä Diesel Division, VP Group Controller.

### Key positions of trust:

Chairman of the Board: Elisa Oyj, Nest Capital

Member of the Board: HiQ AB

### Veronica Lindholm (b. 1970)

Member of the Board since 2016. Member of the Personnel and Remuneration Committee.

Education: Master of Science (Economics).

Full-time position: Finnkinno Oy, Managing Director

### Key experience:

2015– Finnkinno Oy, Managing Director;

2013–2015 Mondelez Finland, Managing Director;

2009–2013 Walt Disney Company Nordic, VP, Chief Marketing Officer;

2008–2009 Walt Disney Studios, Head of Digital Distribution EMEA;

2000–2008 Walt Disney International Nordic, Marketing Director.

### Key positions of trust:

Chairman of the Board: Forum Cinemas SIA and Forum Cinemas UAB

Member of the Board: Service Sector Employers PALTA and the Finnish Chamber of Films

Member of the Supervisory Board: Forum Cinemas AS

### Inka Mero (b. 1976)

Member of the Board since 2014. Member of the Audit Committee.

Education: Master of Science (Economics).

Full-time position: Co-founder and Chairman, Pivot5 Oy

### Key experience:

2016– Pivot5 Oy, Co-founder and Chairman;

2008– KoppiCatch Oy, Co-founder and Chairman;

2006–2008 Playforia Oy, CEO;

2005–2006 Nokia Corporation, Director;

2001–2005 Digia Oyj, VP, Sales and Marketing;

1996–2001 Sonera Oyj, Investment Manager.

### Key positions of trust:

Chairman of the Board: KoppiCatch Oy, Pivot5 Oy

Member of the Board: Fiskars Oyj, YIT Oyj

### George Rietbergen (b. 1964)

Member of the Board since 2017. Member of the Audit Committee.

Education: Master of Business Administration

Full-time position: Partner of 5Square Committed Capital

### Key experience:

2017– 5Square Committed Capital, Partner;

2016 Nokian Tyres plc, Advisor to the board;

2015–2016 Arriva Netherlands, COO;

2013–2015 Goodyear Dunlop, Group Managing Director, DACH, Germany;

2012–2013 Goodyear Dunlop, Vice President, Commercial Tires, EMEA Belgium;

2010–2012 Goodyear Dunlop, Group Managing Director, UK & Ireland UK;

2005–2010 Goodyear Dunlop, General Manager, Benelux Netherlands;

2002–2005 Goodyear Dunlop, Director, Retail, EMEA Netherlands;

2001–2002 Goodyear Dunlop, Director, E-Business and Retail Business, EMEA Netherlands;

1999–2001 KLM Royal Airlines, Director of E-Business.

### Independence of the Board members

The Board members are independent of the company. All Board members are independent of all major shareholders of the company.

### The Board members' ownership of Nokian Tyres

Nokian Tyres holdings of the current Board members and persons closely associated	Number of shares, December 31, 2017
Petteri Walldén, chairman	19,517
Heikki Allonen, member	1,193
Raimo Lind, member	2,851
Veronica Lindholm, member	1,193
Inka Mero, member	2,586
George Rietbergen, member	530
<b>Total</b>	<b>27,870</b>

### The Board members' attendance at meetings

The Board met 17 times in 2017.

Attendance at meetings by the Company's Board members in 2017	Attendance/ meetings
Petteri Walldén, chairman	17/17
Heikki Allonen, member	17/17
Hille Korhonen, member until April 10, 2017	3/6
Tapio Kuula, member until 11/2017	12/14
Raimo Lind, member	17/17
Veronica Lindholm, member	16/17
Inka Mero, member	17/17
George Rietbergen, member since April 10, 2017	11/11

### Committees of the Board

The Board appoints its committees annually at its first constituent meeting following the Annual General Meeting. The Board chooses the members and chairman for the committees from among its members. Each committee must include no fewer than three members having the competence and expertise necessary for working in the committee. The members of the Audit Committee must be independent of the company, and at least one member must be independent of all major shareholders. The majority of the members of the Personnel and Remuneration Committee must be independent of the company. The President and CEO and the other members of the company management cannot act as members of the Personnel and Remuneration Committee.

### Personnel and Remuneration Committee

The committee prepares the Board's proposal to the Annual General Meeting on the members to be appointed to the Board of Directors and the remuneration to be paid to the Board members. In addition, the committee prepares a proposal to the Board on the company's President and CEO and on the salary and other incentives paid to the President and CEO. The Personnel and Remuneration Committee also submits a proposal to the Board on the allocation and criteria of employee stock options, share rewards and other incentives. The committee has no independent decision-making power; collective decisions are made by the Board, which is responsible for carrying out the tasks assigned to the committee.

In 2017, the members of the Personnel and Remuneration committee were Petteri Walldén (Chairman from November 14, 2017), Hille Korhonen (until April 10, 2017), Tapio Kuula (Chairman until 11/2017), Veronica

## CORPORATE GOVERNANCE STATEMENT

Lindholm, and Raimo Lind (member from November 14, 2017).

The committee assembled 5 times.

All committee members are independent of the company and of all major shareholders.

### Audit Committee

The Audit Committee assists the Board of Directors in its regulatory duties and reports to the Board. The committee has no independent decision making power; collective decisions are made by the Board, which is responsible for carrying out the tasks assigned to the committee.

According to the rules of procedure specified by the Board, the committee controls that bookkeeping, financial administration, financing, internal auditing, audit of the accounts, and risk management are appropriately arranged in the Company. The committee follows the reporting process for financial statements as well as any significant changes in the recording principles and the items valued in the balance sheet. The committee also processes the general description of the mechanisms of internal auditing and risk management of the financial reporting process, which forms part of the Corporate Governance Statement. The committee follows the statutory auditing of the financial statement and the consolidated financial statements and assesses the independence of the statutory auditor. The committee prepares the draft resolution on selecting the auditor.

In 2017, the members of the Audit Committee were Raimo Lind (Chairman), Inka Mero, Heikki Allonen, and George Rietbergen (from April 10, 2017). The Company's chief auditor participates in the committee's meetings.

The committee assembled 5 times in 2017.

All committee members are independent of the company and of all major shareholders of the company.

### The attendance of Board members at committee meetings in 2017

	Personnel and Remuneration Committee	Audit Committee
Petteri Walldén	5/5	
Heikki Allonen		5/5
Hille Korhonen (until April 10, 2017)	1/2	
Tapio Kuula (until 11/2017)	4/4	
Raimo Lind*	1/1	5/5
Veronica Lindholm (from April 10, 2017)	3/3	
Inka Mero		4/5
George Rietbergen		3/4

\* Member of the Personnel and Remuneration Committee since November 14, 2017

### President and CEO and his/her duties

The President and CEO manages the Group's business operations and implements the current corporate governance in accordance with the instructions and guidelines provided by the Board of Directors and the Limited Liability Companies Act. With regard to the extent and quality of the Company's operations, the President and CEO may only undertake unusual or extensive actions when authorized to do so by the Board of Directors. The President and CEO is in charge of ensuring that the company accounting follows the statutory requirements and that asset management is arranged reliably. The President and CEO is elected by the Board of Directors. Andrei Panthiukhov, MBA, was the company's Interim President and CEO between January 1, 2017 and May 31, 2017. Hille Korhonen, Lic. Sc. (Tech.) started as the company's President and CEO on June 1, 2017.

### Hille Korhonen (b. 1961)

Education: Licentiate of Science (Technology).

Full-time position: President and CEO, since June 1, 2017.

Key experience:

2013–5/2017 Alko Inc, President & CEO;

2008–2012 Fiskars Oyj Abp, Vice President, Operations;

2003–2007 Iittala, Group Director, Operations;

1996–2003 Nokia Corporation, management duties for logistics;

1993–1996 Outokumpu Copper Plc, Manager, Logistics and Marketing Development.

Key positions of trust:

Member of the Board: Ilmarinen Mutual Pension Insurance Company

### Other management

The Group's management team is responsible for assisting the President and CEO in preparing the Company's strategy and in operative management, and for discussing matters that involve substantial financial or other impacts, such as corporate transactions and organization changes. In accordance with the Group's meeting practices, a Management Workshop assembles once per month. In addition to the President and CEO, the workshop is attended by the Vice Presidents of the business unit and service function, the Vice President for Russian operations and the chief audit executive (CAE). More detailed information concerning the management team is available at [www.nokiantyres.com/company/investors/corporate-governance/the-groups-management-team/](http://www.nokiantyres.com/company/investors/corporate-governance/the-groups-management-team/).

Nokian Tyres holdings of the President and CEO and persons closely associated December 31, 2017	Number of shares	Stock options	Stock options
		2013 2013B	2013 2013C
Hille Korhonen, President & CEO	7,927	-	-

Nokian Tyres holdings of the Group's management team and persons closely associated December 31, 2017	Number of shares	Stock options	Stock options
		2013 2013B	2013 2013C
Esa Eronen, VP, Supply Operations	14,977	15,000	15,000
Teppo Huovila, VP, Quality and Sustainability	10,510	-	6,700
Anna Hyvönen, Managing Director, Vianor and Partner Distribution	9,553	-	-
Tarja Kaipio, VP, Human Resources	-	-	3,400
Anne Leskelä, VP, Finance and IR	15,325	20,000	20,000
Andrei Pantoukhov, EVP, General Manager of Russian operations*	37,900	20,000	30,000
Juha Pirhonen, VP, Research and Development	4,898	19,200	15,325
Manu Salmi, VP, Nokian Heavy Tyres	12,439	-	15,000
Pontus Stenberg, VP, Sales	12,177	7,500	15,000
Timo Tervolin, VP, Strategy and Corporate Development	2,627	-	-
Antti-Jussi Tähtinen, VP, Marketing and Communications	7,617	10,000	10,000
Franz Westerlund, VP, CIO and Processes	-	-	-

\* The Company's interim President & CEO between January 1, 2017 and May 31, 2017

### III Descriptions of mechanisms of internal control and risk management

#### Internal control

The purpose of the Group's internal control mechanisms is to ensure that the financial reports released by the company contain essentially correct information on the Group's financial position. The group has defined group-level instructions and policies for the key operative units specified below in order to ensure efficient and profitable Company operations.

The business activities of the Group are divided into two areas: the manufacturing business and the tyre retail chain. The manufacturing business consists of business units, which are Passenger Car Tyres, Heavy Tyres (the Nokian Heavy Tyres business unit was incorporated as an independent company as of January 1, 2006), and Other Business. Each business unit is responsible for its business area and its financial performance, risk management, balance sheet and investments, supported by the different service functions. The Group's sales companies are a part of the sales function and serve as product distribution channels in local markets. The tyre retail chain is organized into a sub-group. Its parent company is Vianor Holding Oy, 100% owned by the parent company Nokian Tyres plc. The tyre outlets operating in different countries are part of the sub-group.

The Managing Directors of the company's subsidiaries are responsible for the daily operations and administration of their companies. They report to the company's Vice President responsible for Sales, while the Managing Directors of the Vianor chain report to the director of the Vianor business unit.

The Board of Directors is responsible for the functionality of the internal control mechanisms, which are managed by the company management and implemented throughout the organization. Internal control is not a separate function; it is an integral part of all activities of the Group at all levels. Operative company management bears the main responsibility for operational control. Every supervisor is obliged to ensure sufficient control over the activities belonging to his or her responsibility and to continuously monitor the functionality of the control mechanisms. The Vice President responsible for finance and control is responsible for organizing financial administration and reporting processes and the internal control thereof. The parent company's Finance and Control unit is responsible for internal and external accounting; its tasks also include producing financial information concerning the business areas and ensuring the accuracy of this information.

The preparation process of the consolidated financial statements (IFRS), the related control measures, and the task descriptions and areas of responsibility related to the reporting process are defined. The Company's Finance and Control unit is in charge of consolidating the business areas' figures to produce Group-level financial information. Each legally separate Group company produces its own information in compliance with the instructions provided and in line with local legislation. The net sales and operating profit of the Group and business units are analyzed and the consolidated profit is compared with the management's assessment of business development and the information received from operative systems. The Group's Finance and Control unit is centrally responsible for the interpretation and application of financial reporting standards as well as for monitoring compliance with these standards.

Effective internal control requires sufficient, timely, and reliable information in order for the Company management to be able to monitor the achievement of targets and the efficiency of the control mechanisms. This refers to financial information as well as other kinds of information received through IT systems and other internal and external channels. The instructions on financial administration and other matters are shared on the Company's intranet for all of those who need them, and training is organized for personnel with regard to these instructions when necessary. Communication with the business units is continuous. The Company's financial performance is internally monitored by means of monthly reporting complemented with rolling forecasts. The financial results are communicated to Company personnel immediately after the official stock exchange releases have been published.

#### Whistleblowing

The company has defined internal and external processes allowing whistleblowing by all relevant parties. External whistleblowers can use the email address [whistleblow@nokiantyres.com](mailto:whistleblow@nokiantyres.com).

#### Communications

The goal of Nokian Tyres' investor relations is to regularly and consistently provide the stock market with essential, correct, sufficient, and up-to-date information that is subsequently used to determine the share value. The operations are based on equality, openness, accuracy, and good service.

#### Risk management

The Group has adopted a risk management policy, approved by the

Board of Directors, which supports the achievement of strategic goals and ensures continuity of business. The Group's risk management policy focuses on managing both the risks pertaining to business opportunities and the risks affecting the achievement of the Group's goals in the changing operating environment.

The risks are classified as strategic, operational, financial, and hazard risks. Strategic risks are related to customer relationships, competitors' actions, political risks, country risks, brand, R&D, and investments. Operational risks arise as a consequence of shortcomings or failures in the Company's internal processes, actions by its personnel or systems, or external events, such as legislative changes, unpredictable rulings by judicial systems or authorities, or changes in raw material prices. Financial risks (Note 29) are related to fluctuations in interest rate and currency markets, refinancing, and counterparty and receivables risks. Hazard risks may lead to injuries, property damage, production outages, environmental impacts, or liabilities to third parties.

The most significant risks related to Nokian Tyres' business are the country risks related to the Russian business environment, reputation risks, tax risks (especially in Finland), risks related to products and product development, production outage risks, currency and receivable risks, risks related to Corporate Governance, and information security and data administration risks. Due to the company's product strategy, interruption risks that are related to marketing and logistics may especially have a significant impact on peak season sales. The performed risk analysis paid special attention to risks within the area of corporate social responsibility, the most significant of which were the risks related to reputation and product quality. Analyses and projects related to information security, data protection and customers' background information were a special focus area.

The risk management process aims to identify and evaluate the risks, and to plan and implement the practical measures for each risk. Among other things, such measures may include avoiding the risk, reducing it in different ways, or transferring the risk through insurance or agreements. Control functions and actions are control or back-up procedures applied to reduce risks and ensure the completion of risk management measures.

Risk management is not allocated to a separate organization; its tasks follow the general distribution of responsibilities adopted elsewhere in the organization and its business activities. The company's Board of Directors discusses the most significant risks annually in connection with the strategic process.



### IV Other information provided

#### Internal audit

The Group's internal audit carries out assessments and audits on the efficiency of risk management, internal control, and corporate governance processes. Internal audit is an independent and objective function whose aim is to help the organization to achieve its goals. The Internal Audit function in the Group is managed by the Chief Audit Executive (CAE), who works under the Board of Directors and the President and CEO. The Internal Audit function of the Group is planned to be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. An external auditor performed an assessment of the group's Internal Audit in the spring of 2015. The focus areas for internal audit are approved by the Board of Directors each year. The CAE reports on their findings and the agreed further actions to the Audit Committee and the Board of Directors.

In 2017, Internal Audit focused on assessing, among other things, the operations and risks of various country organizations, corporate governance arrangements, risk management arrangements and instructions, corporate sustainability and information security matters as well as specific misconduct risks and cases, including the Black Donuts case where Nokian Tyres was the complainant. The Internal Audit function at Vianor focuses on guiding the outlets and ensuring conformity to the Vianor activity management system. It reports to the Internal Auditor of the Group and the Managing Directors of the country units.

#### Decision-making concerning related party transactions

The Company assesses and follows business transactions made with its related parties and maintains a list of parties that are considered related parties. The Company has defined practices for business with related parties. As a rule, related party transactions are prohibited; however, if related party transactions cannot be avoided, the instructions are to report them to the nearest supervisor. If the monetary value of the transaction is substantial, it will be reported to the Company's General Counsel and Internal Auditor.

The Company only has related party transactions that are a part of normal business, and the information regarding them is provided in the annual report and the notes to the financial statements.

#### Insider issues

The Company complies with the guidelines for insider trading drawn up by

Nasdaq Helsinki. Furthermore, the company has drawn up separate insider trading guidelines that have been approved by the Board of Directors.

The Company draws up a separate list of people in executive positions and their related entities. In 2017, the Company's Board members, President and CEO, Business Unit managers, Vice President responsible for finance and control, the General Manager for Nokian Tyres Russia, the Vice President, of Sales of Passenger Car Tyres, and the Vice President of Production were considered persons in executive positions with regard to the Market Abuse Regulation.

Pursuant to the Market Abuse Regulation, a list of permanent insiders may be established and maintained regarding persons who have continuous access to all insider information concerning the company. The Company does not maintain a separate list of permanent insiders; instead, all persons involved in insider projects are added to the project-specific insider lists. A project refers to an identifiable entity of activities or arrangement that is being confidentially prepared by the Company, which the Company considers to be insider information, and the publication of which the Company has decided to delay. Those entered into the project-specific list of insiders are notified of their entry and the duties it entails, as well as the termination of the list's maintenance. Separate instructions are available for the establishment of a project-specific list of insiders.

The Company maintains a project-specific list of insiders either manually within the Company or in a digital system maintained by Euroclear Finland Oy.

The Company's General Counsel is responsible for insider matters. The assistant of the Vice President responsible for finance and control is responsible for maintaining the list of insiders. The General Counsel is responsible for managing the trading limitations and the duty to declare business transactions. The Vice President responsible for finance and control acts as the deputy to both the General Counsel and the assistant as regards insider issues.

The insider representative supervises the trading and duty to declare of the persons holding executive positions and their related entities. The insider representative will check the information to be declared from the persons holding executive positions and their related entities at least once per year.

Persons holding executive positions within the Company and permanent insiders are not allowed to trade in the Company's securities for 30 days before the publication of the Company's financial statement report, half year report, or interim report ("closed window"). The same applies to persons who participate in the preparation, drawing up, and/

or publication of the Company's financial reports. The prohibition on trading mentioned hereinabove also applies to persons who process the reporting and forecasts of the Nokian Tyres Group and those who have access to group-level financial figures through different systems.

Those included in the project-specific insider lists are prohibited from trading in the Company's securities until the termination or publication of the project.

#### Audit

The auditor has an important role as a controlling body appointed by the shareholders. The audits give shareholders an independent opinion on how the financial statements and report by the Board of Directors of the Company have been drawn up and the accounting and administration of the Company have been managed. The auditor elected at the Annual General Meeting is KPMG Oy Ab, authorized public accountants, with Lasse Holopainen, Authorized Public Accountant, acting as the auditor with principal responsibility. In addition to his duties under the valid regulations, he reports all audit findings to the Group's management.

The Group's audit fees in 2017 amounted to EUR 406,000 (2016: EUR 437,000). The fees paid to the authorized public accountants for other services totaled EUR 1,009,000 (EUR 739,000).

### SALARIES AND REMUNERATIONS 2017

#### A. Decision-making mechanism for remuneration

Each year, the Annual General Meeting decides on the remuneration payable to the Board members on the basis of a proposal drawn up by the Personnel and Remuneration Committee.

The Board of Directors makes decisions concerning the salary, benefits, and long-term incentives of the President and CEO as well as the rest of the management team. In addition to the President and CEO's short-term incentive system, the Board also decides on the maximum level of the management team's short-term incentive system. The Personnel and Remuneration Committee prepares the above-mentioned matters for the Board to decide on, while using external experts when necessary. The President and CEO decides on the goals for the management team's short-term incentive system.

In 2017, the Annual General Meeting authorized the Board of Directors to make a decision to offer no more than 25,000,000 shares through a share issue. The authorization is effective for two years

## CORPORATE GOVERNANCE STATEMENT

from that decision. In 2017, the Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 5,000,000 of the company's own shares using funds from the Company's unrestricted equity. This authorization is valid until the next Annual General Meeting, but however at most until October 10, 2018. The Board may also use these shares as incentives.

### B. General principles for remuneration

#### Remuneration of the Board members

The Board members receive an annual fee and a meeting fee for the meetings of the Board and its committees. Travel costs are compensated for according to the company's travel policy. 50% of the annual fee is paid in cash and 50% is paid in shares in the company that are purchased for the Board members in April following the Annual General Meeting. The company is responsible for any asset transfer tax.

The Annual General Meeting in 2017 decided on the following fees for Board members:

- Annual fee for chairman, EUR 80,000
- Annual fee for vice chairman and for the chairman of the Audit Committee, EUR 60,000
- Annual fee for member, EUR 40,000
- Meeting fee EUR 600/attended meeting/person, or if the member of the board is living outside of Finland, EUR 1,200/attended meeting/person.

Board members are not included in the company's option and share issue programs.

#### Remuneration for the President and CEO

The Board of Directors makes decisions concerning the salary and other benefits of the President and CEO.

The compensation package includes the basic salary, fringe benefits, the performance-related short-term bonus scheme, and the share-based long-term incentives.

Hille Korhonen was appointed as the President and CEO as from June 1, 2017. The annual base salary for the CEO has been set at EUR 693,000. Before Hille Korhonen's nomination, Andrei Pantioukhov served as the interim President and CEO from Jan 1, 2017 until May 31, 2017.

#### Short-term and long-term incentive systems

The President and CEO's short-term performance-related bonus is

based on the Group's profitability and net sales, and it may amount to a maximum of 100% of the annual salary. The target period is one year and the bonus is paid out once per year following the performance period.

The President and CEO's long-term incentive consists of share incentive plans. The key goals for the share incentive plans in force at any given time can be found under Long-term incentive plans for key personnel. The maximum opportunities for remuneration are set forth in Table 1.

#### Pensions and information regarding the termination of the employment relationship

The President and CEO Hille Korhonen's pension and retirement age are defined in accordance with the Finnish Employees' Pension Act (65 years). Furthermore, she is entitled to a defined contribution pension insurance where the contribution equals 20% of her fixed annual salary. The amount paid in 2017 was EUR 77,000.

The President and CEO's period of notice is 6 months. If the agreement is terminated by the company, the President and CEO is entitled to compensation corresponding to 12 months' salary and other benefits, in addition to the notice period's salary.

#### The management team

The Board approves the salaries and benefits of managerial employees and the employee incentive scheme on the basis of a proposal by the Personnel and Remuneration Committee.

Remuneration for the management consists of a monthly base salary and fringe benefits, such as phone and car benefits, an annual bonus based on separately defined performance criteria, and a share-based long-term incentive plan.

The annual bonus is based on the Group's operating profit and the achievement of the KPIs set for different functions. The function specific KPIs consist of several factors including profitable growth, net

sales, and the efficiency of the operative process. The maximum annual bonus corresponds to 40–50% of a person's annual salary. The annual bonus is paid out once per year following the earning period.

The Group has a share rewards system for key personnel (see Incentive plans for key personnel) that is intended to provide long-term incentives and build commitment toward the company. The maximum limits for the remuneration are set forth in Table 1.

The salaries of the management team members (excluding the President and CEO) were in total EUR 1,951,793 in 2017, and the annual bonuses amounted to a total of EUR 604,213.

#### Pensions and information regarding the termination of the employment relationship

The management team members have no separate pension arrangements.

A management team member's period of notice is 6 months when terminated by the company and 3 months when terminated by the management team member. If the employment is terminated due to a reason attributable to the company, the management team member is entitled to compensation corresponding to 12 months' salary and other benefits.

#### Incentive plans for key personnel

##### Option scheme 2013

The Annual General Meeting held in 2013 decided on the issue of stock options as part of the Group's incentive and commitment system for personnel. The system also covers persons employed or recruited by the Group at a later date. The Board distributed the options in the spring of 2013 (options 2013A), 2014 (2013B), and 2015 (2013C).

Table 1. Maximum limits for the bonuses under the short-term and long-term incentive plans

	Short-term incentive scheme	Long-term incentive schemes	
	Performance based bonus scheme 2017 and 2018,%*	Share-based incentive plan 2016 (maximum)	
		Earnings period 2016	Earnings period 2017
President and CEO	100%	70,000	70,000
Other management team	44%**	216,875	225,000

\* The maximum limits are presented as percentages of the fixed earnings for the target period (year)

\*\* Other members of the Management team on average

## CORPORATE GOVERNANCE STATEMENT

### Share rewards plan 2016

In the spring of 2016, the Board of Nokian Tyres plc decided to update the Group's incentive schemes. The update aims to clarify and improve the schemes and to offer a competitive rewards system for all personnel.

The purpose of Nokian Tyres' new share-based incentive system is to harmonize the goals of the owners and key personnel in order to increase the value of the company in the long term, and to commit key personnel to the company. The share rewards system covers some 5% of the Group's personnel, including the management team members.

The share rewards system has three one-year earnings periods for the calendar years 2016, 2017, and 2018. The company's Board will decide separately on each earnings period for the system and set the

earning criteria, and the goals for each criterion, at the beginning of the earnings period. The system's possible reward for the earnings period of 2017 is based on the Group's operating profit and net sales. The rewards paid for the earnings period of 2017 correspond to a maximum of 540,000 shares in Nokian Tyres plc, including the monetary reward.

The possible reward from the earnings period of 2017 will be paid in 2018, partially as shares in the company and partially as money. The monetary reward is intended to cover the taxes and tax-like charges incurred on the key person. As a rule, the reward is not paid if the key person's employment is terminated before the reward is due. Shares that are offered as a reward cannot be handed over during the limitation period of approximately one year.

A member of the Group's management team must own 25% of the gross total number of shares earned through the system, up to the point where the total value of their share ownership is equal to their gross annual salary. They must own this number of shares for as long as they are involved in the Group's management team.

## C. Remuneration statement

### Board of Directors

The remuneration paid to the Board members, the number of shares purchased, and the meeting fees for the Board and the committees are presented in the table below.

**Table 2. Remuneration paid to the Board members in 2017 (cash basis)**

Position on the Board		Fixed annual fee, €****	Meeting remuneration fees, €	Committee meeting remuneration fees, €	Total remuneration fees, €	Shares acquired with a fixed annual fee, number of shares	Share holdings of the Board, number of shares
Petteri Walldén	chairman and chairman of the Personnel and Remuneration Committee	80,000	10,800	3,000	93,800	1,061	19,517
Heikki Allonen	member	40,000	10,800	3,000	53,800	530	1,193
Hille Korhonen*	member	40,000	2,400	600	43,000	-	board membership has ended
Tapio Kuula**	chairman of the Personnel and Remuneration Committee	60,000	7,800	2,400	70,200	795	board membership has ended
Raimo Lind	vice chairman, chairman of the Audit Committee	60,000	10,800	3,600	74,400	795	2,851
Veronica Lindholm	member	40,000	10,200	1,800	52,000	530	1,193
Inka Mero	member	40,000	10,800	2,400	53,200	530	2,586
George Rietbergen***	member	40,000	13,200	3,600	56,800	530	530
<b>Total</b>		<b>400,000</b>	<b>76,800</b>	<b>20,400</b>	<b>497,200</b>	<b>4,771</b>	<b>27,870</b>

\* member until April 10, 2017

\*\* member until November 7, 2017

\*\*\* member since April 10, 2017

\*\*\*\* 50% of the annual remuneration to be paid in cash and 50% in company shares

### President and CEO and management team

**Table 3: Salaries and financial benefits paid to the President and CEO and the company's other management team members in 2017 (cash basis)**

	Annual salary, € (including fringe benefits)	Performance based bonuses, € (year 2016)	Signing fees, €	Severance package, €	Total value of share-based bonus, €* €*	Total, €	Share-based bonus paid in shares, number of shares
President and CEO	411,540	0	0	0	0	411,540	0
Interim CEO**	235,940	0	0	0	0	235,940	0
Previous President and CEO ***	0	646,229	0	0	0	646,229	0
Other members of the management team	1,951,793	604,213	0	109,908	6,277,524	8,943,438	89,103

\* According to the stock exchange price of the assignment date of March 23, 2017, the payment for the earnings period of 2016 in the share-based bonus system

\*\* Andrei Pantioukhov, Jan 1, 2017–May 31, 2017

\*\*\* Ari Lehtoranta, bonus based on 2016 performance



## NOKIAN TYRES GROUP STRUCTURE

