

SALARIES AND REMUNERATIONS 2019

The Salaries and Remunerations report 2019 has been done according to the Finnish Corporate Governance Code 2015. A new Remuneration Policy will be prepared according to the Shareholders Rights Directive and Corporate Governance Code 2020 and will be submitted to Annual General Meeting for adoption in 2020.

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 decides on the salary, benefits, and short and long-term incentives of the President and CEO as well as the rest of the Group Management Team. The Personnel and Remuneration Committee prepares the above-mentioned matters for the Board to decide on, while using external experts when necessary.

In 2019, the Annual General Meeting authorized the Board of Directors to resolve to 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 June 30, 2020. 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 according to the company's travel policy. 50% of the annual fee is paid in cash and 50% is paid in shares of 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 2019 decided on the following fees for Board members:

- Annual fee for chairman, EUR 90,000
- Annual fee for deputy chairman and for the chairman of the Audit Committee, EUR 67,500
- Annual fee for member, EUR 45,000
- 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 or share incentive plans.

Remuneration of the President and CEO

The Board of Directors decides on the salary, incentives and other benefits of the President and CEO.

The remuneration consists of a base salary, fringe benefits, short-term incentive based on annually defined performance criteria and the share-based long-term incentive plans.

The total annual base salary for the President and CEO, Hille Korhonen, has been set at EUR 693,240 including fringe benefits such as car and phone benefit.

Short-term and long-term incentive plans

The President and CEO's short-term performance-related incentive is based on the Group's profit and net sales, and it may amount to a maximum of 100% of the annual base salary. The performance period is one year and the possible reward is paid out in the first half of the year following the performance period.

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

Pensions and information regarding the termination of the employment

The President and CEO's age of retirement is set by written agreement at 65 years. The pension is determined on the basis of the Employees Pensions Act and a separately defined contribution pension plan taken out by the company. The amount paid in 2019 was EUR 132,048.

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.

Remuneration the Group Management Team

The Board approves the salaries, benefits and the incentive plans of the Group Management Team based on the proposal by the Personnel and Remuneration Committee.

The remuneration of the Group's Management Team consists of a base salary and fringe benefits, such as phone and car benefits; depending on local practice, the fringe benefits are either included in the base salary or paid in addition to it, a short-term incentive based on annually defined performance criteria, and a share-based long-term incentive plan.

The salaries of the management team members (excluding the President and CEO) were in total EUR 3,121,389 in 2019 (EUR 2,580,611 in 2018), and the short-term incentives amounted to a total of EUR 569,943 in 2019 (EUR 753,063 in 2018).

Short-term and long-term incentive plans

The performance criteria for the short-term incentive plan for 2019 were Group's operating profit and net sales growth, as well as the achievement of the financial and strategic goals set for respective business or function of each Management Team member. The business and function specific goals consist of e.g. profitable growth, net sales, and the efficiency of the operative process. The main performance criteria will remain the same for 2020. The maximum short-term incentive corresponds to 60–70% of a Group Management Team member's annual base salary. The performance period is one year and the possible reward is paid out in the first half of the year following the performance period.

The Group Management Team members are eligible for long-term incentive plans. Details of long-term incentive plans are presented in Incentive plans for key personnel. The target LTI award opportunities are set forth in Table 1.

Pensions and information regarding the termination of the employment

The Group Management Team members are eligible for a separate defined contribution pension. The annual contributions to this plan are 5–15% of annual base salary for each Group Management Team member depending on their home country practices. Group Management Team members are eligible for the paid contributions after 3 years continuous

employment with the company. Retirement age has been set to 63 years. Terms and conditions of supplementary Pension may vary between countries.

A management team member's notice period 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 maximum 6 month's salary and 6 month's Severance payment.

Long-term 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). The subscription period of 2013C options ended on 31 May 2019. There are no outstanding options.

Performance Share Plan 2016

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

The purpose of Nokian Tyres' share-based incentive system was 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 covered some 5% of the Group's personnel, including the management team members.

The share rewards system had three one-year performance periods for the calendar years 2016, 2017, and 2018. The company's Board decided separately on each performance period for the system and set the performance criteria, and the goals for each criterion, at the beginning of the performance period. The performance criteria for performance period 2018 were the Group's operating profit and net sales.

The rewards based on the performance period 2018 were paid in 2019 and corresponded to a total of 146,000 gross shares. The rewards were paid partially in shares and partially in money. The monetary reward was intended to cover the taxes and tax-like charges incurred on the key person. For shares paid on the basis of the performance period 2018, the restriction period will end on 31 March 2020.

Performance Share Plan 2019 and Restricted Share Plan 2019

In February 2019, the Board of Nokian Tyres plc decided to establish a new share-based long-term incentive scheme for the Company's management and selected key employees. The decision included a Performance Share Plan (PSP) as the main structure and a Restricted Share Plan (RSP) as a complementary structure for specific situations.

The purpose of the share-based incentive plans is to harmonize the goals of the Company's owners and key personnel in order to increase the value of the Company in the long term, to commit key personnel to the Company and its strategic target and to offer a competitive rewards system for personnel. The Performance Share Plan is targeted to the President and CEO, Group Management Team members and other key employees.

The Performance Share Plan 2019 consists of annually commencing three year performance periods after which the possible reward is delivered to participants. The company's Board will decide separately on each performance period and set the performance criteria at the beginning of the earnings period.

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.

Performance Period 2019–2020 and Performance Period 2019–2021

The first plan (PSP 2019–2021) commenced effective as of the beginning of 2019 and the potential share reward thereunder will be paid in the first half of 2022 provided that the performance targets set by the Board of Directors are achieved. The potential reward will be paid partly in shares of Nokian Tyres Plc and partly in cash. Cash portion of the reward is intended to cover the taxes arising from the paid reward.

In addition to the 3 year performance period (PSP 2019–2021), a separate one-time 2 year performance period (PSP 2019–2020) commenced in 2019 in order to bridge the previous two year PSP 2018 and three year PSP 2019–2021. Potential share reward thereunder will be paid in the first half of 2021 provided that the performance targets set by the Board of Directors are achieved.

The potential share reward payable under the PSP 2019–2020 and PSP 2019–2021 are based on the Earning Per Share (EPS) growth and Return on Capital Employed (ROCE). The possible rewards paid based on the performance period of 2019–2020 correspond to a maximum of 580,000 gross shares and based on the performance period of 2019–2021 to a maximum of 535,000 gross shares.

Performance Period 2020–2022

In February 2020, the Board of Nokian Tyres plc decided continue the Performance Share Plan for a new performance period for the years 2020–2022. The PSP 2020–2022 commences effective as of the beginning of 2020 and the potential share reward thereunder will be paid in the first half of 2023 provided that the performance targets set by the Board of Directors are achieved. The potential reward will be paid partly in shares of Nokian Tyres Plc and partly in cash. Cash portion of the reward is intended to cover the taxes arising from the paid reward.

The potential share reward payable under the PSP 2020–2022 is based on the Earning Per Share (EPS) growth and Return on Capital Employed (ROCE). The possible rewards paid based on the performance period of 2020–2022 correspond to a maximum of 569,260 gross shares.

Table 1. Long-term incentives

Performance share plan 2019–2020 and 2019–2021			
	Performance period 2019–2020 (target)	Performance period 2019–2021 (target)	Performance period 2020–2022 (target)
President and CEO	125%	125%	125%
Other management team	50%–130%	50%–125%	50%–100%
	Maximum share award level is defined as % of the annual salary, max is 2 x target.	Maximum share award level is defined as % of the annual salary, max is 2 x target.	

Restricted Share Plan 2019–2021

The Restricted Share Plan (RSP) consists of annually commencing restricted share plans, each with a three-year vesting period after which the allocated share rewards will be delivered to the participants provided that their employment with Group continues until the delivery date of the share rewards. The commencement of each new plan is subject to a separate approval by the Board.

The RSP 2019–2021 commenced at the beginning of 2019 and potential share rewards will be delivered in the first half of 2022. The possible rewards paid based on the Restricted Share Plan 2019–2021 correspond to a maximum of 70,000 gross shares.

Restricted Share Plan 2020–2022

In February 2020, the Board of Nokian Tyres plc decided to continue the Restricted Share Plan and the RSP 2020–2022 will commence at the beginning of 2020. Potential share rewards will be delivered in the first half of 2023. The possible rewards paid based on the Restricted Share Plan 2020–2022 correspond to a maximum of 120,000 gross shares.

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 2019 (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 Waldén	Chairman	90,000	6,600	4,800	101,400	1,457	22,322
Kari Jordan	Deputy Chairman, Chairman of the Personnel and Remuneration Committee	67,500	6,600	4,200	78,300	1,093	2,104
Heikki Allonen	member	45,000	6,600	3,000	54,600	728	2,595
Raimo Lind	Chairman of the Audit Committee	67,500	6,000	3,000	76,500	1,093	4,955
Veronica Lindholm	member	45,000	6,600	4,800	56,400	728	2,595
Inka Mero	member	45,000	6,600	3,000	54,600	728	3,988
George Rietbergen	member	45,000	9,600		54,600	728	1,932
Pekka Vauramo	member	45,000	6,000	2,400	53,400	728	1,402
Total		450,000			529,800	7,283	41,893

* 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 2019 (cash basis)

	Annual salary, € (including fringe benefits)	Performance based bonuses, € (based on year 2018)	Severance payment, €	Total value of share-based bonus, €*	Total, €	Share-based bonus paid in shares, number of shares
President and CEO	693,240	189,948		479,799	1,362,987	6,971
Other members of the management team	3,121,389	569,943	183,665	1,706,317	5,397,649**	31,962

* According to the stock exchange price of the assignment date of March 5, 2019 / September 2, 2019 the payment for the performance period of 2018 of the share-based incentive plan

** Excluding Severance payment