2017

Financial Statement Release

February 2, 2018

Nokian Tyres plc Financial Statement Release 2017, February 2, 2018, 8:00 a.m.

Nokian Tyres plc Financial Statement Release 2017:
Strong performance in 2017. Positive outlook for 2018.

October–December 2017

- Net sales increased by 6.4% to EUR 490.4 million (460.7 in 10–12/2016). Currency exchange rate changes affected net sales negatively by EUR 10.3 million compared with the rates in 10–12/2016.
- Operating profit increased by 13.0% to EUR 122.6 million (108.5). Operating profit percentage was 25.0% (23.5%).
- The profit for the period increased by 3.8% to EUR 94.7 million (91.2).
- Earnings per share were EUR 0.69 (0.67).
- Cash flow from operating activities was EUR 368.3 million (456.9) and was affected by the payment of EUR 59 million in additional taxes with punitive tax increases and interest concerning the tax dispute related to tax year 2011. The company paid the amount in November 2017.

January–December 2017

- Net sales increased by 13.0% to EUR 1,572.5 million (1,391.2 in 2016). Currency exchange rate changes affected net sales positively by EUR 21.7 million compared with the rates in 2016.
- Operating profit increased by 17.7% to EUR 365.4 million (310.5). Operating profit percentage was 23.2% (22.3%).
- The profit for the period decreased by 12.1% to EUR 221.4 million (251.8). In Q3/2017, profit included additional taxes and punitive interest of EUR 59 million related to tax year 2011.
- Earnings per share were EUR 1.63 (1.87).
- Cash flow from operating activities was EUR 234.1 million (364.4) and was affected by the payment of EUR 59 million in additional taxes with punitive tax increases and interest concerning the tax dispute related to tax year 2011. The company paid the amount in November 2017. Cash flow from operating activities was also affected by the payment of EUR 18.5 million in additional taxes with punitive tax increases and interest concerning the tax dispute of Nokian Tyres U.S. Finance Oy and the years 2007–2013. The company paid the amount in August 2017.

Dividend

The Board of Directors proposes a dividend of EUR 1.56 (1.53) per share.

Financial guidance

In 2018, with the current exchange rates, net sales and operating profit are expected to grow compared with 2017.

Key figures, EUR million

	10–12 /17	**10–12 /16**	**Change %**	**2017**	**2016**	**Change %**
Net sales	490.4	460.7	6.4	1,572.5	1,391.2	13.0
Operating profit	122.6	108.5	13.0	365.4	310.5	17.7
Operating profit %	25.0	23.5		23.2	22.3	
Profit before tax	118.9	106.3	11.9	332.4	298.7	11.3
Profit for the period	94.7	91.2	3.8	221.4	251.8	-12.1
Earnings per share, EUR	0.69	0.67	2.8	1.63	1.87	-13.0
Equity ratio, %				78.2	73.8	
Cash flow from operating activities	368.3	456.9		234.1	364.4	
Gearing, %				-14.2	-19.7	
Interest-bearing net debt				-208.3	-287.4	
Capital expenditure	39.6	31.1	27.3	134.9	105.6	27.8

Hille Korhonen, President and CEO:

“Our year 2017 was successful in all aspects. Positive news and new initiatives stimulated our year, and we demonstrated strong performance in all of our main markets. These achievements are the result of determined work, and significant successes in several areas indicate our commitment to our strategy and goals.

The Passenger Car Tyres business unit performed well in 2017. Net sales increased in all markets. Market growth was exceeded in Russia due to our competitive product portfolio, price positioning and supply capability. Sales and marketing investments and new products generated sales growth in Other Europe and North America. We responded to the growing demand by increasing in a timely manner the production volumes at both factories and by commissioning a new production line at the Russian factory. Operating profit increased year-over-year. In Q4/2017, raw material costs decreased slightly compared with Q3/2017. We estimate that raw material costs will remain approximately at the same level for the full year 2018 compared with 2017.

In November 2017 we renewed an important local labor agreement for year 2018 at our Nokia factory regarding flexible working hours for the passenger car tyre personnel. The goal of the agreement is to prepare for the company’s growth, build flexibility for future seasons, and ensure employment for the duration of the agreement. The agreement further strengthens the role of the Nokia factory as a competitive center for expertise and production.

Heavy Tyres increased its sales, operating profit, production volume, and productivity in 2017. All market areas showed growth. Sales of agricultural tyres and forestry tyres increased, in particular. In December 2017, we announced that we are increasing Heavy Tyres’ production capacity by 50% by investing a total of approximately EUR 70 million in its factory in Nokia over the following three years. At the same time, we signed an agreement that encourages our heavy tyres personnel to increase production flexibility by means of multi-skilling. The aim of the investment is to further support our own growth as well as our customers’ growth.

Vianor’s (own equity) net sales increased slightly due to the challenging retail market situation in the Nordic countries. However, the profitability improvement program progressed according to plan. Our branded distribution network, including Vianor, NAD, and N-Tyre stores, grew by 346 stores in 2017.

In December 2017, we announced that we are accelerating profitable growth, customer orientation and innovative future solutions by renewing our leadership and operational model. The purpose of this change is also to create a market-focused and scalable structure and to increase efficiency through global functions and processes.

Nokian Tyres is in great shape, and we are ready for the construction work of our Dayton factory. High customer satisfaction, a new global structure, our safe and eco-friendly products, and competent personnel create an excellent ground for future growth. We are definitely on the right track and well positioned to further improve our sales and operations.”

Market situation

The positive development in global economy is expected to continue in 2018. As we entered 2018, all regions were showing positive development. The global GDP is estimated to grow by 3.8% in 2018 (3.7% in 2017). The GDP growth estimates for the Nordic countries range from +1.9% to +3.0%, whereas for Europe (including the Nordic countries) the number is +2.1% and for the US it is +2.6%. In Russia, GDP is forecasted to grow by approximately 1.5% to 2.0% in 2018.

Raw material prices demonstrated fast growth at the beginning of the year, but the growth levelled off towards the year-end. The global tyre industry responded to the growing raw material prices by announcing price increases. This resulted in a very challenging pricing environment in 2017.

In Europe, sales of new cars increased in 2017 by 3% year-over-year. Car tyre sell-in to distributors increased 3% year-over-year, with winter tyre demand increasing by 3%. Overall, tyre demand is estimated to increase slightly year-over-year in 2018.

In the Nordic countries, new car sales increased in 2017 by 2% year-over-year. The market volume of car tyres decreased by 6%. For the full year 2018, car tyre demand is estimated to increase slightly year-over-year.

In North America, the estimated new car sales were down in 2017 by 1% year-over-year. The market volume of car tyres increased by 1% year-over-year. However, demand for winter tyres increased by 3%. For the full year 2018, car tyre demand is estimated to increase slightly year-over-year.

In the full year 2017, the Russian economy started growing again after a prolonged recession. Real GDP is estimated to have grown by 1.4–1.8% in 2017. However, private consumption remains quite weak after a 15% decline in 2015–2016. Along with consumers’ real income, it gradually started recovering in 2017, but the improvement is unlikely to be rapid. This development is reflected in the retail turnover in Russia, which shows quite moderate signs of growth. In 2017, sales of new cars increased by 12% compared with 2016, with growth starting only in March, picking up since June and finishing the year with a 14% increase in December vs. the same month in 2016. Sales of new cars in Russia are expected to grow by approximately 12–15% in 2018 compared with 2017, driven by the improved economy, deferred demand and low comparison base – from the level of 1.6 million vehicles in 2017 up to 1.8 million in 2018. The total replacement tyre market sell-in in Russia is expected to grow by 3–5% in 2018 compared with 2017, with the winter tyre market growing by 7–9% and summer declining by 2–3%. Both summer and winter tyre sell-in for the 2017 season showed growth, backed by low carry-over stocks from 2016. The consumer sell-out season in Russia remained flat in summer tyres compared with 2016 and showed some growth in winter tyres.

The global demand for special heavy tyres continued to be healthy in 2017. The demand for OE forestry tyres remained strong. The increased use of wood and the good profitability of pulp manufacturers will also support the demand for forestry machines and tyres in the following quarters. During the review period the agricultural segment improved.

In 2017, the sell-in of premium truck tyres was at the same level in Europe, and was up in the Nordic countries by 1%. In Russia, the demand for premium truck tyres decreased by 5% compared with 2016. Truck tyre demand in 2018 is estimated to increase in all of Nokian Tyres’ Western markets; in Russia, demand is estimated to remain at the same level year-over-year.

Raw materials

Nokian Tyres' raw material costs (EUR/kg) increased by 17.5% in 2017 year-over-year. The raw material costs are estimated to remain approximately at the same level in the full year 2018 compared with 2017.

OCTOBER–DECEMBER 2017

Nokian Tyres Group recorded net sales of EUR 490.4 million (460.7), with an increase of 6.4% compared with Q4/2016. Currency exchange rates affected net sales negatively by EUR 10.3 million. In the Nordic countries, sales increased by 2.8% year-over-year. The sales in Russia decreased by 7.4%. The consolidated sales in Russia and the CIS decreased by 4.2%. In Other Europe, sales were up by 14.5% and, in North America, sales increased by 12.0%.

The raw material costs (EUR/kg) in manufacturing increased by 9.7% year-over-year and decreased by 3.9% compared with Q3/2017. Fixed costs amounted to EUR 131.9 million (133.2), thereby accounting for 26.9% (28.9%) of net sales.

Nokian Tyres Group's operating profit amounted to EUR 122.6 million (108.5), with an increase of 13.0% compared with Q4/2016. The operating profit was negatively affected by the IFRS 2 compliant accrual for share option and performance share plans of EUR 3.9 million (6.7). In Q4/2017, the expensed credit losses and provisions were EUR 0.7 million (7.3).

Net financial expenses were EUR 3.6 million (2.2). Net interest expenses were EUR 1.1 million (3.6). Net financial expenses include a loss of EUR 2.6 million (a gain of EUR 1.5 million) due to exchange rate differences.

Profit before tax was EUR 118.9 million (106.3). The profit for the period amounted to EUR 94.7 million (91.2), and EPS were EUR 0.69 (0.67).

Cash flow from operating activities was EUR 368.3 million (456.9), and was affected by the payment of EUR 59 million in additional taxes with punitive tax increases and interest concerning the tax dispute related to tax year 2011. The company paid the amount in November 2017. In Q4/2016, the Tax Administration returned EUR 4.9 million according to the decision of the Board of Adjustment in November 2016.

JANUARY–DECEMBER 2017

Nokian Tyres Group recorded net sales of EUR 1,572.5 million (1,391.2), with an increase of 13.0% compared with 2016. Currency exchange rates affected net sales positively by EUR 21.7 million.

Net sales development by market area

	Growth%	% of total net sales in 1–12/2017	% of total net sales in 1–12/2016
Nordic countries	4.6	39.8	43.1
Russia and the CIS	46.4	20.7	16.0
Other Europe	8.0	27.9	29.3
North America	15.2	10.9	10.8

Net sales development by business unit

	Growth%	% of total net sales in 1–12/2017	% of total net sales in 1–12/2016
Passenger Car Tyres	16.1	69.0	66.7
Heavy Tyres	11.0	10.4	10.6
Vianor	1.4	20.6	22.8

Raw material costs (EUR/kg) in manufacturing increased by 17.5% year-over-year. Fixed costs amounted to EUR 473.3 million (431.0), thereby accounting for 30.1% (31.0%) of net sales. Total salaries and wages were EUR 215.2 million (197.6).

Nokian Tyres Group's operating profit amounted to EUR 365.4 million (310.5), with an increase of 17.7% compared with 2016. The operating profit was negatively affected by the IFRS 2 compliant accrual for share option and performance share plans of EUR 16.1 million (15.0). In 2017, the expensed credit losses and provisions were EUR 0.2 million (18.6).

Net financial expenses were EUR 33.0 million (11.8). Net interest expenses were EUR 24.3 million (8.0) including EUR 15.2 million in penalty interest related to tax year 2011 and EUR 3.1 million in penalty interest related to Nokian Tyres U.S. Finance Oy. Net financial expenses include a loss of EUR 8.7 million (a loss of EUR 3.8 million) due to exchange rate differences.

Profit before tax was EUR 332.4 million (298.7). The profit for the period amounted to EUR 221.4 million (251.8), and EPS were EUR 1.63 (1.87). In Q3/2017, profit was penalized by the additional taxes of EUR 59 million in Finland, including punitive tax increases and interest based on the reassessment decisions from the Tax Administration related to the tax dispute for 2011 received in October 2017 and EUR 3.1 million in penalty interest related to Nokian Tyres U.S. Finance Oy and the years 2007–2013. The profit for the period decreased by 12.1% compared with 2016.

Cash flow from operating activities was EUR 234.1 million (364.4), and was affected by the payment of EUR 59 million in additional taxes with punitive tax increases and interest concerning the tax dispute related to tax year 2011. The company paid the amount in November 2017. Cash flow from operating activities was also affected by the payment of EUR 18.5 million in additional taxes with punitive tax increases and interest concerning the tax dispute of Nokian Tyres U.S. Finance Oy and the years 2007–2013. The company paid the amount in August 2017. In 2016, cash flow from operating activities was affected by the payment of EUR 46.1 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010.

Investments

Investments in the review period amounted to EUR 134.9 million (105.6). This comprises production investments in the Russian and Finnish factories, molds for new products, investments in the Dayton factory, and ICT and process development projects.

Financial position on December 31, 2017

The gearing ratio was -14.2% (-19.7%). Interest-bearing net debt amounted to EUR -208.3 million (-287.4). Equity ratio was 78.2% (73.8%).

The Group's interest-bearing liabilities totaled EUR 135.2 million (225.8), of which the current interest-bearing liabilities amounted to EUR 0.8 million (88.8). The average interest rate for interest-bearing liabilities was 2.7% (3.1%). Cash and cash equivalents amounted to EUR 343.4 million (513.2).

At the end of the review period, the company had unused credit limits amounting to EUR 508.9 million (508.7), of which EUR 155.6 million (155.7) were committed. The current credit limits and the commercial paper program are used to finance inventories, trade receivables, and subsidiaries in distribution chains, thereby controlling the typical seasonality in the Group's cash flow.

The Group's total comprehensive income was negatively affected by translation differences for foreign operations by EUR 33.5 million (positively 121.8). The total comprehensive income for the period amounted to EUR 189.2 million (373.4).

Tax rate

Dispute concerning 2007–2011

In December 2013 and in January 2014, Nokian Tyres received reassessment decisions from the Tax Administration, according to which the company was obliged to pay a total of EUR 100.3 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010. The company recorded the amount in full to the financial statement and result of the year 2013. The company considered the decisions unfounded and appealed against them by filing a claim for rectification with the Board of Adjustment.

In April 2015, the Board of Adjustment of the Finnish Tax Administration annulled the reassessment decision by the Tax Administration, according to which the company was obliged to pay EUR 100.3

million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010, and returned the matter to the Tax Administration for reprocessing. According to the Board of Adjustment, the Tax Administration neglected the obligation to hear the taxpayer. Because of the procedural fault by the Tax Administration, the Board of Adjustment annulled the decisions without considering the actual substance of the matter.

The company returned the total additional taxes of EUR 100.3 million from 2007–2010 in full to the financial statement and result for the first quarter of 2015.

In December 2015 and January 2016, the company received renewed reassessment decisions from the Tax Administration, according to which the company was obliged to pay EUR 94.1 million in additional taxes, of which EUR 62.8 million were additional taxes and EUR 31.3 million were punitive tax increases and interest. Previously, the Tax Administration had already set off EUR 43.1 million of the amount despite the stay of execution. The company paid the remaining amount in January 2016. The company still considers the decisions unfounded and appealed against them by filing a claim with the Board of Adjustment.

Based on the renewed reassessment decisions, the company recorded the total additional taxes of EUR 94.1 million in full as expenses in the financial statement and result for 2015.

In November 2016, the company announced that the Board of Adjustment of the Finnish Tax Administration held in force the reassessment decision from the Tax Administration related to additional taxes of EUR 62.8 million but reduced the amount of punitive tax increases and interest from EUR 31.3 million to EUR 26.4 million concerning the tax years 2007–2010. The company has paid the amount of EUR 89.2 million in full. The company considers the decision unfounded and appealed against it by filing a claim with the Administrative Court in January 2017.

In October 2017, the company received reassessment decisions from the Tax Administration concerning tax year 2011, according to which the company is obliged to pay a total EUR 59 million, of which EUR 39 million are additional taxes and EUR 20 million are punitive tax increases and interest. The company recorded the amount in full to the financial statement and result of Q3/2017. Payment was due in November 2017. The company considers the reassessment decision of the Tax Administration unfounded and appealed in November 2017 to the Board of Adjustment. If necessary, the company will continue the appeal process in the Administrative Court.

Year 2012 and onwards have not been tax audited by the Finnish Tax Administration.

Dispute concerning the US subsidiary 2007–2013

Nokian Tyres U.S. Finance Oy, a subsidiary of Nokian Tyres plc (ownership: 100% of the shares), received reassessment decisions from the Finnish Tax Administration in 2013 and 2014. According to the reassessment decisions, and with interest until the actual payment in August 2017, the company was obliged to pay in total EUR 18.5 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2013. Of this amount, EUR 11.0 million were additional taxes and EUR 7.5 million were punitive tax increases and interest. The company recorded them in full in the financial statements and results for 2013, 2014, and 2017.

The Large Taxpayers' Office carried out a tax audit concerning the Finnish Business Tax Act, where the Tax Administration raised an issue regarding the restructuring of the sales company and acquisitions by the Nokian Tyres Group in North America, completely ignoring the business rationale and corresponding precedent rulings presented by the company.

Nokian Tyres U.S. Finance Oy considered the reassessment decision of the Tax Administration unfounded and filed a claim for rectification with the Board of Adjustment.

In June 2017, the Board of Adjustment rejected the company's claim for rectification. The company considers the decision unfounded and appealed against it by filing a claim with the Administrative Court in July 2017. The company has paid the amount of EUR 18.5 million in full in August 2017.

Year 2014 and onwards are not subject to tax disputes due to changes in company's structure.

Tax rate outcome and estimate

The Group's tax rate was 33.4% (15.7%) in the review period. Tax rate without tax disputes was 19.2%. The tax rate is positively affected by tax incentives in Russia for current investments and further future investments. The latest agreed tax benefits and incentives for the factory came into force at the beginning of 2013 and, for the sales company, these were renewed in August 2016. The agreements will extend the validity of the benefits and incentives until approximately 2020. Due to the renewed agreement and changes in Russian legislation, the Group's estimated tax rate is expected to be 19% for 2018–2019.

The tax rate in the coming years will depend on the timetable and final outcome of the ongoing back tax disputes with the Finnish Tax Administration. The Group's corporate annual tax rate may rise as a result of these cases.

Personnel

In 2017 the Group employed, on average, 4,630 (4,433) people and 4,635 (4,392) people at the end of the review period. At the end of the review period, the Group employed 1,724 (1,616) people in Finland, and 1,503 (1,368) people in Russia. The equity-owned Vianor tyre retail chain employed 1,660 (1,742) people at the end of the review period.

BUSINESS UNIT REVIEWS

Passenger Car Tyres

	10–12 /17	10–12 /16	Change %	2017	2016	Change %
Net sales, M€	338.3	314.0	7.7	1,138.8	981.1	16.1
Operating profit, M€	100.9	94.4	6.9	359.9	305.8	17.7
Operating profit, %	29.8	30.1		31.6	31.2	

Net sales of Nokian Passenger Car Tyres totaled EUR 1,138.8 million (981.1) in 2017, up by 16.1% year-over-year. Operating profit was EUR 359.9 million (305.8). Operating profit percentage was 31.6% (31.2%).

Net sales increased during the review period, due to a significant net sales increase in Russia and good growth in Other Europe and North America. Market growth was exceeded in Russia due to a competitive product portfolio, price positioning and supply capability. Sales and marketing investments and new products generated sales growth in Other Europe and North America both in winter and All-Season segments. In all markets areas, net sales increased year-over-year. Operating profit increased year-over-year. Sales in Other Europe grew in Q4/17 driven by good winter season.

In 2017, the ASP in euros increased due to price increases, a positive currency impact and an improved product mix. The share of winter tyres in the sales mix was 69% (67%), the share of summer tyres was 21% (24%), and the share of All-Season tyres was 10% (9%). Increased sales of All-Season tyres strengthen our position in North America and Other Europe. Price increases were implemented during 2017 in all markets.

Raw material costs (€/kg) were up by 17.7% year-over-year. Improved productivity supported the margins.

Nokian Tyres excelled in tyre tests, with several wins in car magazine tests all over the world. Read more at: www.nokiantyres.com/test-success/. A flow of product launches with new innovations – improving safety, comfort, and eco-friendly driving – continued in the review period. For example, the Nokian Hakkapeliitta 9, Nokian Hakkapeliitta 9 SUV, Nokian Nordman 7, and Nokian Nordman 7 SUV were introduced in January 2017. The key markets for these products are the Nordic countries, Russia, and North America. The Nokian Hakkapeliitta 44 was launched in February 2017; it is used in the harshest environments of the world, such as on glaciers, the Antarctica, and in the northern part of Eurasia. In September 2017, Nokian Tyres launched new members for the Nokian Hakka summer tyre family – the Nokian Hakka Black 2, Nokian Hakka Black 2 SUV, and Nokian Hakka Blue 2 SUV. The key markets for these products are the Nordic countries and Russia. We also launched the Nokian eNTYRE C/S, an All-Season tyre designed for CUVs and SUVs and developed for the North American market. The new products have been received well by the markets. In December 2017, Nokian Tyres announced that the company strengthens its cooperation with car manufacturers in Central Europe. The BMW Group has approved the Nokian WR D4 winter tyre to be sold in its dealerships.

During the review period, capacity utilization increased year-over-year, and the production output (pcs) increased by 15%. In Q3/2017, a new production line at the Vsevolozhsk factory was gradually taken into use. The company also increased production at the Nokia factory with the current shift pattern. Productivity (kg/mh) improved by 3% year-over-year. In 2017, 85% (86%) of Nokian passenger car tyres (pcs) were manufactured at the Russian factory.

Heavy Tyres

	10–12 /17	10–12 /16	Change %	2017	2016	Change %
Net sales, M€	46.5	41.7	11.4	172.3	155.3	11.0
Operating profit, M€	9.4	7.2	31.4	32.2	28.2	14.1
Operating profit, %	20.3	17.2		18.7	18.2	

Net sales of Nokian Heavy Tyres totaled EUR 172.3 million (155.3) in 2017, up by 11.0% year-over-year. Operating profit was EUR 32.2 million (28.2). Operating profit percentage was 18.7% (18.2%).

In the review period, demand was good in most of Nokian Heavy Tyres' core product groups in the Western markets. All market areas showed growth. Sales increased clearly in North America and increased in Other Europe and the Nordic countries. In Russia, sales increased partly due to currency effects. Sales of agricultural tyres and forestry tyres increased in particular. New product sales developed well and increased the full year net sales. Operating profit increased year-over-year due to the increased sales and production volumes and improved productivity.

In 2017, the ASP increased slightly year-over-year mainly due to price increases and an improved product mix. Price increases related to higher material costs were implemented in all markets during 2017. During the review period, sales volumes of the company's own production increased year-over-year. Productivity increased slightly year-over-year.

Production output (metric tons) increased compared with 2016. Investments in production technology and capacity continued.

In December 2017, Nokian Tyres announced that Heavy Tyres is increasing its production capacity by 50% by investing a total of approximately EUR 70 million in its factory in Nokia, Finland, over the following three years. The aim is to increase the maximum capacity for heavy tyre production from approximately 20 million kg to 32 million kg.

Vianor

Equity operations

	10–12 /17	10–12 /16	Change %	2017	2016	Change %
Net sales, M€	124.7	125.0	-0.2	339.4	334.8	1.4
Operating profit, M€	13.1	7.8*	68.4	-5.8***	-8.1**	28.4
Operating profit, %	10.5	6.2*		-1.7***	-2.4**	
Equity service centers, pcs				194	212	

In 2016, non-recurring items amounting to EUR 3.6 million included the write-off of ICT development projects.
* Excluding non-recurring items: Operating profit EUR 10.4 million, operating profit percentage 8.3%.
** Excluding non-recurring items: Operating profit EUR -4.5 million, operating profit percentage -1.3%.
In 2017, non-recurring items amounting to EUR 1.8 million in total.
*** Excluding non-recurring items: Operating profit EUR -4.0 million, operating profit percentage -1.2%.

Net sales totaled EUR 339.4 million (334.8) in 2017, up by 1.4% year-over-year. Operating profit was EUR -5.8 million (-8.1). Operating profit percentage was -1.7% (-2.4%).

In 2017, net sales increased slightly year-over-year. Nordic countries' retail business environment was very challenging in terms of tough competition landscape. This has been leading to a complex pricing environment. The profit improvement program, including the network optimization, progressed according to plan. At the end of the review period, Vianor had 194 (212) equity service centers in Finland, Sweden, Norway, and the USA.

Branded distribution network

Nokian Tyres' branded distribution network includes the Vianor equity chain, Vianor partner chain, Nokian Tyres Authorized Dealers (NAD), and N-Tyre. Vianor chains operate in 26 countries.

In Nokian Tyres' key markets, the size of the Vianor equity and partner chain decreased during 2017 (compared with year-end 2016: equity -18, partner -17). At the end of the review period, the Vianor equity and partner network comprised 1,466 service centers in total, of which 1,272 were partners.

The Nokian Tyres Authorized Dealers (NAD) network expanded during the review period by 374 stores compared with year-end 2016, and now comprises 1,855 stores operating under contract in 21 European countries and China. N-Tyre, a Nokian Tyres partner network, is operating with 127 stores in Russia and the CIS and expanded during the review period by 7 stores compared with year-end 2016.

OTHER MATTERS

1. Stock options on the Nasdaq Helsinki Stock Exchange

The total number of stock options 2013A was 1,150,000. Each stock option 2013A entitled its holder to subscribe to one share in Nokian Tyres plc. The shares were subscribed with the stock options 2013A during the period of May 1, 2015 to May 31, 2017.

The total number of stock options 2013B is 1,150,000. Each stock option 2013B entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013B during the period of May 1, 2016 to May 31, 2018. The present share subscription price with stock options 2013B is EUR 25.06/share. The dividends payable annually are deducted from the share subscription price.

The total number of stock options 2013C is 1,150,000. Each stock option 2013C entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013C during the period of May 1, 2017 to May 31, 2019. The present share subscription price with stock options 2013C is EUR 21.39/share. The dividends payable annually are deducted from the share subscription price.

2. Authorizations

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, or by granting special rights under Chapter 10, Section 1 of the Finnish Limited Liability Companies Act that entitle to shares (including convertible bonds), on one or more occasions. The authorization is effective for two years from the decision.

In 2017, the Annual General Meeting authorized the Board of Directors to resolve to repurchase a maximum of 5,000,000 shares in the company by using the funds in the unrestricted shareholders' equity. The authorization is effective until the next Annual General Meeting, however, at most until October 10, 2018.

3. Own shares

No share repurchases were made in the review period, and the company did not possess any own shares on December 31, 2017.

In 2014 and in 2017, Nokian Tyres entered into an agreement with a third-party service provider concerning the share-based incentive program for key personnel. The third party owns the shares until the shares are given to the participants within the program. In accordance with IFRS, these repurchased shares, 300,000 in 2014 and 480,000 in 2017, have been reported as treasury shares in the Consolidated Statement of Financial Position. On December 31, 2017, the number of these shares was 521,331. This number of shares corresponded to 0.4% of the total shares and voting rights of the company.

4. Trading in shares

Nokian Tyres' share price was EUR 37.80 (35.42) at the end of the review period. The volume weighted average share price during the period was EUR 37.25 (31.75), the highest was EUR 41.95 (36.74) and the lowest was EUR 34.24 (27.48). A total of 117,227,947 shares were traded in Nasdaq Helsinki during the period (138,561,065), representing 85% (102%) of the company's overall share capital. Nokian Tyres' shares are also traded on alternative exchanges, such as BATS CXE, Turquoise, and BATS BXE. The total trading volume on these alternative exchanges was 83,293,139 (127,537,938) shares during the review period. The company's market capitalization at the end of the period was EUR 5.189 billion (4.814 billion). The company had 39,028 (35,483) shareholders. The percentage of Finnish shareholders was 25.5% (23.1%), and 74.5% (76.9%) were non-Finnish holders and foreign shareholders registered in the nominee register. This figure includes Bridgestone's holding of approximately 14.6% (ownership at the AGM registration day on April 10, 2017).

5. Changes in ownership

Nokian Tyres has received announcements from BlackRock, Inc. on November 16, 2017, and on December 18, 2017, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of a share transactions concluded on November 15, 2017, and on December 15, 2017.

Nokian Tyres has received announcements from BlackRock, Inc. on November 15, 2017, on November 17, 2017, and on December 28, 2017, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on November 14, 2017, on November 16, 2017, and on December 27, 2017.

Detailed information on flagging can be found at
www.nokiantyres.com/company/investors/share/flagging-notifications/.

6. Decisions made at the Annual General Meeting

On April 10, 2017, the Annual General Meeting of Nokian Tyres approved the Financial Statements for 2016 and discharged the members of the Board of Directors and the President and CEO from liability for the 2016 financial year.

6.1. Dividend

The meeting decided that a dividend of EUR 1.53 per share should be paid for the period ending on December 31, 2016. The dividend payment date was April 27, 2017, and the dividend was paid to the shareholders included in the shareholder list maintained by Euroclear Finland Ltd on the record date of April 12, 2017.

6.2. Change to the Articles of Association

The meeting confirmed the new proposed wording for Article 4: The Company's administration and proper organization of operations shall be the responsibility of the Board of Directors, consisting of a minimum of four and a maximum of eight members, in accordance with the decision made by the General Meeting of the Shareholders. The term of office of the members of the Board of Directors ends at the closing of the first Annual General Meeting following the election. The Board of Directors shall elect a Chairman and a Deputy Chairman from among its members until the closing of the next Annual General Meeting.

6.3. Members of the Board of Directors and Auditors

The meeting decided that the Board of Directors has seven members. Of the current members, Heikki Allonen, Tapio Kuula, Raimo Lind, Veronica Lindholm, Inka Mero, and Petteri Walldén will continue in the Board of Directors. Mr. George Rietbergen was elected as a new member of the Board.

Authorized public accountants KPMG Oy Ab continue as auditors.

6.4. Remuneration of the Members of the Board of Directors

The meeting decided that the monthly fee paid to the Chairman of the Board is EUR 6,667, or EUR 80,000 per year, the monthly fee paid to the Deputy Chairman of the Board and to the Chairman of the Audit Committee is EUR 5,000, or EUR 60,000 per year, and the monthly fee paid to Members of the Board is EUR 3,333, or EUR 40,000 per year.

50% of the annual fee is paid in cash and 50% in company shares to the effect that, during the period from April 11 to April 30, 2017, EUR 40,000 worth of Nokian Tyres plc shares were purchased at the stock exchange on behalf of the Chairman of the Board, EUR 30,000 worth of Nokian Tyres plc shares were purchased at the stock exchange on behalf of the Deputy Chairman of the Board and Chairman of the Audit committee, and EUR 20,000 worth of shares were purchased on behalf of each Board Member.

The company is liable to pay any asset transfer tax which may arise from the acquisition of shares. Each member of the Board will receive a meeting fee of EUR 600 per attended meeting. If a Board member's habitual residence is outside Finland, the meeting fee is EUR 1,200 per attended meeting. Travel expenses will be compensated for in accordance with the company's travel policy.

7. Chairman of the Board, Deputy Chairman of the Board, and Committees of the Board of Directors

In the Board meeting on April 10, 2017, Petteri Walldén was elected Chairman of the Board and Tapio Kuula was elected Deputy Chairman of the Board. The Board elected Tapio Kuula (Chairman), Veronica Lindholm, and Petteri Walldén as members of the Personnel and Remuneration Committee. The Board elected Raimo Lind (Chairman), Heikki Allonen, Inka Mero, and George Rietbergen as members of the Audit Committee.

8. Corporate social responsibility

Nokian Tyres published its Corporate Sustainability Report in March 2017. The Corporate Sustainability Report is available in Finnish and English on the company's website at www.nokiantyres.com/company/sustainability/. The report is based on the international, widely adopted GRI G4 guidelines that divide sustainability into three main groups (financial, environmental, and social sustainability and their different subgroups). Product safety and quality, as well as profitable growth, good HR management, and environmental issues are important for the development of sustainable business operations at Nokian Tyres. The report is the fifth GRI report from Nokian Tyres and, in the interests of quality assurance, it has now been externally assured for the second time.

Nokian Tyres plc is included in the OMX GES Sustainability Finland GI index. The index is designed to provide investors with a liquid, objective, and reliable benchmark for responsible investments. The benchmark index comprises the 40 leading Nasdaq Helsinki listed companies in terms of sustainability. The index criteria are based on international guidelines for environmental, social, and governance (ESG) issues. The index is calculated by Nasdaq in cooperation with GES Investment Services. Nokian Tyres is also included in the STOXX Global ESG Leaders indices, and is a constituent of the FTSE4Good Index.

In September 2017, Nokian Tyres was selected for Dow Jones' DJSI World sustainability index. With a total sustainability score nearly twice as high as the industry average in the Auto Components sector, Nokian Tyres significantly improved its results in the 2017 assessment. Nokian Tyres' score of 78 points was only one point behind the industry's best company globally. The Dow Jones Sustainability Index (DJSI) is an annual sustainability assessment of large publicly traded companies by the Swiss RobecoSAM.

9. Nokian Tyres introduces new flagship products for its winter tyre range: the Nokian Hakkapeliitta 9 and Nokian Hakkapeliitta 9 SUV utilize unique stud technology

On January 3, 2017, Nokian Tyres announced that the company is renewing its studded tyre range by launching its new flagship products: the Nokian Hakkapeliitta 9, for passenger cars, and the Nokian Hakkapeliitta 9 SUV for sports utility vehicles. In addition to the Nokian Hakkapeliitta winter tyres, the company is also introducing the new studded Nokian Nordman 7 and Nokian Nordman 7 SUV winter tyres. The Nokian Nordman product family offers an alternative to the premium products in terms of the price–quality ratio and supplements Nokian Tyres' product range for different consumer groups. Key markets for both product families are the Nordic countries, Russia, and North America.

10. Changes in Nokian Tyres' management team

On January 18, 2017, Nokian Tyres announced that Mr. Timo Tervolin, Vice President, Strategy and Corporate Development, will take over the responsibility for the global Process Development in Nokian Tyres as of February 1, 2017. Mr. Alexej von Bagh, the current Vice President, Process Development will move outside the company.

11. Nokian Tyres plc Performance Share Plan: performance period 2017 and realization of performance period 2016

On February 2, 2017, Nokian Tyres announced that the potential reward from the performance period 2017 will be based on the Nokian Tyres Group's net sales and operating profit. The rewards to be paid on the basis of the performance period 2017 correspond to an approximate maximum total of 540,000 shares in Nokian Tyres plc, also including the proportion to be paid in cash. During the performance period 2017, the Plan is targeted towards approximately 200 key employees, including the members of the Group's Management Team. The potential reward from the performance period 2017 will be paid partly in the company's shares and partly in cash in 2018. The shares paid as a reward may not be transferred during an approximately one-year restriction period established for the shares. For shares paid on the basis of the performance period 2017, the restriction period will end on March 31, 2019.

The rewards to be paid in 2017, on the basis of the achievement of the required performance levels set for the performance criteria of the performance period 2016, correspond to a total of 402,875 Nokian Tyres plc shares, also including the proportion to be paid in cash. The Plan was targeted towards 182 key employees, including the members of the Group's Management Team. The shares paid as a reward may not be transferred during an approximately one-year restriction period established for the shares. For shares paid on the basis of the performance period 2016, the restriction period will end on March 31, 2018. The members of the Group's Management Team must hold 25% of the received gross shares until the member's shareholding in the company equals the member's fixed gross annual salary.

12. Nokian Tyres plc: Managers' transactions

Nokian Tyres announced managers' transactions on February 8, 2017; February 10, 2017; March 7, 2017; March 10, 2017; March 24, 2017; March 27, 2017; April 13, 2017; and November 1, 2017. Read more at: www.nokiantyres.com/company/publications/releases/2017/managementTransactions/.

13. Nokian Tyres plc: Shares subscribed with option rights

On February 9, 2017, Nokian Tyres announced that, after the registration of new shares on November 10, 2016, a total of 14,146 Nokian Tyres plc's shares have been subscribed with the 2013A option rights and a total of 80 shares with the 2013B option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares will increase to 135,925,921 shares.

On May 11, 2017, Nokian Tyres announced that, after the registration of new shares on February 9, 2017, a total of 371,314 Nokian Tyres plc's shares have been subscribed with the 2013A option rights, and a total of 18,399 shares with the 2013B option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares will increase to 136,315,634 shares.

On August 16, 2017, Nokian Tyres announced that, after the registration of new shares on May 11, 2017, a total of 693,053 Nokian Tyres plc's shares have been subscribed with the 2013A option rights, a total of 7,062 shares with the 2013B option rights, and a total of 52,026 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares will increase to 137,067,775 shares.

On November 9, 2017, Nokian Tyres announced that, after the registration of new shares on August 16, 2017, a total of 84,222 Nokian Tyres plc's shares have been subscribed with the 2013B option rights, and a total of 49,377 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares will increase to 137,201,374 shares.

On December 21, 2017, Nokian Tyres announced that, after the registration of new shares on November 9, 2017, a total of 60,358 Nokian Tyres plc's shares have been subscribed with the 2013B option rights, and a total of 4,850 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares will increase to 137,266,582 shares.

14. Hille Korhonen appointed President and CEO of Nokian Tyres plc

On March 28, 2017, Nokian Tyres announced that the Board of Directors of Nokian Tyres plc has appointed Licentiate of Science (Technology) Hille Korhonen (born 1961) as the new President and Chief Executive Officer of Nokian Tyres plc. She will start at Nokian Tyres on June 1, 2017. Hille Korhonen has more than 20 years of experience in international consumer business and leading global industrial operations. Andrei Pantioukhov has acted as Interim President and CEO since January 2017, and will continue in this role until Korhonen assumes her duties as CEO. As of June 1, 2017, Mr. Pantioukhov will continue as the Executive Vice President of Nokian Tyres plc, General Manager, Russian operations, and a member of the Group’s management team.

15. Nomination to Nokian Tyres' management team

On April 19, 2017, Nokian Tyres announced that Mr. Frans Westerlund has been appointed Vice President, CIO and Processes. He will join Nokian Tyres plc as a member of the management team on August 1, 2017. Mr. Westerlund will report to the President and CEO. Mr. Teppo Huovila, the current Vice President for Quality, Sustainability and ICT, will continue in the company’s management team as Vice President, Quality and Sustainability. Process development is currently part of Mr. Timo Tervolin’s responsibilities. He will continue in the company’s management team as Vice President, Strategy and Corporate Development. Read more at: www.nokiantyres.com/company/news-article/nomination-to-nokian-tyres-management-team-3/.

16. Nokian Tyres’ Board of Directors has made a principal decision to invest in a greenfield factory in the USA

On May 3, 2017, Nokian Tyres announced that Nokian Tyres’ Board of Directors has made a principal decision on the investment in the third factory and authorized the management of the company to sign a Letter of Intent with the respective authorities in the USA. The new greenfield factory will be located in Dayton (Rhea County), Tennessee, USA. The annual capacity of the factory will be 4 million tyres with potential to expand in the future. The site will also house a distribution facility with a storage capacity of 600,000 tyres. The total amount of the investment at this phase is approximately USD 360 million. Construction is scheduled to begin in early 2018 and the first tyres are to be produced in 2020.

17. The building work of Nokian Tyres’ third factory starts in North America

On September 20, 2017, Nokian Tyres held a groundbreaking ceremony to celebrate the beginning of the building work of the company’s third factory. The new factory will be the company’s first manufacturing facility in North America. The new greenfield factory will be located in Dayton (Rhea County), Tennessee, USA. During the ceremony, President & CEO Hille Korhonen reaffirmed the company’s ambition to doubling sales in the next five years within North America. Nokian Tyres’ goal is to lead the tyre industry in sustainable manufacturing as well as to make sure the company is the employer of choice within the greater communities it serves. Read more at: www.nokiantyres.com/daytonfactory

18. Nokian Tyres received EUR 59 million additional payable tax in Finland regarding year 2011; the company will appeal the decision

On October 3, 2017, Nokian Tyres announced that the company has received a tax reassessment decision from the Tax Administration, according to which the company is obliged to pay EUR 59 million in additional taxes with punitive tax increases and interest concerning the tax year 2011. Payment is due in November 2017. The total sum demanded by the tax authorities is EUR 59 million, of which EUR 39 million are additional taxes and EUR 20 million are punitive tax increases and interest. The company will record the 2011 total additional taxes of EUR 59 million in full to the financial statement and result of Q3/2017. The Tax Administration's ruling does not affect the company's dividend distribution. The company considers the reassessment decision of the Tax Administration as unfounded and is going to appeal to the Board of Adjustment and, if necessary, the company will continue the appeal process in the Administrative Court. If needed, the company will also require the competent authorities to negotiate on the elimination of the double taxation.

19. Nokian Tyres’ Hakkapeliitta 9 selected for Popular Science Best of What’s New Award

On October 19, 2017, Nokian Tyres announced that the world’s largest science and technology magazine Popular Science has selected Nokian Tyres’ Hakkapeliitta 9 for its 2017 Best of What’s New Award. Recipients of this award must have a product or technology representing a significant step forward in its category.

20. Changes in Nokian Tyres' Board of Directors and its Committees

On November 14, 2017, Nokian Tyres announced that the following changes have been made to Nokian Tyres plc's Board of Directors due to the passing of Deputy Chairman Tapio Kuula.

Nokian Tyres' Board of Directors continues with six members until the next Annual General meeting that will be held on 10 April 2018. The current members of the Board of Directors are Petteri Walldén (Chairman), Heikki Allonen, Raimo Lind, Veronica Lindholm, Inka Mero, and George Rietbergen. For the remaining term of office, Nokian Tyres' Board of Directors has elected, from among its members, Raimo Lind as its new Deputy Chairman of the Board, and Petteri Walldén (Chairman), Raimo Lind, and Veronica Lindholm as members of the Personnel and Remuneration Committee. Raimo Lind (Chairman), Heikki Allonen, Inka Mero, and George Rietbergen continue as members of the Audit Committee.

21. Nokian Tyres renews agreement on flexible working times and hires permanent employees in Nokia

On November 17, 2017, Nokian Tyres announced that the company has signed an important local agreement on flexible working hours for its personnel in 2018. At the same time, the company is moving more than 30 passenger car tyres employees and 15 heavy tyres employees from fixed-term contracts to permanent employment. The goal of the agreement is to prepare for the company's growth, build flexibility for future seasons and ensure employment for the duration of the agreement. The agreement further strengthens the role of the Nokia factory as a competitive center for expertise and production. This year, Nokian Tyres has invested dozens of millions of euros in the Nokia site and hired a total of more than 170 new employees.

22. Nokian Tyres is renewing its leadership and operational model to support global business

On December 4, 2017, Nokian Tyres announced that the company is accelerating profitable growth, customer orientation and innovative future solutions by renewing its leadership and operational model. The purpose of this change is also to create a scalable structure and to increase efficiency through global functions and processes. The new organization structure will be valid starting from January 1, 2018. Nokian Tyres' business unit structure will remain unchanged, consisting of Passenger Car Tyres, Nokian Heavy Tyres and Vianor. Company's external reporting model will continue to include business units and geographical areas.

Nokian Tyres' management team from 1 January 2018 onwards:
Hille Korhonen, President and CEO
Andrei Pantioukhov, Executive Vice President, Russia and Asia business area
Pontus Stenberg, Europe business area
Tommi Heinonen, Americas business area
Pontus Stenberg, interim, Products and Technologies unit
Manu Salmi, Nokian Heavy Tyres business unit
Anna Hyvönen, Vianor business unit
Anne Leskelä, Finance & IR
Esa Eronen, Supply Chain & Sustainability
Antti-Jussi Tähtinen, Marketing & Communications
Tarja Kaipio, HR
Frans Westerlund, IT & Processes
Susanna Tusa, Legal & Compliance
Timo Tervolin, Strategy & M&A

Read more: www.nokiantyres.com/company/investors/corporate-governance/the-groups-management-team/

23. Nokian Tyres strengthens its cooperation with car manufacturers in Central Europe

On December 5, 2017, Nokian Tyres announced that the BMW Group has approved the Nokian WR D4 winter tyre as original equipment for the BMW X1. The Nokian WR D4 is a new-generation winter tyre developed by Nokian Tyres for Central European weather conditions. It provides excellent grip and comfortable handling even at high speeds. The tyre meets the BMW Group's strict requirements and is both a safe and stylish choice for drivers who value quality.

24. Nokian Heavy Tyres to increase its production capacity by 50%, investing EUR 70 million in Nokia

On December 22, 2017, Nokian Tyres announced that Nokian Heavy Tyres Ltd, part of the Nokian Tyres group, is increasing its production capacity by 50% by investing a total of approximately EUR 70 million in its factory in Nokia over the following three years. With the capacity increase, approximately 50 new people will be hired for the production of heavy tyres. The aim is to increase the maximum capacity for heavy tyre production from approximately 20 million kg to 32 million kg. Nokian Heavy Tyres Ltd has also signed an agreement with the local labor union on increasing competitiveness through flexibility. The agreement motivates the personnel to develop multiple skills. This agreement remains in force until the end of 2020.

MATTERS AFTER THE REVIEW PERIOD

25. Nokian Tyres introduces new state-of-the-art products for its winter tyre range

On January 4, 2018, Nokian Tyres announced that the company introduces new state-of-the-art products for its winter tyre range; Nokian Hakkapeliitta R3, Nokian Hakkapeliitta R3 SUV, Nokian WR SUV 4 and Nokian WR G4. The versatile, high-quality winter tyre range of the world's northernmost tyre manufacturer is complemented as Nokian Tyres introduces four new product families: Nordic non-studded Nokian Hakkapeliitta R3 and R3 SUV winter tyres for the Nordic, Russian, and North American markets, Nokian WR SUV 4 for the Central European market and Nokian WR G4 for the North American market.

26. Tytti Bergman appointed to Nokian Tyres management team as of April 16, 2018

On January 5, 2018, Nokian Tyres announced that Ms. Tytti Bergman, M.Sc. (B.A.), age 48, has been appointed to the Nokian Tyres management team in the new position of SVP, People & Culture starting from April 16, 2018. Bergman will report to the President & CEO. Nokian Tyres' current VP, HR Tarja Kaipio will lead operational human resources and continue heading the further development of global HR processes and tools together with the HR organization.

27. Changes in ownership

Nokian Tyres has received announcements from BlackRock, Inc. on January 19, 2018, and on January 25, 2018, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of a share transactions concluded on January 18, 2018, and on January 24, 2018.

Nokian Tyres has received an announcement from BlackRock, Inc. on January 24, 2018, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on January 23, 2018.

Detailed information on flagging can be found at www.nokiantyres.com/company/investors/share/flagging-notifications/.

RISKS, UNCERTAINTY, AND DISPUTES IN THE NEAR FUTURE

The positive development in global economy is expected to continue in 2018, but political uncertainties could cause serious disruption and additional trade barriers, and affect the company's sales and credit risk. Brexit, as such, has practically no direct effect on Nokian Tyres' business.

In 2017, the company's receivables increased year-over-year following the sales increase. The tyre inventories are at the planned level. The company follows the development of NWC very closely. At the end of the review period, Russian trade receivables accounted for 35% (37%) of the Group's total trade receivables.

Approximately 35% of the Group's sales in 2018 are estimated to be generated from Euro-denominated sales. The most important sales currencies in addition to the euro are the Russian ruble, the Swedish and Norwegian krona, and the US and Canadian dollar.

Nokian Tyres' other risks and uncertainty factors relate to the challenging pricing environment for tyres. As raw material prices rise, maintaining profitability will depend on the company's ability to raise tyre prices in line with the increasing raw material costs.

The company announced in February 2016 that its practices concerning tyre tests in the past have not always been in line with the sustainable approach of Nokian Tyres. The company emphasizes that its tyres have always been safe and that safety has never been compromised on. There are no court cases in process related to the matter.

In May 2017, the Finnish Financial Supervisory Authority filed a request for investigation with the National Bureau of Investigation regarding possible securities market offences in relation to the magazine tyre testing case. The company has been made aware that the National Bureau of Investigation has initiated a preliminary investigation into the matter.

More detailed information relating to the risks can be found at www.nokiantyres.com/annual-reports, Financial review 2016, on pages 43–48 and 72–73.

Tax disputes

Nokian Tyres Group has pending disputes with the Finnish Tax Administration. They are described earlier in this report under “Tax rate”.

OUTLOOK FOR 2018

The positive development in global economy is expected to continue in 2018. As we entered 2018, all regions were showing positive development. The global GDP is estimated to grow by 3.8% in 2018 (3.7% in 2017). The GDP growth estimates for the Nordic countries range from +1.9% to +3.0%, whereas for Europe (including the Nordic countries) the number is +2.1% and for the US +2.6%. In Russia, GDP is forecasted to grow by approximately 1.5% to 2.0% in 2018.

In 2018, the market demand for replacement car tyres is expected to show some growth in Central Europe, North America, and the Nordic countries. In Russia, the market is expected to continue growing, but the pace of the recovery is likely to be moderate.

The company's replacement tyre market position (sell-in) is expected to improve in 2018 in all key markets. In Russia, the company expects to retain and further strengthen its market leader position in the A+B segments in 2018.

The raw material costs are estimated to remain approximately at the same level in the full year 2018 compared with 2017.

Nokian Tyres retains a competitive advantage by manufacturing in Russia. 64% of the Russian production was exported in 2017. In 2017, Nokian Tyres invested in the expansion of the Vsevolozhsk factory capacity and further improvements in the automation of production. As a result of these investments, the total annual nominal capacity of the Vsevolozhsk factory increased from 15.5 million tyres to 17 million tyres by the end of Q3/2017.

The demand for Nokian Heavy Tyres' core products is estimated to remain healthy. Nokian Heavy Tyres' production capacity and delivery capability have improved and, therefore, the sales and EBIT are expected to increase year-over-year.

Vianor (equity-owned) is expected to increase sales, further develop the service business, and improve the operating result in the full year 2018. Vianor (partners) and Nokian Tyres' other partner channels, such as Nokian Tyres Authorized Dealers (NAD) and the N-Tyre network, will continue to expand.

Nokian Tyres' budget for total investments in 2018 is EUR 260 million (134.9), of which EUR 40 million will be invested in Russia. EUR 75 million is planned to be invested in the Nokia factory and global development projects. EUR 110 million is planned to be invested in the building work of the Dayton factory. The balance goes to Heavy Tyres, sales companies, and the Vianor chain.

Financial guidance

In 2018, with the current exchange rates, net sales and operating profit are expected to grow compared with 2017.

The proposal for the use of profits by the Board of Directors

The distributable funds in the Parent company total EUR 658.0 million.
The Board of Directors proposes to the Annual General Meeting that the distributable funds are to be used as follows:

A dividend of	1.56 EUR/share
be paid out, totaling	EUR 214.2 million
retained in equity	EUR 443.8 million
Total	EUR 658.0 million

No material changes have taken place in the financial position of the company since the end of the financial year. The liquidity of the company is good, and the proposed distribution of profits does not compromise the financial standing of the company as perceived by the Board of Directors.

Nokia, February 2, 2018

Nokian Tyres plc
Board of Directors

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The above-said information contains forward-looking statements relating to future events or future financial performance of the company. In some cases, such forward-looking statements can be identified by terminology such as “may”, “will”, “could”, “expect”, “anticipate”, “believe”, “estimate”, “predict” or other comparable terminology. Such statements are based on the current expectations, known factors, decisions, and plans of the management of Nokian Tyres. Forward-looking statements always involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Therefore, future results may even differ significantly from the results expressed in, or implied by, the forward-looking statements.

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This financial statements release has been prepared in accordance with IAS 34 Interim Reports standard. The company has adopted certain new or revised IFRS standards and IFRIC interpretations at the beginning of the financial period as described in the Financial Statements 2016. However, the adaptation of these new or amended standards has not yet had an effect on the reported figures in practice. On the other respects, the same accounting policies have been followed as in the previous Financial Statements.

The figures in the financial statements release are unaudited.

NOKIAN TYRES CONSOLIDATED INCOME STATEMENT Million euros		10-12/17	10-12/16	1-12/17	1-12/16	Change %
Net sales		490.4	460.7	1,572.5	1,391.2	13.0
Cost of sales		-263.3	-236.1	-838.8	-724.2	-15.8
Gross profit		227.1	224.6	733.7	667.0	10.0
Other operating income		1.3	1.4	5.8	3.9	50.0
Selling and marketing expenses		-84.8	-81.1	-294.3	-267.6	-10.0
Administration expenses		-13.4	-20.6	-52.7	-49.4	-6.6
Other operating expenses		-7.6	-15.8	-27.0	-43.4	37.6
Operating profit		122.6	108.5	365.4	310.5	17.7
Financial income		31.6	48.3	118.3	140.1	-15.6
Financial expenses	(1	-35.3	-50.4	-151.3	-151.8	0.4
Profit before tax		118.9	106.3	332.4	298.7	11.3
Tax expense	(2 (3	-24.2	-15.1	-111.0	-46.9	-136.6
Profit for the period		94.7	91.2	221.4	251.8	-12.1
Attributable to:						
Equity holders of the parent		94.7	91.2	221.4	251.8	
Non-controlling interest		-	-	-	-	
Earnings per share from the profit attributable to equity holders of the parent						
basic, euros		0.69	0.67	1.63	1.87	-13.0
diluted, euros		0.69	0.67	1.61	1.86	-13.2

CONSOLIDATED OTHER COMPREHENSIVE INCOME Million euros	10-12/17	10-12/16	1-12/17	1-12/16
Profit for the period	94.7	91.2	221.4	251.8
Other comprehensive income, items that may be reclassified subsequently				
to profit and loss, net of tax:				
Gains/Losses from hedge of net				
investments in foreign operations	0.0	0.0	0.0	0.0
Cash flow hedges	0.3	0.0	1.3	-0.3
Translation differences				
on foreign operations 4)	-9.5	56.3	-33.5	121.8
Total other comprehensive income				
for the period, net of tax	-9.3	56.3	-32.2	121.6
Total comprehensive income				
for the period	85.4	147.5	189.2	373.4
Total comprehensive income				
attributable to:				
Equity holders of the parent	85.4	147.5	189.2	373.4
Non-controlling interest	-	-	-	-

1) Financial expenses in 1-12/17 contain EUR 15.2 million expensed punitive interest for tax reassessment decisions on year 2011. Additionally financial expenses 1-12/17 contain EUR 3.1 million expensed interest for tax reassessment decisions on years 2007-2013 of a group company.
2) Tax expense in 1-12/17 contains EUR 43.7 million expensed additional taxes with punitive increases for tax reassessment decisions on year 2011. Tax expense in 1-12/16 has been adjusted with EUR 4.9 million according to the tax reassessment decision on years 2007-2010 by the Board of Adjustment.
3) Otherwise tax expense in the consolidated income statement is based on the taxable result for the period.
4) Since the beginning of year 2014 the Group has internal loans that are recognised as net investments in foreign operations in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". The impact in 1-12/17 is EUR 0.2 million and 1-12/16 EUR -1.3 million. These internal loans have now been converted to equity in the subsidiaries.

KEY RATIOS	31.12.17	31.12.16	Change %
Equity ratio, %	78.2	73.8	
Gearing, %	-14.2	-19.7	
Equity per share, euro	10.74	10.75	-0.1
Interest-bearing net debt,			
mill. euros	-208.3	-287.4	
Capital expenditure,			
mill. euros	134.9	105.6	
Depreciation, mill. euros	98.3	84.7	
Personnel, average	4,630	4,433	
Number of shares (million units)			
at the end of period	136.75	135.68	
in average	136.25	134.86	
in average, diluted	137.28	135.56	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.17	31.12.16
Million euros		
Non-current assets		
Property, plant and equipment	554.1	542.3
Goodwill	83.3	86.5
Other intangible assets	35.6	37.1
Investments in associates	0.1	0.1
Available-for-sale financial assets	0.7	0.7
Other receivables	8.9	10.4
Deferred tax assets	9.2	12.4
Total non-current assets	691.9	689.5
Current assets		
Inventories	340.1	304.3
Trade receivables	432.9	374.3
Other receivables	56.8	78.3
Current tax assets	12.3	16.1
Cash and cash equivalents	343.4	513.2
Total current assets	1,185.4	1,286.2
Total assets	1,877.4	1,975.7
Equity		
Share capital	25.4	25.4
Share premium	181.4	181.4
Treasury shares	-20.3	-6.7
Translation reserve	-297.6	-264.1
Fair value and hedging reserves	-1.8	-3.1
Paid-up unrestricted equity reserve	203.9	168.9
Retained earnings	1,377.4	1,356.6
Non-controlling interest	-	-
Total equity	1,468.4	1,458.5
Non-current liabilities		
Deferred tax liabilities	30.4	50.6
Provisions	0.1	0.1
Interest-bearing financial liabilities	134.4	137.0
Other liabilities	0.4	1.0
Total non-current liabilities	165.3	188.8
Current liabilities		
Trade payables	72.8	78.0
Other current payables	158.7	141.4
Current tax liabilities	6.9	16.8
Provisions	4.4	3.5
Interest-bearing financial liabilities	0.8	88.8
Total current liabilities	243.6	328.5
Total equity and liabilities	1,877.4	1,975.7

Changes in net working capital arising from operative business are partly covered by EUR 350 million domestic commercial paper programme.

CONSOLIDATED STATEMENT OF CASH FLOWS	1-12/17	1-12/16
Million euros		
Profit for the period	221.4	251.8
Adjustments for		
Depreciation, amortisation and impairment	98.4	100.5
Financial income and expenses	33.1	11.8
Gains and losses on sale of intangible assets, other changes	5.9	-7.9
Income Taxes	111.0	46.9
Cash flow before changes in working capital	469.8	403.2
Changes in working capital		
Current receivables, non-interest-bearing, increase (-) / decrease (+)	-69.0	46.3
Inventories, increase (-) / decrease (+)	-51.8	-9.8
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	47.9	6.5
Changes in working capital	-72.9	43.0
Financial items and taxes		
Interest and other financial items, received	2.6	15.5
Interest and other financial items, paid	-36.1	-27.8
Dividens received	0.0	0.0
Income taxes paid	-128.9	-69.4
Financial items and taxes	-162.3	-81.7
Cash flow from operating activities (A)	234.6	364.4
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	-134.9	-101.5
Proceeds from sale of property, plant and equipment and intangible assets	1.7	0.6
Acquisitions of Group companies	-0.3	-11.7
Change in non-controlling interest	-	-
Acquisitions of other investments	0.0	-0.4
Cash flows from investing activities (B)	-133.5	-113.0
Cash flow from financing activities:		
Proceeds from issue of share capital	35.0	35.9
Purchase of treasury shares	-17.8	-
Change in current financial receivables, increase (-) / decrease (+)	-16.2	28.6
Change in non-current financial receivables, increase (-) / decrease (+)	0.7	5.1
Change in current financial borrowings, increase (+) / decrease (-)	-78.4	48.9
Change in non-current financial borrowings, increase (+) / decrease (-)	11.5	-85.1
Dividens received	0.1	0.5
Dividends paid	-208.0	-202.0
Cash flow from financing activities (C)	-273.1	-168.1
Change in cash and cash equivalents, increase (+) / decrease (-) (A+B+C)	-172.0	83.2
Cash and cash equivalents at the beginning of the period	513.2	429.3
Effect of exchange rate fluctuations on cash held	-2.2	0.8
Cash and cash equivalents at the end of the period	343.4	513.2

Based on the tax reassessment decisions the financial items and taxes contain paid tax increases and punitive interest of EUR 77.5 million in 1-12/17. Additionally based on the annulled and later renewed tax reassessment decisions on years 2007-2010 the financial items and taxes contain paid tax increases of EUR 51.0 million in 1-12/16. Additionally in 1-12/16 the Tax Administration refunded EUR 4.9 million tax increases according to the latest decision of the Board of Adjustment.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

A = Share capital
B = Share premium
C = Treasury shares
D = Translation reserve
E = Fair value and hedging reserves
F = Paid-up unrestricted equity reserve
G = Retained earnings
H = Non-controlling interest
I = Total equity

							Equity attributable to equity holders of the parent		
Million euros	A	B	C	D	E	F	G	H	I
Equity, 1 Jan 2016	25.4	181.4	-8.6	-385.9	-2.9	133.0	1,299.2	-	1,241.6
Profit for the period							251.8		251.8
Other comprehensive income, net of tax:									
Cash flow hedges					-0.3				-0.3
Net investment hedge									-
Translation differences				121.8					121.8
Total comprehensive income for the period				121.8	-0.3		251.8		373.4
Dividends paid							-201.6		-201.6
Exercised warrants						35.9			35.9
Acquisition of treasury shares									-
Share-based payments			1.9				7.2		9.1
Total transactions with owners for the period			1.9			35.9	-194.4		-156.5
Equity, 31 Dec 2016	25.4	181.4	-6.7	-264.1	-3.1	168.9	1,356.6	-	1,458.5
Equity, 1 Jan 2017	25.4	181.4	-6.7	-264.1	-3.1	168.9	1,356.6	-	1,458.5
Profit for the period							221.4		221.4
Other comprehensive income, net of tax:									
Cash flow hedges					1.3				1.3
Net investment hedge									-
Translation differences				-33.5					-33.5
Total comprehensive income for the period				-33.5	1.3		221.4		189.2
Dividends paid							-208.0		-208.0
Exercised warrants						35.0			35.0
Acquisition of treasury shares			-17.8						-17.8
Share-based payments			4.2				7.4		11.5
Total transactions with owners for the period			-13.6			35.0	-200.6		-179.3
Equity, 31 Dec 2017	25.4	181.4	-20.3	-297.6	-1.8	203.9	1,377.4	-	1,468.4

SEGMENT INFORMATION Million euros	10-12/17	10-12/16	1-12/17	1-12/16	Change %
Net sales					
Passenger car tyres	338.3	314.0	1,138.8	981.1	16.1
Heavy tyres	46.5	41.7	172.3	155.3	11.0
Vianor	124.7	125.0	339.4	334.8	1.4
Other operations	3.9	4.9	11.2	13.7	-18.1
Eliminations	-22.9	-24.9	-89.3	-93.8	4.8
Total	490.4	460.7	1,572.5	1,391.2	13.0
Operating result					
Passenger car tyres	100.9	94.4	359.9	305.8	17.7
Heavy tyres	9.4	7.2	32.2	28.2	14.1
Vianor	13.1	7.8	-5.8	-8.1	28.4
Other operations	-8.1	-6.9	-23.7	-14.6	-61.8
Eliminations	7.2	6.0	2.8	-0.8	442.1
Total	122.6	108.5	365.4	310.5	17.7
Operating result, % of net sales					
Passenger car tyres	29.8	30.1	31.6	31.2	
Heavy tyres	20.3	17.2	18.7	18.2	
Vianor	10.5	6.2	-1.7	-2.4	
Total	25.0	23.5	23.2	22.3	

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

Million euros	31.12.17	31.12.16
Opening balance	542.3	485.0
Capital expenditure	134.9	105.6
Decrease	-2.4	-11.2
Depreciation for the period	-98.3	-84.7
Exchange differences	-22.4	47.6
Closing balance	554.1	542.3

CONTINGENT LIABILITIES Million euros	31.12.17	31.12.16
FOR OWN DEBT		
Mortgages	1.0	1.0
Pledged assets	4.6	4.7
ON BEHALF OF OTHER COMPANIES		
Guarantees	0.4	0.4
OTHER OWN COMMITMENTS		
Guarantees	10.3	10.9
Leasing and rent commitments	89.3	71.2
Purchase commitments	1.1	-

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES	31.12.17		31.12.16	
	Carrying	Fair	Carrying	Fair
Million euros	amount	value	amount	value
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Derivatives held for trading	9.5	9.5	17.6	17.6
Money market instruments	30.0	30.0	16.0	16.0
Loans and receivables				
Other non-current receivables	8.9	8.3	10.4	8.6
Trade and other receivables	433.4	434.0	375.1	375.8
Bank deposits	14.4	14.4	-	-
Cash in hand and at bank	299.1	299.1	497.3	497.3
Available-for-sale financial assets				
Unquoted shares	0.7	0.7	0.7	0.7
Derivative financial instruments designated as hedges	12.8	12.8	9.8	9.8
Total financial assets	808.8	808.8	926.8	925.7
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
Derivatives held for trading	1.2	1.2	9.4	9.4
Financial liabilities measured at amortised cost				
Interest-bearing financial liabilities	135.2	136.0	225.8	228.5
Trade and other payables	72.8	72.8	78.0	78.0
Derivative financial instruments designated as hedges	3.2	3.2	6.9	6.9
Total financial liabilities	212.4	213.2	320.1	322.7

All fair value measurements have been classified to Level 2 in the fair value hierarchy. Level 2 includes Group's derivative financial instruments and money market investments. To establish the fair value of these instruments the Group uses generally accepted valuation models with inputs based on observable market data. There has been no transfers between the different levels in the fair value hierarchy.

DERIVATIVE FINANCIAL INSTRUMENTS	31.12.17	31.12.16
Million euros		
INTEREST RATE DERIVATIVES		
Interest rate swaps		
Notional amount	100.0	100.0
Fair value	-1.3	-2.2
FOREIGN CURRENCY DERIVATIVES		
Currency forwards		
Notional amount	387.2	545.3
Fair value	8.3	8.2
Currency options, purchased		
Notional amount	15.2	-
Fair value	0.1	-
Currency options, written		
Notional amount	30.5	-
Fair value	-0.2	-
Interest rate and currency swaps		
Notional amount	67.5	87.5
Fair value	10.8	5.8
ELECTRICITY DERIVATIVES		
Electricity forwards		
Notional amount	5.6	7.7
Fair value	0.0	-0.7

BUSINESS COMBINATIONS

On September 29, 2017 the Group acquired the studding operations from Nokian Nasta Oy through an asset deal. This acquisition has minor impact on group accounts.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Property, plant and equipment	0.5
Inventories	-
Trade and other receivables	-
Cash and cash equivalents	-
Total Assets	0.5
Deferred tax liabilities	-
Financial liabilities	-
Trade and other payables	0.1
Total liabilities	0.1
Total identifiable net assets	0.3
Composition of goodwill in the acquisition	
Consideration transferred	0.3
Total identifiable net assets	0.3
Goodwill	0.0
Consideration paid in cash	0.3
Cash and cash equivalents in the subsidiaries acquired	-
Net cash outflow	0.3

The actual acquisition dates and the nature of the operations taken into account the effect of the acquisition on the consolidated net sales and profit is not material even if they all were combined as of the beginning of the financial year.

The acquisition related costs of EUR 0.0 million have been recorded as selling and marketing expenses. There were no other transactions recognised separately from these acquisitions. The consideration has been transferred in cash and no significant contingent consideration arrangements were included. No non-controlling interest remained in the acquiree. The identifiable assets acquired and liabilities assumed are recognised in fair value.

DEFINITIONS OF CONSOLIDATED KEY FINANCIAL INDICATORS

Earnings per share, euro:
Profit for the period attributable to the equity holders of the parent / Average adjusted number of shares during the period excluding treasury shares

Earnings per share (diluted), euro:
Profit for the period attributable to the equity holders of the parent / Average adjusted and diluted number of shares during the period excluding treasury shares

The share options affect the dilution as the average share market
price for the period exceeds the defined subscription price.

Equity ratio, %:
Total equity x 100 / (Total assets - advances received)

Gearing, %:
Interest-bearing net debt x 100 / Total equity

Equity per share, euro:
Equity attributable to equity holders of the parent / Adjusted number of shares on the reporting date excluding treasury shares

DEFINITIONS OF SALES AREAS

Nordic countries: Finland, Norway, Sweden.

Russia and the CIS:
Russia, Armenia, Belarus, Georgia, Kazakhstan, Moldova, Ukraine.

Other Europe:
Albania, Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, The Former Yugoslav Republic of Macedonia, Netherlands, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Switzerland, Turkey, United Kingdom.

North America: Canada, USA.

Core markets: Nordic countries, Russia and the CIS.

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Nokian Tyres Financial Statement Release 2017 was published on February 2, 2018 at 8.00 a.m. Finnish time.

The result presentation for analysts and media will be held on February 2, 2018 at 10.00 a.m. Finnish time at Hotel Kämp (address Pohjoisesplanadi 29, Helsinki). President and CEO Hille Korhonen will present the result 2017 and answer questions from the audience.

The presentation can be listened to as an audiocast over the Internet at www.nokiantyres.com/resultinfo-Q4-2017 starting at 10 a.m.

The event can also be attended via conference call. Please dial in 5-10 minutes before the beginning of the event:
FI: +358981710495
UK: +442031940552
SE: +46856642702

US: +18557161597

An audio file of the event will be available on the company’s website later same day.

The 2017 Annual Report, Annual Financial Report, Corporate Governance Statement and Remuneration Statement for 2017 will be published on week 11 at the latest.

The Interim Report for January–March 2018 will be published on May 9, 2018. Releases and company information will be available at: www.nokiantyres.com/company/investors/.

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Annual General Meeting 2018

The Annual General Meeting of Nokian Tyres plc will be held on April 10, 2018. The Annual Report, including the company’s annual accounts, the Report of the Board of Directors and the Auditors Report is available on the company’s website no later than week 11, 2018. Read more at www.nokiantyres.com/annualgeneralmeeting2018

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Nokian Tyres plc

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