

## Corporate Governance 2008

Nokian Tyres plc complies with the rules and regulations of its Articles of Association and the Finnish Companies Act, as well as those published by OMX Nasdaq Helsinki Oy ("The Helsinki Stock Exchange") concerning listed companies. It has also adopted the corporate governance recommendation for listed companies, in force since 1 July 2004, which was drafted by the Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. The company also complies with the insider guidelines published by the Helsinki Exchanges, which it has supplemented with its own insider guidelines.

### Board of Directors

According to the Articles of Association of Nokian Tyres, the Board of Directors comprises no less than three and no more than eight members. Members of the Board are elected at the Annual General Meeting, which is held annually by the end of May. The Board members' term of office terminates at the end of the first Annual General Meeting following the elections. Remunerations payable to Board members are confirmed at the Annual General Meeting. The Board of Directors appoints a chairperson from among its members at the first constituent meeting following the Annual General Meeting. The chairperson presides until the end of the following Annual General Meeting.

The Board of Nokian Tyres had seven members in 2008. Board members Hille Korhonen, Hannu Penttilä, Petteri Walldén, Aleksey Vlasov and Kai Öistämö were independent. The other Board members were Koki Takahashi and Kim Gran. The Board had a Nomination and Remuneration Committee, whose members were Hille Korhonen, Hannu Penttilä and the Chairman of the Board Petteri Walldén.

The Board assesses its activities and operating methods by carrying out a self-evaluation once a year. The President of Nokian Tyres ensures that Board members have adequate and necessary information about the company's operations. The Board met nine times in 2008, with an attendance rate of 86%. In 2008, remunerations to Board members totalled EUR 236,250 (EUR 210,000), including 3,766 (3,976) Nokian Tyres' shares worth EUR 98,000 (EUR 84,000). Board members are not included in the company's option scheme. The President does not receive separate remuneration for participating in Board meetings, but the President comes under the scope of option schemes.

### Duties of the Board

The Board is responsible for corporate governance and the appropriate conduct of ordinary activities in accordance with the law, the Articles of Association and the instructions given at the Annual General Meeting. It also defines the principles governing the company's organisation, accounting and finance. Furthermore, it is responsible for appointing the President and CEO, and for other duties described in the Companies Act.

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

- Group and profit centre strategies
- Decisions concerning the structure and organisation of the Group
- Interim reports and consolidated financial statements
- The Group's budget, action and investment plans
- Significant individual investments, acquisitions, divestitures and reorganisations
- The Group's risk management and reporting procedures
- The Group's insurance and financing policies
- Reward and incentive scheme for Group management

The Nomination and Remuneration Committee of Nokian Tyres' Board of Directors:

- prepares the proposal to the Annual General Meeting on the members to be appointed to the Board of Directors
- prepares the Board's proposal to the Annual General Meeting on the auditor to be elected and the remuneration to the auditor
- prepares the proposal to the Annual General Meeting on the remuneration to Board members
- prepares a proposal to the Board on Nokian Tyres' President and management
- submits a proposal on the salary, bonuses and options paid to the Board and the President
- submits a proposal to the Board on the allocation and criteria of options, as well as on other incentives.

The Committee convened once in 2008.

### **Organisation of business activities and responsibilities**

The business activities of the Nokian Tyres Group are divided into two areas: the manufacturing business and the tyre chain. The manufacturing business consists of profit centres, which are Car Tyres, Heavy Tyres (Nokian Heavy Tyres profit centre was incorporated into an independent company as of 1 January 2006), and Other Business.

Other Business includes the Truck Tyres unit. Each profit centre is responsible for its business area and its financial performance, balance sheet and investments, supported by the different service functions. Service functions include sales and logistics, financial administration, communication, ICT and business development, strategy and M&A, human resources, R&D, procurement and production services. The Group's sales are a part of the sales function and serve as product distribution channels in local markets. The tyre chain is organised into a separate sub-group, whose parent company is Vianor Holding Oy, fully owned by the parent company Nokian Tyres plc. The tyre outlets operating in different countries are part of the sub-group.

## **President, Group management, management and rewarding systems**

The President runs the Group's business operations and implements corporate governance in accordance with the instructions and guidelines provided by the Board of Directors. In managing the Group's operations, the President is assisted by a management team.

The Group management meets regularly to discuss matters related to the company's operational business activities. In compliance with the Group's meeting practice, the Management Workshop convenes once a month, and it is attended by the President and profit centre management, as well as the management for sales, logistics, finance, and strategy/M&A operations, and the Vice President for Russian operations. The service functions also hold their own monthly Workshop meetings, which are attended by the directors of all service units or their representatives, as well as profit centre management if the content of the meeting so requires. A more extensive Management General Meeting, attended by the Management Workshop members, as well as the representatives of personnel groups, is also held on a monthly basis. The Group's investments are handled once a month in accordance with the company's written investment guidelines. The primary credit risks are handled by the Credit Committee that convenes weekly. In addition, issues related to different market areas are dealt with at separate monthly meetings.

The Managing Directors of Nokian Tyres' subsidiaries are responsible for the daily operations and administration of their companies. They report to the Sales Director of Nokian Tyres, while the Managing Directors of the Vianor chain report to the director of the Vianor profit centre. Nokian Tyres' Management Guidelines define the corporate governance operations and responsibilities at Nokian Tyres subsidiaries.

The Board of Directors makes decisions concerning the President's salary and other benefits. The President's annual remuneration, including the monthly salary and incentives, amounted to EUR 678,419 in 2008 (EUR 603,090). The salary and benefits are specified in a written agreement. The President's age of retirement is 60 years, and the period of notice is 24 months. At the end of 2008, the President of Nokian Tyres held 12,000 2004C bonds with warrants, 190,000 2007A bonds with warrants, 160,000 2007B bonds with warrants, as well as 19,000 Nokian Tyres' shares.

The Nomination and Remuneration Committee's proposal for the salaries and benefits of managerial employees, as well as for the employee incentive scheme, is subject to the Board's approval. Management rewards are based on a monthly remuneration determined by the competence classification of the tasks and on a separate annual bonus. The Group has also created an option scheme covering the entire personnel, which aims to provide long-term incentives.

## **Finance and control**

The parent company's Finance and Control unit is responsible for internal and external accounting; its tasks also include producing financial information concerning the business areas and ensuring the accuracy of this information.

The parent company's Finance and Control unit defines the Group's common accounting principles and policies, and is in charge of consolidating the business areas' figures to produce Group-level financial information.

Under the parent company's Finance and Control unit's supervision, each legal Group company produces its own information in compliance with the instructions provided and in line with local legislation.

## Financing

The parent company is responsible for Group financing.

Long-term loan arrangements with parties outside the Group require the Board of Directors' approval. Short-term liquidity management is handled by the parent company, which controls the cash flows of the Group's subsidiaries. Cash surplus is deposited in the Group's internal bank, the Treasury. The parent company provides funding to the subsidiaries using intra-Group loans. The Finance and Control unit is organised in accordance with the financial policy adopted by the Board of Directors and the operating procedures it has defined.

## Auditing

The auditor elected at the Annual General Meeting is KPMG Oy Ab, authorised public accountants, with Mr. Lasse Holopainen, Authorised Public Accountant, acting as the auditor with principal responsibility. In accordance with the existing regulations, he also reports all audit findings to the Group's management. The Group's audit fees in 2008 amounted to EUR 503,000 (EUR 290,000).

The fees paid to the authorised public accountants for other services totalled EUR 80,000 (EUR 141,000).

## Internal audit

The Group has organised an internal audit for all of Vianor, focusing on controlling sales outlets and ensuring that activities comply with the activity system. The parent company and sales companies buy internal auditing as a service from public accountants or other service providers if needed. The audit focuses on items separately determined each time.

## Risk management

The Group has adopted a risk management policy, approved by the Board of Directors, which supports the achievement of goals and ensures business continuance.

The risk management policy encompasses all the risks related to business operations and strategy and ensures that customers and end-users can trust the company's products and services. By managing risks, the company can improve its competitiveness and seize opportunities more efficiently than its competitors.

Nokian Tyres takes deliberate risks that are a natural part of its strategy and goals, and which it aims to reduce in various ways. Once the risks related to decisions and policies have been identified and recognised, the company can take action in a controlled manner without endangering business continuance, products, services, brand, reputation, personnel or the safety of core interest groups. Risk management also ensures that the company's operations comply with legislation and regulations.

The risk management process aims to identify and evaluate risks, and to plan and implement practical measures for each one. Such measures may include, for example, avoiding the risk, reducing it in different ways or transferring the risk through insurances or contracts.

Risk management is not allocated to a separate organisation; its tasks follow the general distribution of responsibilities adopted in the organisation and other business activities. The main risks detected in risk surveys are reported to the company's Board of Directors once a year.

### **Insider issues**

Nokian Tyres complies with the guidelines for insider trading drawn up by the Helsinki Exchanges, the Central Chamber of Commerce, and the Confederation of Finnish Industries, as well as the standard 5.3 issued by the Financial Supervision Authority (Declarations of insider holdings and insider registers) and the standard 5.2b (Disclosure obligation of the issuer and shareholder), which the company has supplemented with its own insider regulations.

#### **In the guidelines for insiders issued by Helsinki Exchanges, an insider with a duty to declare refers to:**

1. Nokian Tyres' Board members, President and CEO, auditor, and the representative of the authorised public accountants acting as the principal auditor, and
2. Other members of Nokian Tyres' top management who have regular access to insider information and who are authorised to make decisions regarding the company's future development and the organisation of business activities. Nokian Tyres has assigned all its top management members in this category of insiders with a duty to declare.

#### **In the guidelines for insiders issued by Helsinki Exchanges, company-specific insiders refer to**

1. Persons employed by Nokian Tyres or working for the company under another type of contract who, owing to their position or the nature of their work have regular access to insider information and who the company has defined as insiders (so-called permanent company-specific insiders). In this group, Nokian Tyres has included management assistants, people in the communications department responsible for distributing stock exchange and financial information, and key people in the finance department.
2. Persons employed by the company under an employment contract or other contract and have access to insider information, or persons temporarily included in the project-specific register (so-called project-specific insiders). A project is a confidentially-prepared, uniquely identifiable collection of topics or an arrangement that includes insider information and which, if realised, may essentially affect the value of the company's publicly traded securities.

The Financial Supervision Authority is entitled to have access to information pertaining to the management of the company's project-specific insider information.



## **Duty to declare, insider registers and trading prohibition**

The Securities Market Act imposes a duty to declare to Nokian Tyres' insiders with a duty to declare, and requires that the company maintain a public register of its insiders with a duty to declare. The law requires that Nokian Tyres keep a non-public, company-specific register of company-specific insiders. In the guidelines for insiders issued by Helsinki Exchanges, insiders with a duty to declare and permanent company-specific insiders are jointly called permanent insiders.

Permanent insiders must time their trading in securities issued by Nokian Tyres in such a way that it does not erode confidence in the securities markets. Insiders are not allowed to trade the company's securities in the 30 days preceding the publication of interim reports and financial statement bulletins. This period may be extended if necessary. In addition to permanent insiders, the restriction on trading applies to their spouses, individuals of legal incapacity under their trusteeship and associations in which they exercise authority. The trading prohibition applies to project-specific insiders until the termination or publication of the project.

## **Management of insider issues**

Nokian Tyres maintains its insider register in the Finnish Central Securities Depository's SIRE system. The company has appointed a person to manage the tasks related to insider trading. The company also has an insider registrar, who deals with the practical tasks related to the insider register. Nokian Tyres annually reviews the basic information and trading covered by the duty to declare of the insiders with a duty to declare. Based on the review, the company prepares an annual report including the date and results of the review.



### Nokian Tyres Group structure

