

## Corporate Governance 2011

Nokian Tyres plc (hereinafter “the company”) complies with the rules and regulations of its Articles of Association and the Finnish Companies Act, as well as those published by NASDAQ OMX Helsinki Oy (“The Helsinki Stock Exchange”) concerning listed companies. The company also complies with the Finnish Corporate Governance Code 2010 approved by the Securities Market Association that became effective 1 October 2010. The code document is available on the Internet at <http://cgfinland.fi/en/>.

The company’s corporate governance is based on the entity comprised of the Annual General Meeting, the Board of Directors, the President and the Group Management Team, the above-mentioned laws and regulations, and the Group’s policies, instructions and practices.

The company’s Board of Directors has accepted the report concerning corporate governance. According to the company’s auditors, the report and the related descriptions of internal reporting controls and risk management are in compliance with the actual reporting process.

## Annual General Meeting

The highest decision-making power in the company is held by the Annual General Meeting, whose tasks and procedures are outlined in the Limited Liabilities Companies Act and the company’s Articles of Association. The Annual General Meeting decides on such matters as the confirmation of the company’s annual accounts, profit distribution, and discharging the Board of Directors and the President from liability.

The Annual General Meeting elects the members of the Board of Directors and auditors and determines their fees. In addition, the Annual General Meeting can make decisions concerning for example amendments to the Articles of Association, share issues, granting warrants, and acquisition of the company’s own shares.

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

The Annual General Meeting is held by the end of May of each year on a date determined by the Board of Directors, either at the company’s registered place of business or in the city of Helsinki or Tampere.

The Articles of Association state that the invitation to the Annual General Meeting must be published in one daily newspaper distributed nationwide and one distributed in the Tampere region. In addition, the company publishes the invitation to the Annual General Meeting as a stock exchange releases and on its website.

The Annual General Meeting for 2011 took place on 7 April 2011 in the Tampere Hall, Tampere. The meeting confirmed the consolidated financial statements and discharged the



Board members and the President from liability for the fiscal year 2010. All documents related to the Annual General Meeting are available [here](#).

## Shareholder's rights

According to the law, shareholders are entitled to subject matters belonging to the Annual General Meeting's scope of power to be addressed at the meeting. This requires that the shareholder submits the requirement to the Board of Directors in writing, far enough in advance so that the matter can be added to the agenda on the invitation.

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

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

## Board of Directors

The Board is responsible for corporate governance and the appropriate conduct of ordinary activities. The Board holds the general juridical power in company-related issues that do not belong to the scope of power of other corporate governance bodies as stipulated in applicable laws and the Articles of Association. The policies and key tasks of the Board are defined in the Limited Liability Companies Act, the Articles of Association and the Board's working order. **The key tasks include:**

- Consolidated financial statements and interim reports
- Proposals to the Annual General Meeting
- Appointing the President and CEO
- Organisation of financial control

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

- Group and profit centre strategies
- The Group's budget, action and investment plans
- The Group's risk management and reporting procedures
- Decisions concerning the structure and organisation of the Group
- Significant individual investments, acquisitions, divestments and reorganisations
- The Group's insurance and financing policies
- Reward and incentive scheme for Group management
- Appointing Board committees



- Monitoring and evaluating the actions of the President.

The company has no separate audit committee. The Board handles the audit committees' tasks specified in the governance code.

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

The Board assesses its activities and operating methods by carrying out a self-evaluation once a year.

### **Composition of the Board**

The Board of Directors shall comprise such a number of members and feature such a composition that it is capable of efficiently carrying out its tasks. The elected Board members must be qualified for the task and able to allocate enough time for the Board duties.

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.

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

### **In 2011 the company's Board comprised the following members:**

#### **Petteri Walldén, Chairman (b. 1948)**

Member of the Board since 2005. Chairman of the Nomination and Remuneration Committee

Education: Master of Science (Engineering)

Key experience: President and CEO : 2007-2010 Alteams Oy, 2001-2005 Onninen Oy, 1996-2001 Ensto Oy, 1990-1996 Nokia Kaapeli Oy and

1987-1990 Sako Oy Key positions of trust: Chairman of the Board: Puukeskus Holding Oy; Member of the Boards: Alteams Oy, Comptel Oyj, Kuusakoski Group Oy, Mesera Oy, One Nordic Holding AB, SE Mäkinen Logistics Oy and Teleste Oyj



Fee per year: EUR 70,000 of which 864 pcs as share (EUR 27,998.44)

Meeting fee: The Board meetings EUR 4,200 and the Nomination and

Remuneration Committee EUR 1,800

Holding on 31 Dec. 2011: 11,938

### **Kim Gran (b. 1954)**

Member of the Board since 2002

Full-time position: President & CEO , Nokian Tyres

Education: Bachelor of Science in Economics

Key experience: 1995-2000 Vice President, Nokian Tyres, Car and Van tyres; 1992-1995 Managing Director, Pechiney Cebal, Corby, UK; 1988–1995 Plant Director, Cebal-Printal, Devizes, UK; 1987–1988 Marketing Director, Printal Oy, Hanko, Finland; 1985–1987 Director, Gran-Transport Ltd, Turku, Finland; 1982–1985 Marketing Manager, A. Ahlström; 1980–1982 Ass. Purchasing Manager, A. Ahlström;

Key positions of trust: Chairman of the Board: Rubber Manufacturer's Association; Member of the Boards: Finnish-Russian Chamber of

Commerce (FRCC), Chemical Industry Federation of Finland (Vice Chairman), Konecranes and YI T Plc; Member of the Supervisory Board: Ilmarinen

Holding on 31 Dec. 2011: 19,000

Stock options on 31 Dec. 2011: 2007C 60,000, 2010A 90,000 and 2010B 90,000

### **Hille Korhonen (b. 1961)**

Member of the Board since 2006. Member of the Nomination and Remuneration Committee.

Full-time position: Vice President, Operations, Fiskars Corporation

Education: Licentiate of Science (Technology)

Key experience: 2003-2007 Iittala Group, Group Director, Operations; 1996-2003 Nokia Corporation, management duties for logistics.

Key positions of trust: Member of the Board: Lassila & Tikanoja



Fee per year: EUR 35,000 of which 432 pcs as share (EUR 13,999,22)

Meeting fee: The Board meetings EUR 3,600 and the Nomination and Remuneration Committee EUR 1,800

Holding on 31 Dec. 2011: 4,669

### **Hannu Penttilä (b. 1953)**

Member of the Board since 1999. Member of the Nomination and Remuneration Committee.

Full-time position: CEO, Stockmann plc

Education: Master of Laws

Key experience: Stockmann plc: ; 1994–2001 Executive Vice President; 1992-2001 Director, Department Store Division; 1986–1991 Director,

Helsinki Department Store; 1985–1986 Manager, Tapiola Department Store; 1978-1984 Company lawyer; 1976–1978 Ministry of Labour,

inspector, junior ministerial secretary

Key positions of trust: Chairman of the Boards: Jääkiekon SM-liiga, Lindex AB, Seppälä Oy, Suomen Pääomarahoitus Oy and Stockmann Russia Holding AB

Member of the Board: HC Ässät Pori Oy

Member of the Supervisory Boards: Mutual Insurance Company Kaleva, Varma Mutual Pension Insurance Company and Luottokunta (Vice

Chairman).

Fee per year: EUR 35,000 of which 432 pcs as share (EUR 13,999.22)

Meeting fee: The Board meetings EUR 4,200 and the Nomination and Remuneration Committee EUR 1,800

Holding on 31 Dec. 2011: 6,297



**Benoît Raulin (b. 1967)**

Member of the Board since 7 April, 2011

Full-time position: Vice President, Finance and Procurement, Bridgestone Europe

Education: Masters in Finance and Management

Key experience: 2008–2010 Bridgestone Germany, Bad Homburg, Managing Director; 2006–2008 Bridgestone France Sales Division, Massy,

Managing Director; 2000–2006 Bridgestone France Sales Division, Massy, Director Finance and Administration

Key positions of trust: Appointed as a Managing Director: Bridgestone France S.A.S. (sales division), Bridgestone Deutschland GmbH, and

Bridgestone Austria GmbH. Member of the Boards: Bridgestone Italia S.p.A.; Bridgestone Hispania S.A.; Bridgestone UK Ltd.

Fee per year: EUR 35,000 of which 432 pcs as share (EUR 13,999.22)

Meeting fee: The Board meetings EUR 3,000

Holding on 31 Dec. 2011: 0

**Yasuhiko Tanokashira (b. 1956)**

Member of the Board since 2009 until 7 April, 2011

Full-time position: Senior Vice President, Finance and Administration Bridgestone Europe NV/SA .

As of 01 October 2010, Vice President & Officer, Administration, Bridgestone Cycle Co., Ltd.

Education: B.A. (Economics)

Key experience: 2007–2008 Director, Finance, Bridgestone Corporation; 2005–2006 General Manager, Finance; 2003–2004 Senior Executive Director, Administration Bridgestone Sports Co., Ltd.; 2000–2001 Director, Finance & Administration Bridgestone (Tianjin) Tire Co., Ltd.;

1979– Bridgestone Corporation Key positions of trust: Member of the Boards: Bridgestone Hispania S.A.

Fee: EUR 8,750



Meeting fee: The Board meetings EUR 0

**Aleksey Vlasov (b. 1957)**

Member of the Board since 2006

Full-time position: Vice President, Synttech Group

Education: Medical Doctor

Fee per year: EUR 35,000 of which 432 pcs as share (EUR 13,999.22)

Meeting fee: The Board meetings EUR 2,400

Holding on 31 Dec. 2011: 4,669

**Kai Öistämö (b. 1964)**

Member of the Board since 2008 until 7 April, 2011

Full-time position: Executive Vice President, Chief Development Officer, Nokia.

Education: Doctor of Technology (Signal Processing), Master of Science (Engineering)

Key experience: 2007-2010 Executive Vice President, Devices, Nokia; 2004–2007 Executive Vice President and General Manager of Mobile

Phones; 2004–2005 Senior Vice President, Business Line Management; 2002–2003 Mobile Phones, Senior Vice President, Mobile Phones Business Unit; 1999–2002 Nokia Mobile Phones, Vice President, TDMA/GSM 1900 Product Line; 1997–1999 Nokia Mobile Phones, Vice President,

TDMA Product Line; 1991–1997 various technical and managerial positions in Nokia Consumer Electronics and Nokia Mobile Phones.

Fee: EUR 8,750

Meeting fee: The Board meetings EUR 1,200



## **Independence of the Board members**

Kim Gran is the President and CEO of the company. The other Board members are independent of the company. All Board members except Benoît Raulin are independent of any major shareholders of the company.

## **Nomination and Remuneration Committee**

A Nomination and Remuneration Committee has been established to add efficiency to the Board's work. The committee assists the Board by preparing matters subject to decision by the Board and reports to the Board. The committee has no independent decision-making power; the Board makes collective decisions and is responsible for carrying out the tasks assigned to the committee.

Hille Korhonen, Hannu Penttilä and the Chairman of the Board, Petteri Walldén, were members of the Nomination and Remuneration Committee in 2011.

## **The committee prepares the Board's proposal to the Annual**

General Meeting on the members to be appointed to the Board of Directors and the remuneration paid to Board members. In addition, the committee prepares a proposal to the Board on the company's President and the salary and other incentives paid to the President.

The Nomination and Remuneration Committee also submits a proposal to the Board on the allocation and criteria of options, as well as on other incentives.

The committee assembled 3 times in 2011. The attendance rate was 100%. All committee members are independent of the company and independent of any major shareholder of the company.

## **President and CEO**

The President runs the Group's business operations and implements the current corporate governance in accordance with the instructions and guidelines provided by the Board of Directors. The President may, with regard to the extent and quality of the company operations, undertake unusual or extensive actions only under authorisation from the Board of Directors. The President is in charge of ensuring the company accounting's conformity with the law and the reliable organisation of asset management. Kim Gran, Bachelor of Science in Economics, has been the company's President and CEO since 2000.

## **Other management**

The Group's management team assists the President in operative management. 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 the service centre and the Vice President for Russian operations.





## Salaries and remunerations 2011

### Remuneration of the Board members

Remunerations payable to Board members are confirmed at the Annual General Meeting. In 2011, remunerations to Board members totalled EUR 218,750 (EUR 245,000), including 2,592 (5,348) Nokian Tyres' shares worth EUR 84,000 (EUR 98,000). In addition, the committee members received a meeting fee totalling of of EUR 24,000 (15,900) for each meeting attended. 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.

### Remuneration of the President

The Board of Directors makes decisions concerning the President's salary and other benefits. The compensation package includes basic salary, fringe benefits, pension scheme and performance related bonus scheme, which is based on Group profitability and growth. Maximum bonus is 80% of President's annual base salary.

The annual salary of the President and CEO in 2011 was EUR 565,906. The share of fringe benefits in the salary was EUR 18,600.

In addition, the President and CEO received annual bonuses in a total of EUR 316,927. According to a written agreement, the President's age of retirement is 60 years. The pension will be determined on the basis of the Employees Pensions Act and an additional supplementary pension insurance policy taken out by the company. The total pension shall total no more than 60% of the salary noted as the basis of the supplementary pension, determined on the basis of the salaries and other benefits payable under the current employment contract for a maximum period of five years. The President's period of notice is 12 months. If the agreement is terminated by the company, the President is entitled to a remuneration corresponding to 12 months' salary and other benefits, in addition to the notice period's salary.

### Management's incentive systems

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 annual bonus is determined on the basis of the Group's net result and the achievement of the KPIs set for different functions.

The function specific KPIs consist of several factors including profitable growth, cash flow and the efficiency of operative process. At maximum, the annual bonus can correspondent to 15-25% of one's annual salary.



The Group has also created an option scheme covering the entire personnel, which aims to provide long-term incentives and built commitment to the company.

### **Mechanisms of internal control, internal audit and risk management**

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

The business activities of the Nokian Tyres Group are divided into two areas: the manufacturing business and the tyre chain. The manufacturing business consists of profit centres, which are Passenger 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, risk management, balance sheet and investments, supported by the different service functions. The Group's sales companies are a part of the sales function and serve as product distribution channels in local markets. The tyre 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. The Managing Directors of the company's subsidiaries are responsible for the daily operations and administration of their companies.

They report to the company's Vice President responsible for Sales and Logistics, while the Managing Directors of the Vianor chain report to the director of the Vianor profit centre.

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

The preparation process of the consolidated financial statements (IFRS ), the related control measures, as well as the task descriptions and areas of responsibility related to the reporting process have been defined. The parent company's Finance and Control unit 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.



The net sales and operating profit of the Group and business units are analysed, and the consolidated profit is compared with the management's assessment of business development and information on operative systems. The Group Finance and Control unit is centrally responsible for the interpretation and application of financial reporting standards, and also for monitoring compliance with these standards.

Efficient internal control requires sufficient, timely and reliable information in order for the company management to be able to monitor the achievement of targets and the efficiency of the control mechanisms. This refers to financial information, as well as other kinds of information received through IT systems and other internal and external channels. Financial administration and other instructions are shared on the intranet for those who need them, and financial administration provides training with regard to these instructions when necessary.

There is continuous communication with the business units. The company's financial performance is internally monitored by means of monthly reporting complemented with rolling prognoses. The profit is communicated to company personnel immediately after releasing the official stock exchange releases.

The Internal Auditing in Nokian Tyres Group makes assessments and audits to ensure the efficiency of risk management, internal control and governance processes. Internal Auditing is an independent and objective activity, which aims to help the organisation to achieve its targets. Internal Audit activity in the Group is managed by the Internal Auditor working under the Board of Directors and the President and CEO . The Internal Audit activity of the Group is planned to be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

In 2011, the internal audit focused, among other things, on assessing the administrative arrangements in different country organisations and the compliance with governance instructions. The Internal Audit activity in Vianor, which concentrates on guiding the outlets and ensuring conformity to the Vianor activity system, reports to the Internal Auditor of the Group.

## **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 Group's risk management policy focuses on managing the risks pertaining to business opportunities, as well as those facing the achievement of the Group's goals, in the changing operating environment.

Risks are classified as strategic, operative, financial and hazard risks. Strategic risks are related to customer relationships, political risks, country risks, R&D, investments and acquisitions. Operational risk arise as a consequence of inadequate or failed company's internal processes, people's actions, systems or external events for example changes in raw material prices. Financial risks ([read more about financial risks from financial review 2011, page 38](#)) are related to fluctuations in interest rate and currency markets, refunding and counterparty risks. Hazard risk can lead to injuries, damage to the property, interruption of production, environmental impacts or liabilities to third parties.



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.

Control functions and actions mean securing or backing-up procedures applied to reduce risks and ensure the completion of risk management measures.

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 NAS DAQ OMX Helsinki, as well as the standard 5.3 issued by the Financial Supervisory 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. The company's Board members, President and CEO, auditor, and the representative of the authorised public accountants acting as the principal auditor, and
2. Other members of the company's 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. The company has assigned all its top management members in this category of insiders with a duty to declare.

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

1. Persons employed by the company 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, the company 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 Supervisory 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

### » Insiders' holdings

The Securities Market Act imposes a duty to declare to the company's 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 the company keeps a non-public, companyspecific register of company-specific insiders. In the guidelines for insiders issued by NAS DAQ OMX Helsinki, 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 the company 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 Euroclear Finland'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. The company 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.

## Audit

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 2011 amounted to EUR 510,000 (EUR 407,000). The fees paid to the authorised public accountants for other services totalled EUR 211,000 (EUR 87,000).



## Nokian Tyres Group Structure 2011

