

CORPORATE GOVERNANCE STATEMENT

I Introduction

Nokian Tyres plc (hereinafter referred to as “Nokian Tyres” or the “Company”) follows the Corporate Governance Code published by the Securities Market Association that entered into force on January 1, 2016 (the “Corporate Governance Code”) and the Company complies with the recommendations in the said code. The Corporate Governance Code is available in its entirety at www.cgfinland.fi/en/. The Company follows the Finnish Limited Liability Companies Act, laws and regulations relating to stock-listed companies, the Articles of Association, the rules of procedure of the Board of Directors and the committees, the Nasdaq Helsinki rules and regulations, and the orders and instructions from the European Securities and Markets Authority as well as the Financial Supervisory Authority.

The Company publishes its Corporate Governance Statement as a separate document and as part of the annual report. The statement also includes a Report of the Salaries and Remuneration. The statement is available on the Company’s website at www.nokiantyres.com under Investors – Corporate Governance.

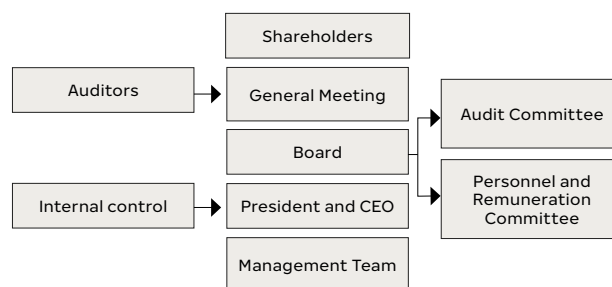
The Company’s corporate governance is based on the General Meeting, the Articles of Association, the Board of Directors, the President and CEO, the group’s management team, the legislation and regulations mentioned hereinabove as well as the group’s policies, procedures, and practices. The Board of Directors has approved the Corporate Governance Statement. The Company’s auditor verifies that the statement and its related descriptions of the internal reporting controls and risk management correspond to the financial reporting process. The statement will not be updated during the financial period; however, up-to-date information will be updated on the Company’s website at www.nokiantyres.com/company/investors/.

II Descriptions concerning governance

Nokian Tyres is a Finnish limited liability company and its registered place of business is Nokia. The parent company Nokian Tyres and its subsidiaries form the Nokian Tyres Group.

The administrative bodies of the parent company Nokian Tyres plc, i.e. the General Meeting, Board of Directors and President and CEO, are responsible for the administration and operation of the Nokian Tyres Group. The General Meeting elects the members of the Board of Directors, and the Board of Directors appoints the Company’s President and CEO. The President and CEO is assisted by the management team in leading the Company’s operations.

Nokian Tyres’ administrative organization



General Meeting

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

The Annual General Meeting is held by the end of May of each year on a date determined by the Board of Directors, either at the Company’s registered place of business or in the city of Tampere or Helsinki. An extraordinary general meeting is summoned whenever the Board considers this to be necessary or if an auditor or a group of shareholders with a holding of a total of at least one-tenth of the entire stock requires it in writing in order to address a particular issue.

According to law, shareholders are entitled to subject matters belonging to the General Meeting’s scope of power to be addressed at the meeting; this requires that the shareholders submit the requirement to the Board in time for inclusion in the invitation to the meeting. The shareholders shall submit their requirement for subjecting a matter to be addressed by the General Meeting by the date indicated on the Company’s website.

The Articles of Association state that the invitation to the 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 General Meeting as a stock exchange release and on its website. The invitation lists the agenda of the meeting.

The Company’s Articles of Association are available on the Company’s website at www.nokiantyres.com/company/investors/.

Shareholders are entitled to participate in the General Meeting if they are registered in the Company’s list of shareholders, maintained by Euroclear Finland Oy, on the record date separately indicated by the Company. Owners of administratively registered shares can be temporarily added to the shareholder register in order to make them eligible to attend the General Meeting.

According to the Corporate Governance Code, the Chairman of the Board, the Board members and the President and CEO must be present at the General Meeting, and the auditor must be present at the Annual General Meeting. Board member candidates must be present at the General Meeting deciding on their election.

The Annual General Meeting for 2018 took place on 10 April 2018 at the Tampere Hall in Tampere. The meeting confirmed the consolidated financial statements and discharged the Board members and the President and CEO from liability for the fiscal year 2017. All of the documents related to the Annual General Meeting are available on the Company's website at www.nokiantyres.com/company/investors.

The Annual General Meeting for 2019 will take place on 9 April 2019 at 4:00 p.m. in Tampere.

Board of Directors

Operation of the Board of Directors

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

- Consolidated financial statements, half year reviews and interim reports
- Matters presented to the General Meeting
- Appointing and dismissing the President and CEO
- Organization of financial control.

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

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

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

The President and CEO of Nokian Tyres is in charge of ensuring that the Board members have the necessary and sufficient information on the Company's operations. The Board assesses its activities and operating methods by carrying out a self-evaluation once a year. Members of the Board will not participate in making a decision where the law states that they must be disqualified due to a conflict of interest.

In 2018, in addition to its regular duties, the Board discussed the Company's strategy that was updated in early 2018. The Board also discussed the incentive schemes. Incentive schemes support the Company in fulfilling its strategy.

Composition of the Board

According to the Articles of Association of Nokian Tyres, the Board of Directors comprises no fewer than four and no more than eight members. The proposal regarding the composition of the Board for the General Meeting is prepared by the Personnel and Remuneration Committee. The number of Board members and the composition of the Board shall be such that the Board is capable of efficiently carrying out its tasks, while taking into account the requirements set by the Company's operations and its stage of development. The elected Board members must be qualified for the task and able to allocate enough time for the Board duties.

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

The Board meetings usually take place in Helsinki. The Board also visits the main units of the Group and holds its meetings at these locations. When necessary, telephone conferences can also be arranged. The President and CEO participates in the Board meetings. The Chief Financial Officer and other Group Management Team members as well as the internal auditor participate in the Board meetings, when necessary. The auditor participates annually in the meetings dealing with financial statements and the auditing plan. The Group General Counsel is the secretary of the Board. At the end of its meetings, the Board holds discussions without the Company's senior management.

Information on the Board members

The Annual General Meeting on April 10, 2018 elected 8 Board members. The Board members Heikki Allonen, Raimo Lind, Veronica Lindholm, Inka Mero, George Rietbergen, and Petteri Walldén were re-elected. Kari Jordan and Pekka Vauramo were elected as new members. In the constituent meeting held after the Annual General Meeting, the Board appointed Petteri Walldén as its Chairman and Kari Jordan as the Deputy Chairman.

Petteri Wallden, Chairman of the Board (b. 1948)

Member of the Board since 2005. Member of the Personnel and Remuneration Committee.

Education: Master of Science (Technology)

Full-time position: CEO, Wapiti Oy

Key experience:

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

Key positions of trust:

Chairman of the Board: Savonlinna Opera Festival, Componenta Corporation

Deputy Chairman of the Board: Tikkurila Oyj

Member of the Board: Efla Oy, Kuusakoski Group Oy

Kari Jordan, Deputy Chairman of the Board (b. 1956)

Member of the Board since 2018. Chairman of the Personnel and Remuneration Committee.

Education: Master of Science (Economics)

Full-time position: Chairman of the Board, Outokumpu Oyj

Key experience:

2006–2018 Metsä Group, President and CEO
2004–2017 Metsäliitto Cooperative, CEO
1981–2004 Several management positions in the banking and financial sector at Citibank, OKO bank, KOP bank and Nordea Group

Key positions of trust:

Chairman of the Board: Outokumpu Oyj

Chairman of the Supervisory Board: Varma Mutual Pension Insurance Company

Heikki Allonen (b. 1954)

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

Education: Master of Science (Technology)
Full-time position: President and CEO, Hemmings Oy Ab

Key experience:

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

Key positions of trust:

Vice Chairman of the Board: VR Group Oy
Member of the Board and Chairman of the Audit Committee: Detection Technology Oyj
Member of the Board: Savox Oy Ab

Raimo Lind (b. 1953)

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

Education: Master of Science (Economics)
Full-time position: Professional board member

Key experience:

2005–2013 Wärtsilä Corporation, Senior Executive Vice President and deputy to the CEO;
1998–2004 Wärtsilä Corporation, CFO;
1992–1997 Tamrock Oy; Coal division president, Service division president, CFO;
1990–1991 Scantrailer Ajoneuvoteollisuus Oy; Managing Director
1976–1989 Service division, Vice president, Wärtsilä Singapore Ltd, MD, Diesel division, VP Group Controller, Wärtsilä

Key positions of trust:

Chairman of the Board: Elisa Oyj and Nest Capital
Member of the Board: Nordkalk Oy and HiQ AB

Veronica Lindholm (b. 1970)

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

Education: Master of Science (Economics)
Full-time position: CEO, Finnkino Oy

Key experience:

2015– Finnkino Oy, CEO;
2013–2015 Mondelez Finland, CEO;
2009–2013 Walt Disney Company Nordic, VP, Chief Marketing Officer;
2008–2009 Walt Disney Studios, Head of Digital Distribution EMEA;
2000–2008 Walt Disney International Nordic, Marketing Director.

Key positions of trust:

Chairman of the Board: Forum Cinemas SIA and Forum Cinemas UAB
Member of the Board: Service Sector Employers PALTA and the Finnish Chamber of Films
Member of the Supervisory Board: Forum Cinemas AS

Inka Mero (b. 1976)

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

Education: Master of Science (Economics).
Full-time position: Industryhack Oy, Partner and Chairwoman

Key experience:

2018– Industryhack Oy, Partner and Chairwoman;
2016– Pivot5 Oy, Co-founder and Chairwoman;
2008– KoppiCatch Oy, Co-founder and Chairwoman;
2006–2008 Playforia Oy, CEO;
2005–2006 Nokia Corporation, Director;
2001–2005 Digia plc, VP, Sales and Marketing;
1996–2001 Sonera Corporation, Investment Manager

Key positions of trust:

Chairman of the Board: KoppiCatch Oy and Industryhack Oy
Member of the Board: Fiskars Corporation and YIT Corporation

George Rietbergen (b. 1964)

Member of the Board since 2017.

Education: Master of Business Administration
Full-time position: 5Square Committed Capital, Partner

Key experience:

2017– 5Square Committed Capital, Partner;
2016–Nokian Tyres plc, Advisor to the Board;
2015–2016 Arriva Netherlands, COO;
2013–2015 Goodyear Dunlop Tyres, CEO, DACHGermany;
2012–2013 Goodyear Dunlop Tyres, Vice President, Commercial Tires, EMEABelgium;
2010–2012 Goodyear Dunlop Tyres, CEO, UK & IrelandUK;
2005–2010 Goodyear Dunlop Tyres, Director, BeneluxNetherlands;
2002–2005 Goodyear Dunlop Tyres, Director, Retail Business, EMEANetherlands;
2001–2002 Goodyear Dunlop Tyres, Director, E-Business and Retail Business, EMEANetherlands;
1999–2001 KLM, Director of Ebusiness.

Pekka Vauramo (b. 1957)

Member of the Board since 2018. Member of the Audit Committee.

Education: Master of Science (Technology)
Full-time position: Metso Corporation, President and CEO

Key experience:

6/2013–8/2018 Finnair Plc, President and CEO;
2007–2013 Various management positions at Cargotec
1985–2007 Various management positions at Sandvik

Key positions of trust:

Member of the Board: Boliden Group

Independence of the Board members

Pursuant to the recommendation of the Corporate Governance Code, the Board assesses the independence of its members annually. According to the Board's estimate, all board members are independent of the Company and its major shareholders.

Shares owned by Board members and their controlled corporations

Nokian Tyres holdings of the Company's current Board members	Number of shares, December 31, 2018
Petteri Walldén, chairman	20,865
Kari Jordan, deputy chairman	1,011
Heikki Allonen, member	1,867
Raimo Lind, member	3,862
Veronica Lindholm, member	1,867
Inka Mero, member	3,260
George Rietbergen, member	1,204
Pekka Vauramo, member	674
Total	34,610

The Board members' attendance at meetings

The Board convened a total of 12 times in 2018.

Attendance at meetings by the Company's Board members in 2018	Attendance/ meetings
Petteri Walldén, chairman	12/12
Kari Jordan, deputy chairman (since April 10, 2018)	8/8
Heikki Allonen, member	12/12
Raimo Lind, member	12/12
Veronica Lindholm, member	12/12
Inka Mero, member	12/12
George Rietbergen, member	12/12
Pekka Vauramo, member (since April 10, 2018)	7/8

Diversity of the Board of Directors

The Company sees diversity as a success factor enabling the achievement of Nokian Tyres' strategic goals and business growth. In practice, diversity means different factors such as gender, age, nationality, and the complementary expertise of the members, their education and experience in different professional areas and industrial sectors. Leadership experience and personal capacities are also considered.

The Board shall have no fewer than two representatives from both genders. If two candidates are equally qualified, the candidate from the minority gender has priority. This goal has been met in the current Board. The Board members have

significant experience in industry, consumer business and financial management, among other things. The status and progress of diversity will be monitored by the Personnel and Remuneration Committee in its self-assessment discussion.

The principles concerning the selection of the Board and its diversity are visible on the Company's website at www.nokiantyres.com/company/investors/.

Committees of the Board

The Board will decide on the committees and their chairpersons and members each year during the constituent meeting. In 2018, the Board had two committees: the Personnel and Remuneration Committee and the Audit Committee. Each committee must include no fewer than three members having the competence and expertise necessary for working in the committee. The majority of the members of the Personnel and Remuneration Committee must be independent of the Company. The members of the Audit Committee must be independent of the Company, and at least one member must be independent of all major shareholders. The President and CEO and the other members of the Company management cannot act as members of the Personnel and Remuneration Committee.

Personnel and Remuneration Committee

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

The committee receives access to the information regarding factors affecting the assessment of the independence of new member candidates and the results from the assessment of the Board's work.

In 2018, the members of the Personnel and Remuneration Committee were Kari Jordan (chairman) from April 10, 2018 onwards, Raimo Lind until April 10, 2018, Veronica Lindholm, and Petteri Walldén.

The committee assembled 10 times.

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

Audit Committee

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

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

In 2018, the members of the Audit Committee were Raimo Lind (chairman), Heikki Allonen, Inka Mero, George Rietbergen until April 10, 2018, and Pekka Vauramo from April 10, 2018 onward. The Company's chief auditor participates in the committee's meetings.

The committee assembled 5 times in 2018.

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

The attendance of Board members at committee meetings in 2018

	Personnel and Remuneration Committee	Audit Committee
Petteri Walldén	10/10	
Kari Jordan (since April 10, 2018)	6/6	
Heikki Allonen		5/5
Raimo Lind	4/4	5/5
Veronica Lindholm	10/10	
Inka Mero		5/5
George Rietbergen (until April 10, 2018)		1/1
Pekka Vauramo (since April 10, 2018)		1/1

President and CEO and his/her duties

The President and CEO conducts the group's business and manages the Company operations in accordance with the Limited Liability Companies Act and the instructions and guidelines provided by the Board of Directors. The President and CEO is responsible for informing the Board of Directors regarding the development of the Company's business and financial situation. The President and CEO prepares the Company's strategy and objectives for the Board of Directors. The President and CEO is also responsible for implementing the approved strategy and plans. The President and CEO is liable for ensuring the legal compliance of the Company's bookkeeping and for arranging reliable asset management. The President and CEO is elected by the Board of Directors.

Hille Korhonen, Lic. Sc. (Tech) has been working as the Company's President and CEO since June 1, 2017.

Hille Korhonen (b. 1961)

Education: Licentiate of Science (Technology)

Position: President and CEO June 1, 2017–

Key experience:

2013–5/2017 Alko Oy, President and CEO;
2008–2012 Fiskars Corporation, Vice President, Production, Purchasing and Logistics;
2003–2007 Iittala, Group Director, Operations;
1996–2003 Nokia Corporation, Management duties for logistics;
1993–1996 Outokumpu Copper, Manager, Logistics and Marketing Development.

Key positions of trust:

Member of the Board: Ilmarinen Mutual Pension Insurance Company

Nokian Tyres holdings and options holdings of the President and CEO and controlled corporations, December 31, 2018

	Number of shares	Stock options 2013 2013C
Hille Korhonen, President & CEO	40,308	-

Other management

The Group's management team is responsible for assisting the President and CEO in preparing the Company's strategy and in operative management, and for discussing matters that involve substantial financial or other impacts, such as corporate transactions and organization changes. The management team has no activities based on the legislation or the Articles of Association. According to the Group's meeting practices, the management team assembles once per month. In addition to the President and CEO, the heads of the business units, business areas and service functions participate in the meetings.

Duties and responsibilities and Nokian Tyres holdings and options holdings of the Group's management team and controlled corporations, December 31, 2018

	Number of shares	Stock options 2013 2013C
Päivi Antola Investor Relations & Corporate Communications	0	0
Tytti Bergman People & Culture	50	0
Mark Earl Americas Business Area	0	0
Esa Eronen Supply Chain & Sustainability	16,541	0
Anna Hyvönen Nordics Business Area and Vianor Business Unit	19,117	0
Teemu Kangas-Kärki Finance	0	0
Jukka Kasi Products & Technologies	0	0
Andrei Pantioukhov Russia and Asia Business Area	63,588	0
Manu Salmi Nokian Heavy Tyres Business Unit	24,003	15,000
Timo Tervolin Strategy & M&A	8,865	0
Susanna Tusa Legal & Compliance	5,507	4,000
Antti-Jussi Tähtinen Marketing	14,555	0
Frans Westerlund IT & Processes	2,775	0

More detailed information concerning the Group's management team is available on the Company's website at www.nokiantyres.com/company/investors/corporate-governance/the-groups-management-team/.

III Descriptions of mechanisms of internal control and risk management

Internal control

The purpose of the group's internal control mechanisms is to ensure that the Company's operation is in line with the existing laws and regulations and the Company's Code of Conduct. As regards the financial reporting process, the purpose of the Group's internal control mechanisms is to ensure that the financial reports released by the Company have been compiled in accordance with the accounting principles applied by the Company and that they contain essentially correct information on the Group's financial position, and to ensure that financial reporting is accurate and reliable. The Group has defined group-level policies and instructions for the key operative units specified below in order to ensure efficient and profitable Company operations.

The Group's business functions consist of the Passenger Car Tyres, Heavy Tyres, and Vianor business units. The Passenger Car Tyres is further divided into the Americas, Europe, Nordics and Russia and Asia business areas. Heavy Tyres and the Passenger Car Tyres business areas are responsible for their own operations, financial results, risk management, balance sheet and investments, supported by the different service functions. The Group's sales companies serve as product distribution channels in local markets. The tire retail chain is organized into a sub-group. Its parent company is Vianor Holding Oy, 100% owned by the parent company Nokian Tyres plc. The tire outlets operating in different countries are part of the sub-group.

The CEOs of the Company's subsidiaries are responsible for the daily operations and administration of their companies. They report to the director responsible for the said business area, while the CEOs of the Vianor chain report to the director of the Vianor business unit.

The Board of Directors is responsible for the functionality of the internal control mechanisms, which are managed by the Company's management and implemented throughout the organization. Internal control is not a separate function; it is an integral part of all activities of the Group at all levels. The Company's operative management bears the main responsibility for operational control. Every supervisor is obliged to ensure sufficient control over the activities belonging to his or her responsibility and to continuously monitor the functionality of the control mechanisms. The Chief Financial Officer is responsible for organizing financial

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

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

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

Investor Communications

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

Risk management

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

The risks are classified as strategic, operational and financial risks. Strategic risks are related to customer relationships, competitors' actions, political risks, country risks, brand, product development, and investments. Operational risks arise as a consequence of shortcomings or failures in the Company's internal processes, actions by its personnel or systems, or external events, such as unforeseen changes in the operating environment, management of the supply chain, or changes in raw material prices. Financial risks are related to fluctuations in interest rate and currency markets, refinancing, and counterparty and receivables risks.

The most significant risks related to Nokian Tyres' business are the country risks related to the Russian business environment and other risks of change within the operating environment, risks related to products and product development, production outage risks, currency and receivable risks, and tax risks. Due to the Company's product strategy, interruption risks that are related to marketing and logistics may also have a significant impact on peak season sales. The risk analysis conducted in 2018 also focused special attention on corporate social responsibility risks, the most significant of which are related to the company reputation and product quality. Analyses and projects related to information security, data protection and customer information were a special focus area.

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

Risk management is not assigned to a separate organization. Rather, its tasks follow the general division of responsibilities adopted elsewhere in the organization and its business. Assisted by the Audit Committee, the Company's Board of Directors monitors and assesses the efficiency of

the Company's risk management mechanisms and monitors the assessment and management of risks related to the Company's strategy and functions. The Audit Committee monitors that the risk management actions are in line with the risk management policy. The Company's Board of Directors discusses the most significant risks annually in connection with the strategic process.

IV Other information provided

Internal audit

The Group's internal audit systematically carries out assessments and audits on the efficiency of risk management, internal control, and corporate governance processes. Internal audit is an independent and objective function whose aim is to help the organization to achieve its goals. The principles for internal audit have been confirmed in the internal audit's rules of procedure approved by the Board of Directors.

The Group's Internal Audit function is managed by the Chief Audit Executive (CAE), who works under the Board of Directors and the President and CEO. The Group's internal audit function has been designed to be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. An external auditor performed an assessment of the group's Internal Audit in the spring of 2015. The focus areas for internal audit are approved by the Board of Directors each year. The audit assignments are based on the key strategic focus areas of the company's business operations and functions and the risks involved. The operation of Internal Audit covers all of the business activities, functions and processes within the Nokian Tyres Group. The CAE reports on their findings and the agreed further actions to the Audit Committee, the Board of Directors and the President and CEO. The Company's Board of Directors follows and monitors the efficiency of the Internal Audit.

In 2018, Internal Audit focused on assessing, among other things, the operations and risks of various country organizations, corporate governance arrangements, risk management arrangements and instructions, corporate sustainability and information security matters as well as specific misconduct risks and cases, including the Black Donuts case where Nokian Tyres was the complainant. The Internal Audit function at Vianor focuses on guiding the

outlets and ensuring conformity to the Vianor activity management system. It reports to the Internal Auditor of the Group and the country managers.

Related party transactions

The Company assesses and monitors related party transactions and ensures that all conflicts of interest and the Company's decision-making process are appropriately taken into account. The Group's financial management monitors and supervises related party transactions as part of the Company's normal reporting and monitoring procedures. The Company only has related party transactions that are a part of normal business, and the information regarding them is provided in the annual report and the notes to the financial statements.

Insider management

The Company complies with the guidelines for insider trading drawn up by Nasdaq Helsinki. Furthermore, the Company has drawn up separate insider trading guidelines that have been approved by the Board of Directors and that supplement other insider trading regulations as well as include instructions on insiders and insider administration.

Project-specific insider lists are drawn up of people involved in insider projects. Persons with insider information are not allowed to trade in the Company's financial instruments until the project has become void or been published. Those entered into the project-specific list of insiders are notified of their entry and the duties it entails, as well as the termination of the list's maintenance. Separate instructions are available for the establishment of a project-specific list of insiders.

The Company draws up a separate list of people in executive positions and their related entities. In 2018, the persons holding executive positions in the Company, as defined in the Market Abuse Regulation, were the members of the Board of Directors, the President and CEO, the Chief Financial Officer, the directors of the business areas in the Passenger Car Tyres business unit, the director of the Nokian Heavy Tyres business unit and the director of the Vianor business unit.

Persons holding executive positions within the Company are not allowed to trade in the Company's securities for 30 days before the publication of the Company's financial

statement report, half year report, or interim report ("closed window"). The same applies to persons who participate in the preparation, drawing up, and/or publication of the Company's financial reports. The prohibition on trading mentioned hereinabove also applies to persons who process the financial reporting and forecasts of the Nokian Tyres Group and those who have access to group-level financial figures through different systems.

The Group General Counsel for Nokian Tyres is responsible for the overall management of insider matters in the Company and the related communication (limitations on trade, obligations to announce and publish management transactions). The Group General Counsel will check the information for the persons holding executive positions and their related entities at least once per year. The CFO is the Group General Counsel's substitute for insider matters.

Whistleblowing

The Company has defined processes that relevant parties can use to notify of any violations of the Company's insider trading guidelines or other instructions, or of any other malpractices. External parties can use the email address whistleblow@nokiantyres.com, among others.

Audit

The auditor has an important role as a controlling body appointed by the shareholders. The audits give shareholders an independent opinion on how the financial statements and report by the Board of Directors of the Company have been drawn up and the accounting and administration of the Company have been managed. The auditor elected at the Annual General Meeting of 2018 is KPMG Oy Ab, authorized public accountants, with Lasse Holopainen, Authorized Public Accountant, acting as the Chief Auditor. The auditor's term of office lasts until the end of the following Annual General Meeting. In addition to his duties under the valid regulations, he reports all audit findings to the Group's management.

The Group's audit fees in 2018 amounted to EUR 411,326 (2017: 406,000). The fees paid to the authorized public accountants for other services totaled EUR 827,885 (1,009,000).

SALARIES AND REMUNERATIONS 2018

A. Decision-making mechanism for remuneration

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

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

In 2018, 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. This authorization is valid until the next Annual General Meeting, but however at most until June 30, 2019.

In 2018, the Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 5,000,000 of the company's own shares using funds from the Company's unrestricted equity. This authorization is valid until the next Annual General Meeting, but however at most until June 30, 2019. The Board may also use these shares as incentives.

B. General principles for remuneration

Remuneration of the Board members

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

The Annual General Meeting in 2018 decided on the following fees for Board members:

- Annual fee for chairman, EUR 90,000
- Annual fee for deputy chairman and for the chairman of the Audit Committee, EUR 67,500
- Annual fee for member, EUR 45,000
- Meeting fee EUR 600/attended meeting/person, or if the member of the board is living outside of Finland, EUR 1,200/attended meeting/person.

Board members are not included in the company's option or share incentive plans.

Remuneration of the President and CEO

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

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

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

Short-term and long-term incentive plans

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

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

Pensions and information regarding the termination of the employment

The President and CEO's age of retirement is set by written agreement at 65 years. The pension is determined on the basis of the Employees Pensions Act and a separately defined benefit pension plan taken out by the company. The amount paid in 2018 was EUR 132,048.

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

Remuneration the Group Management Team

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

Remuneration of the Group Management Team consists of a base salary and fringe benefits, such as phone and car benefits, a short-term incentive based on annually defined performance criteria, and a share-based long-term incentive plan.

The salaries of the management team members (excluding the President and CEO) were in total EUR 2,580,611 in 2018 (EUR 1,977,745 in 2017), and the short-term incentives amounted to a total of EUR 753,063 in 2018 (EUR 604,213 in 2017).

Short-term and long-term incentive plans

The performance criteria for the short-term incentive plan for 2018 were Group's operating profit and the achievement of the financial and strategic goals set for respective business or function of each Management Team member. The business and function specific goals consist of e.g. profitable growth, net sales, and the efficiency of the operative process. The main performance criteria will remain the same for 2019, with the addition of Group's net sales growth. The maximum short-term incentive corresponds to 60–70% of a Group Management Team member's annual base salary. The performance period is one year and the possible reward is paid out in the first half of the year following the performance period.

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

Pensions and information regarding the termination of the employment

A separate defined benefit pension plan is introduced to The Group Management Team members as of 1.1.2019. The annual contributions to this plan will be 5–15% of annual base salary for each Group Management Team member depending on their home country practices. Group Management Team members are eligible for the paid contributions after 3 years continuous employment with the company. Retirement age has been set

to 63 years. Terms and conditions of supplementary Pension may vary between countries.

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

Long-term Incentive plans for key personnel

Option scheme 2013

The Annual General Meeting held in 2013 decided on the issue of stock options as part of the Group's incentive and commitment system for personnel. The system also covers persons employed or recruited by the Group at a later date. The Board distributed the options in the spring of 2013 (options 2013A), 2014 (2013B), and 2015 (2013C). The subscription period of 2013C options will end on 31 May 2019.

Performance Share Plan 2016

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

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

The share rewards system had three one-year earnings periods for the calendar years 2016, 2017, and 2018. The company's Board decided separately on each earnings period for the system and set the earning criteria, and the goals for each criterion, at the beginning of the earnings period. The system's possible reward for the earnings period of 2018 was based on the Group's operating profit and net sales. The maximum rewards paid for the earnings period of 2018 correspond to a maximum of 519,000 shares in Nokian Tyres plc, including the monetary reward.

The possible reward from the earnings period of 2018 will be paid in 2019, partially as shares in the company and partially as money. The monetary reward is intended to cover the taxes and tax-like charges incurred on the key person. As a rule, the reward is not paid if the key person's employment is terminated before the reward is due. Shares that are offered as a reward cannot be handed over during the limitation period of approximately one year.

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

Performance Share Plan 2019 and Restricted Share Plan 2019

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

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

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

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

Performance Period 2019–2020 and Performance Period 2019–2021

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

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

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

Table 1. Long-term incentives

	Performance Share Plan 2016 (maximum)		Performance Share Plan 2019 (maximum)	
	Performance period 2017	Performance period 2018	Performance period 2019–2020	Performance period 2019–2021
President and CEO	70,000	55,000	250%	250%
Other management team	216,875	194,500	100%–200%	100%–200%
	Maximum share rewards defined as pieces of shares		Maximum share rewards defined as % of annual base salary	

Restricted Share Plan 2019–2021

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

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

C. Remuneration statement

Board of Directors

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

Table 2. Remuneration paid to the Board members in 2018 (cash basis)

	Position on the Board	Fixed annual fee, €**	Meeting remuneration fees, €	Committee meeting remuneration fees, €	Total remuneration fees, €	Shares acquired with a fixed annual fee, number of shares	Share holdings of the Board, number of shares
Petteri Walldén	Chairman	90,000	6,000	6,000	102,000	1,348	20,865
Kari Jordan *	Deputy Chairman, Chairman of the Personnel and Remuneration Committee	67,500	4,800	3,600	75,900	1,011	1,011
Heikki Allonen	member	45,000	6,000	3,000	54,000	674	1,867
Raimo Lind	Chairman of the Audit Committee	67,500	6,000	5,400	78,900	1,011	3,862
Veronica Lindholm	member	45,000	6,000	6,000	57,000	674	1,867
Inka Mero	member	45,000	6,000	3,000	54,000	674	3,260
George Rietbergen	member	45,000	7,800	600	53,400	674	1,204
Pekka Vauramo *	member	45,000	4,800	2,400	52,200	674	674
Total		450,000	47,000	30,000	527,400	6,740	34,610

* member since April 10, 2018

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

President and CEO and management team

Table 3: Salaries and financial benefits paid to the President and CEO and the company's other management team members in 2018 (cash basis)

	Annual salary, € (including fringe benefits)	Performance based bonuses, € (based on year 2017)	Signing fees, €	Severance package, €	Total value of share- based bonus, €* Total, €	Share-based bonus paid in shares, number of shares
President and CEO	693,240	411,540	0	0	2,497,082	32,381
Other members of the management team	2,580,611	753,063	31 915	0	6,714,353	98,771

* According to the stock exchange price of the assignment date of March 26, 2018 / August 31, 2018 the payment for the performance period of 2017 of the share-based incentive plan

NOKIAN TYRES GROUP STRUCTURE

