

IV Other information provided

Internal audit

The Group's internal audit 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 Internal Audit function in the Group is managed by the Chief Audit Executive (CAE), who works under the Board of Directors and the President and CEO. The Internal Audit function of the Group is planned 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 CAE reports on their findings and the agreed further actions to the Audit Committee and the Board of Directors.

In 2017, 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 Managing Directors of the country units.

Decision-making concerning related party transactions

The Company assesses and follows business transactions made with its related parties and maintains a list of parties that are considered related parties. The Company has defined practices for business with related parties. As a rule, related party transactions are prohibited; however, if related party transactions cannot be avoided, the instructions are to report them to the nearest supervisor. If the monetary value of the transaction is substantial, it will be reported to the Company's General Counsel and Internal Auditor.

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 issues

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.

The Company draws up a separate list of people in executive positions and their related entities. In 2017, the Company's Board members, President and CEO, Business Unit managers, Vice President responsible for finance and control, the General Manager for Nokian Tyres Russia, the Vice President, of Sales of Passenger Car Tyres, and the Vice President of Production were considered persons in executive positions with regard to the Market Abuse Regulation.

Pursuant to the Market Abuse Regulation, a list of permanent insiders may be established and maintained regarding persons who have continuous access to all insider information concerning the company. The Company does not maintain a separate list of permanent insiders; instead, all persons involved in insider projects are added to the project-specific insider lists. A project refers to an identifiable entity of activities or arrangement that is being confidentially prepared by the Company, which the Company considers to be insider information, and the publication of which the Company has decided to delay. 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 maintains a project-specific list of insiders either manually within the Company or in a digital system maintained by Euroclear Finland Oy.

The Company's General Counsel is responsible for insider matters. The assistant of the Vice President responsible for finance and control is responsible for maintaining the list of insiders. The General Counsel is responsible for managing the trading limitations and the duty to declare business transactions. The Vice President responsible for finance and control acts as the deputy to both the General Counsel and the assistant as regards insider issues.

The insider representative supervises the trading and duty to declare of the persons holding executive positions and their related entities. The insider representative will check the information to be declared from the persons holding executive positions and their related entities at least once per year.

Persons holding executive positions within the Company and permanent insiders 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 reporting and forecasts of the Nokian Tyres Group and those who have access to group-level financial figures through different systems.

Those included in the project-specific insider lists are prohibited from trading in the Company's securities until the termination or publication of the project.

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 is KPMG Oy Ab, authorized public accountants, with Lasse Holopainen, Authorized Public Accountant, acting as the auditor with principal responsibility. 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 2017 amounted to EUR 406,000 (2016: EUR 437,000). The fees paid to the authorized public accountants for other services totaled EUR 1,009,000 (EUR 739,000).

SALARIES AND REMUNERATIONS 2017

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 makes decisions concerning the salary, benefits, and long-term incentives of the President and CEO as well as the rest of the management team. In addition to the President and CEO's short-term incentive system, the Board also decides on the maximum level of the management team's short-term incentive system. 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 2017, the Annual General Meeting authorized the Board of Directors to make a decision to offer no more than 25,000,000 shares through a share issue. The authorization is effective for two years

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from that decision. In 2017, 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 October 10, 2018. 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 for according to the company's travel policy. 50% of the annual fee is paid in cash and 50% is paid in shares in 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 2017 decided on the following fees for Board members:

- Annual fee for chairman, EUR 80,000
- Annual fee for vice chairman and for the chairman of the Audit Committee, EUR 60,000
- Annual fee for member, EUR 40,000
- 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 and share issue programs.

Remuneration for the President and CEO

The Board of Directors makes decisions concerning the salary and other benefits of the President and CEO.

The compensation package includes the basic salary, fringe benefits, the performance-related short-term bonus scheme, and the share-based long-term incentives.

Hille Korhonen was appointed as the President and CEO as from June 1, 2017. The annual base salary for the CEO has been set at EUR 693,000. Before Hille Korhonen's nomination, Andrei Pantioukhov served as the interim President and CEO from Jan 1, 2017 until May 31, 2017.

Short-term and long-term incentive systems

The President and CEO's short-term performance-related bonus is

based on the Group's profitability and net sales, and it may amount to a maximum of 100% of the annual salary. The target period is one year and the bonus is paid out once per year following the performance period.

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

Pensions and information regarding the termination of the employment relationship

The President and CEO Hille Korhonen's pension and retirement age are defined in accordance with the Finnish Employees' Pension Act (65 years). Furthermore, she is entitled to a defined contribution pension insurance where the contribution equals 20% of her fixed annual salary. The amount paid in 2017 was EUR 77,000.

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.

The management team

The Board approves the salaries and benefits of managerial employees and the employee incentive scheme on the basis of a proposal by the Personnel and Remuneration Committee.

Remuneration for the management consists of a monthly base salary and fringe benefits, such as phone and car benefits, an annual bonus based on separately defined performance criteria, and a share-based long-term incentive plan.

The annual bonus is based on the Group's operating profit and the achievement of the KPIs set for different functions. The function specific KPIs consist of several factors including profitable growth, net

sales, and the efficiency of the operative process. The maximum annual bonus corresponds to 40–50% of a person's annual salary. The annual bonus is paid out once per year following the earning period.

The Group has a share rewards system for key personnel (see Incentive plans for key personnel) that is intended to provide long-term incentives and build commitment toward the company. The maximum limits for the remuneration are set forth in Table 1.

The salaries of the management team members (excluding the President and CEO) were in total EUR 1,951,793 in 2017, and the annual bonuses amounted to a total of EUR 604,213.

Pensions and information regarding the termination of the employment relationship

The management team members have no separate pension arrangements.

A management team member's period of notice 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.

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).

Table 1. Maximum limits for the bonuses under the short-term and long-term incentive plans

	Short-term incentive scheme	Long-term incentive schemes	
	Performance based bonus scheme 2017 and 2018,%*	Share-based incentive plan 2016 (maximum)	
		Earnings period 2016	Earnings period 2017
President and CEO	100%	70,000	70,000
Other management team	44%**	216,875	225,000

* The maximum limits are presented as percentages of the fixed earnings for the target period (year)

** Other members of the Management team on average

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Share rewards 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' new share-based incentive system is 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 covers some 5% of the Group's personnel, including the management team members.

The share rewards system has three one-year earnings periods for the calendar years 2016, 2017, and 2018. The company's Board will decide 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 2017 is based on the Group's operating profit and net sales. The rewards paid for the earnings period of 2017 correspond to a maximum of 540,000 shares in Nokian Tyres plc, including the monetary reward.

The possible reward from the earnings period of 2017 will be paid in 2018, 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.

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 2017 (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 and chairman of the Personnel and Remuneration Committee	80,000	10,800	3,000	93,800	1,061	19,517
Heikki Allonen	member	40,000	10,800	3,000	53,800	530	1,193
Hille Korhonen*	member	40,000	2,400	600	43,000	-	board membership has ended
Tapio Kuula**	chairman of the Personnel and Remuneration Committee	60,000	7,800	2,400	70,200	795	board membership has ended
Raimo Lind	vice chairman, chairman of the Audit Committee	60,000	10,800	3,600	74,400	795	2,851
Veronica Lindholm	member	40,000	10,200	1,800	52,000	530	1,193
Inka Mero	member	40,000	10,800	2,400	53,200	530	2,586
George Rietbergen***	member	40,000	13,200	3,600	56,800	530	530
Total		400,000	76,800	20,400	497,200	4,771	27,870

* member until April 10, 2017

** member until November 7, 2017

*** member since April 10, 2017

**** 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 2017 (cash basis)

	Annual salary, € (including fringe benefits)	Performance based bonuses, € (year 2016)	Signing fees, €	Severance package, €	Total value of share-based bonus, €* €*	Total, €	Share-based bonus paid in shares, number of shares
President and CEO	411,540	0	0	0	0	411,540	0
Interim CEO**	235,940	0	0	0	0	235,940	0
Previous President and CEO ***	0	646,229	0	0	0	646,229	0
Other members of the management team	1,951,793	604,213	0	109,908	6,277,524	8,943,438	89,103

* According to the stock exchange price of the assignment date of March 23, 2017, the payment for the earnings period of 2016 in the share-based bonus system

** Andrei Pantioukhov, Jan 1, 2017–May 31, 2017

*** Ari Lehtoranta, bonus based on 2016 performance