



## Salaries and remunerations 2016

### 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 and 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 matters for decision by the Board, using external experts when necessary. The President and CEO decides on the goals for the management team's short-term incentive system.

In 2012, 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 five years from that decision. In 2015, 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 at most until October 12, 2017. 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; 50% is paid in shares in the Company which are purchased for the Board members during April, following the Annual General Meeting. The Company is responsible for any asset transfer tax.

The Annual General Meeting in 2016 decided on the following fees for Board members:

- Annual fee for chairman, EUR 80,000
- Annual fee for member, EUR 40,000
- Meeting fee EUR 600/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 stock-based long-term incentives.



In 2016, the annual salary of Ari Lehtoranta, President and CEO, was EUR 743,435. The share of fringe benefits in the salary was EUR 9,330. In addition, the President and CEO received performance based bonuses of EUR 560,219.

#### **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 cash flow, 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.

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

#### **Pensions and information regarding the termination of the employment relationship**

The President and CEO's age of retirement is set by written agreement at 63 years. The pension is determined on the basis of the Employees Pensions Act and a separate defined benefit pension plan taken out by the company. The amount paid in 2016 was EUR 132,000. Since the employment relationship of President and CEO Ari Lehtoranta terminated on December 31, 2016, the benefit pension plan described hereinabove does not accrue any pension payments for him; any payments made to this plan will be returned to the company.

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 18 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.

Rewards to the management are based on monthly remuneration determined by the competence classification of the tasks, including monetary payments and taxable telephone and company car benefits, and on a separate annual bonus. The annual bonus is determined on the basis of 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, cash flow, and the efficiency of 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.

The salary of the management team members was a total of EUR 1,916,346 in 2016, and the taxable fringe benefits amounted to a total of EUR 490,809 per year.

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



## Pensions and information regarding the termination of the employment relationship

The management team members have no separate pension agreements.

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 systems 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).

### Share rewards system 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.

**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 2015 and 2016,%* | Share-based incentive plan 2013 (maximum) | Share-based incentive plan 2016 (maximum) | Share-based incentive plan 2016 (maximum) |
|                       |   | Earnings period 2015                      | Earnings period 2016                      | Earnings period 2017                      |
| President and CEO     | 100%  | 33,800                                    | 70,000                                    | 30,000***                                 |
| Other management team | 44%**   | 70,000                                    | 216,875                                   | 195,000                                   |

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

\*\* Other members of the Management team on average

\*\*\* The allocated amount for the Company's interim President and CEO

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, the calendar years 2016, 2017 and 2018. The Company's Board will decide on the system's earnings criteria and the goals set for each criterion at the beginning of the earnings period. The system's possible reward for the earnings period of 2016 is based on the Group's operating profit and net sales. The rewards paid for the earnings period of 2016 correspond to a maximum of 515,000 shares in Nokian Tyres plc, including the monetary reward.

The possible reward from the earnings period of 2016 will be paid in 2017, partially as shares in the Company and partially as money. The monetary reward is intended to cover the taxes and taxlike 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 below table.

| Table 2. Remuneration to the Board members in 2016 (cash basis) |  |                        |                              |  |                            |   |   |
|---|--|------------------------|------------------------------|--|----------------------------|---|---|
|   | Position on the Board                                | Fixed annual fee, €*** | Meeting remuneration fees, € | Committee meeting remuneration fees, € | Total remuneration fees, € | Shares acquired with fixed annual fee, number of shares | Share holdings of the Board, number of shares |
| Petteri Waldén  | chairman   | 80,000                 | 7,800                        | 3,600                                  | 91,400                     | 1,326   | 18,456  |
| Heikki Allonen*   | member   | 40,000                 | 3,600                        | 2,400                                  | 46,000                     | 663   | 663   |
| Hille Korhonen  | member   | 40,000                 | 7,800                        | 3,600                                  | 51,400                     | 663   | 7,927   |
| Tapio Kuula   | chairman of the Personnel and Remuneration Committee | 40,000                 | 7,200                        | 2,400                                  | 49,600                     | 663   | 6,359   |
| Raimo Lind  | chairman of the Audit Committee                      | 40,000                 | 7,800                        | 3,000                                  | 50,800                     | 663   | 2,056   |
| Veronica Lindholm*  | member   | 40,000                 | 3,000                        |  | 43,000                     | 663   | 663   |

|                  |        |         |        |        |         |       |                   |
|------------------|--------|---------|--------|--------|---------|-------|-------------------|
| Inka Mero        | member | 40,000  | 7,200  | 3,000  | 50,200  | 663   | 2,056             |
| Hannu Penttilä** | member | 40,000  | 4,200  | 1,800  | 6,000   | 663   | Memberships ended |
| Total            |        | 320,000 | 48,600 | 19,800 | 388,400 | 5,304 | 38,180            |

\* member since April 12, 2016

\*\* member until April 12, 2016

\*\*\* 50% of the annual fee 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 2016 (cash basis)**

|                                      | Annual salary, € (including fringe benefits) | Performance based bonuses, € (year 2015) | Signing fees, € | Severance package, € | Total value of share based bonus, €* | Total, €  | Share of the sharebased bonus paid in shares, number of shares |
|--------------------------------------|--|--|-----------------|----------------------|--------------------------------------|-----------|--|
| President and CEO                    | 753,435                                      | 560,219                                  |                 |                      | 795,743                              | 2,109,397 | 11,382   |
| Other members of the management team | 1,916,346                                    | 490,809                                  | 59,000          | 111,983              | 1,648,048                            | 4,226,186 | 28,385   |

\*According to the stock exchange price of the assignment date of November 2, 2016, the payment for the earnings period of 2015 in the share-based bonus system