FINANCIAL REVIEW 2018

Nokian TYRES

CONTENTS

PEACE OF MIND IN ALL CONDITIONS

In the heart of a rainstorm or heavy snowfall, you can rely on us to bring you home safely.

Nokian Tyres is the Scandinavian pioneer in demanding conditions and the inventor of the winter tire. We make premium tires for consumers and customers who value safety, sustainability, and innovative products. Our offer also includes tires for trucks and heavy machinery.

With our highly innovative team and advanced technology, we have built some of the most efficient tire factories in the industry. A new factory is under construction in the US.

NOKIAN TYRES IN BRIEF

> We are market leaders in premium tires in the Nordic countries and Russia

Nokian Tyres develops and manufactures premium tires for people who value safety, sustainability, and innovative products. We offer peace of mind in all conditions and instill our Scandinavian heritage in every tire we make. Our company designs tires for passenger cars, trucks, and heavy machinery.

Our business is divided into three units: Passenger Car Tyres, Heavy Tyres and Vianor, our chain of tire and car service centers.

Our headquarters is based in Nokia, Finland. We have factories in Finland and Russia, and a third one is under construction in the US. Production in the US factory will start in 2020. We have two testing centers in Finland and a new one is being built in Spain.

We are the inventor of the winter tire. With our motivated and innovative team we can take safety to a new level in the summer, all-season, and all-weather tires as well. We are market leaders in premium tires in the Nordic countries and Russia. In five years we aim to double our sales in North America and grow by 50% in Central Europe.

Sustainability is an essential part of our business. We aim for sustainable safety and eco-friendliness throughout the product life cycle. In addition to sustainable product development and products, we care about people and the environment as well as our customers and employees.

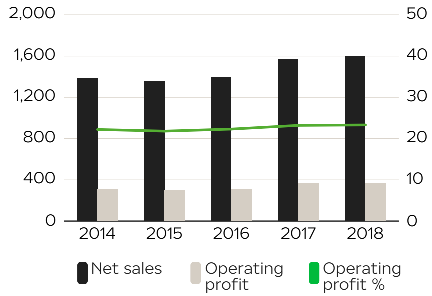
In 2018, the company's net sales were EUR 1.6 billion and it employed some 4,800 people. Nokian Tyres is listed on Nasdaq Helsinki.

KEY FIGURES 2018

EUR million	2018	2017	Change %	CC* Change %
Net sales	**1,595.6**	1,572.5	1.5	5.7
Operating profit	**372.4**	365.4		
Operating profit %	**23.3**	23.2		
Profit before tax	**361.7**	332.4		
Profit for the period	**295.2**	221.4		
Earnings per share, EUR	**2.15**	1.63		
ROCE, %	**23.3**	22.4		
Equity ratio, %	**71.0**	78.2		
Cash flow from operating activities	**536.9**	234.1		
Gearing, %	**–21.2**	–14.2		
Interest-bearing net debt	**–315.2**	–208.3		
Capital expenditure	**226.5**	134.9		

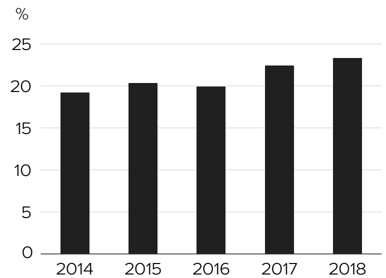
* Comparable currencies

Net sales, operating profit and operating profit %



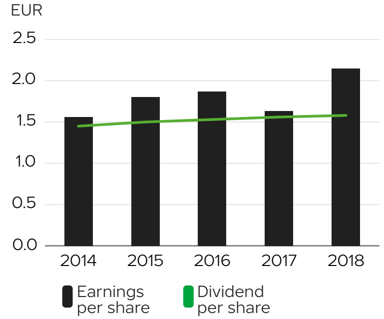
	2014	2015	2016	2017	2018
Net sales, EUR	1,389.1	1,360.1	1,391.2	1,572.5	**1,595.6**
Operating profit, EUR	308.7	296.0	310.5	365.4	**372.4**
Operating profit %	22.2	21.8	22.3	23.2	**23.3**

Return on Capital Employed, %



	2014	2015	2016	2017	2018
Return on Capital Employed, ROCE, %	19.20	20.30	19.90	22.40	**23.30**

Earnings per share and dividend per share



	2014	2015	2016	2017	2018
Earnings per share	1.56	1.8	1.87	1.63	**2.15**
Dividend per share	1.45	1.50	1.53	1.56	**1.58**

Net sales by market area, %

	2017	2018
Nordic countries	40	**39**
Russia	19	**19**
Other Europe	28	**27**
North America	11	**12**
Other Countries	2	**2**

Net sales by business unit*, %

	2017	2018
Passenger Car Tyres	72	**72**
Heavy Tyres	11	**12**
Vianor	22	**21**

* including internal sales

HIGHLIGHTS OF THE YEAR

NET SALES IN COMPARABLE CURRENCIES
+5.7%

BUILDING OF OUR
NEW US FACTORY
STARTED

WE STRENGTHENED OUR MARKET POSITION IN NORTH AMERICA AND RUSSIA

NOKIAN POWERPROOF AND NOKIAN WETPROOF
WERE INTRODUCED TO THE CENTRAL EUROPEAN MARKET

WE WERE AGAIN INCLUDED IN DOW JONES' DJSI WORLD SUSTAINABILITY INDEX AND ALSO IN THE MORE STRICTLY DEFINED DJSI EUROPE INDEX

WE STARTED TO BUILD A TESTING CENTER IN SPAIN

VIANOR IMPROVED ITS PROFITABILITY
DRIVEN BY INCREASED OPERATIONAL EFFICIENCY AND SALES MANAGEMENT

HEAVY TYRES STARTED TO BUILD
NEW CAPACITY IN FINLAND

WE REDUCED ROLLING RESISTANCE BY
8%
IN AVERAGE IN 2013–2018

NEW FINANCIAL TARGETS GUIDE US IN EXECUTING OUR STRATEGY

I am pleased to report that we reached many important milestones in 2018: we started construction work on our new US factory; we began building a new testing center in Spain; we initiated investments to increase Heavy Tyres' production capacity by 50% in Finland; and we were again selected in Dow Jones' DJSI World sustainability index, as well as DJSI Europe index. At the same time, we successfully continued to strengthen our position in North America and Russia.

In 2018, we celebrated 120 years in business. That is an impressive track record for any company! Innovative products, a trusted brand, motivated employees, and a commitment to serving customers sustainably over the long-term, have all contributed to strengthening our position in the market.

We had a good year – delivering higher net sales and operating profit. Net sales increased by 5.7% with comparable currencies, driven by Passenger Car Tyres, despite a delayed summer as well as lower new car sales in Sweden and Norway. We experienced good growth in Heavy Tyres, especially in sales of agricultural and forestry tires. Vianor successfully continued to improve operational efficiency and sales management. Overall, we increased the operating profit for the Group, despite a significant negative currency impact.

Key strategic ambitions will help us deliver our new financial targets

Nokian Tyres has now entered its next phase of growth. In line with our updated 2018 strategy, we will seize the opportunities for further growth in Russia, Central Europe and North America.

Our financial targets for 2019–2021 are the following:

- **to grow faster than the market:** CAGR above 5% with comparable currencies
- **to maintain healthy profitability:** EBIT at the level of 22%
- **to deliver good returns for our shareholders:** Dividend above 50% of net earnings

We will reach these targets by meeting our six strategic ambitions:

1. We are the market leader in selected segments in the Nordic countries and Russia
2. We increase our sales by 50% in Central Europe in five years
3. We double our sales in North America in five years
4. Our tires are available in all major winter tire markets
5. We increase the EBITDA of Vianor (own) to +3% by the end of 2019
6. We increase sales of Heavy Tyres by 50% in four years

We have already made a good start in delivering on these ambitions during 2018. We grew by 14.7% in comparable currencies in Russia and by 17.0% in North America. We turned Vianor's operating result positive one year ahead of the target schedule, and grew Heavy Tyres by 10.7% in comparable currencies. At the end of 2018, we split Business Area Europe into two separate Business Areas, Central Europe and Nordics, in order to have even more focus on these regions. Japan and China are attractive winter tire markets, and we are building the platform for future growth in these markets.

> "In 2019, we continue to pursue our growth agenda, outperforming the competition.

With our strategy update, we have re-designed our operating model, having both product centricity as well as customer and consumer focus. In the new model, shared processes and roles across the organization leverage synergies and support the scalability of operations.

Our new factory in the US and testing center in Spain will support growth

Construction work at our new US factory in Dayton, Tennessee, is proceeding as planned, and commercial production is scheduled to begin in 2020. Annual capacity at the factory will be 4 million tires in 2023, with further expansion potential. The new factory will ensure we can meet increasing demand throughout North America. It will also allow us to free up capacity in our other factories to service growth markets elsewhere.

In 2018, we started a project to build a testing center in Spain. It is expected to be fully operational in 2020, enabling accelerated product development and range extension. Comprehensive testing and a thorough understanding of customer needs ensure that our premium tires perform in the best possible way in all conditions. High-quality, safe products are our number one priority.

Another initiative to support growth is our decision to increase production capacity by 50% in Heavy Tyres in Finland during 2018–2020. As part of this investment, Heavy Tyres is building a new research and development center, accelerating the testing phase of new tire models.

We are committed to high standards in sustainability

Sustainability is an important part of our strategy, and I am particularly proud to announce that in 2018 we were again included in the Dow Jones' DJSI World sustainability index. Nokian Tyres was also selected for the more strictly defined DJSI Europe index. In February 2019, in the RobecoSAM Sustainability Yearbook 2019, we received the Silver Class distinction.

During 2018, we joined the Science Based Targets initiative, which is a partnership between UN Global Compact, CDP, World Resources Institute and WWF for promoting the best practices in setting scientific climate goals. Being part of this initiative is a natural continuation of our long-term work for the environment.

Our growth journey continues in 2019

In 2019, we continue to pursue our growth agenda, outperforming the competition. Our focus is on executing our strategic projects, especially the US factory ramp-up. We aim to strengthen our market leadership in Russia through even stronger distribution and online sales. We are building the product offering and distribution in Central Europe to support our growth target in the region. In the Nordics, we have reorganized Vianor and Nokian Tyres Nordics under one leadership, which will increase synergies and help us further strengthen our position in Finland, Sweden and Norway. In Heavy Tyres, we continue to focus on growth especially in the Nordics, Central Europe and North America, supported by new products.

Peace of mind in all conditions

Nokian Tyres is a life driven company, facilitating safe driving. As people drive home in their everyday lives, we offer peace of mind in all conditions. Our mission is powerful, giving all of us at Nokian Tyres a high purpose for our work, every day.

I would like to thank our customers, employees, and other stakeholders for another successful year in 2018. We have an impressive 120 year history and are committed to continue building on our success together in years to come.

Hille Korhonen
President & CEO

Read also Hille Korhonen's greetings in the Corporate Sustainability Report: www.nokiantyres.com/company/sustainability/

ENTERING OUR NEXT PHASE OF GROWTH

OUR DIFFERENTIATORS

- SAFEST TIRES FOR ALL CONDITIONS
- CONSUMER-TRUSTED PREMIUM BRAND
- PREFERRED PARTNER FOR CUSTOMERS
- FORERUNNER IN SELECTED HEAVY TIRE PRODUCTS
- RESPONSIVE AND EFFICIENT SUPPLY CHAIN
- HIGH-PERFORMING ENGAGED TEAM

OUR AMBITION

- WE ARE THE MARKET LEADER IN SELECTED SEGMENTS IN THE NORDIC COUNTRIES AND RUSSIA
- WE INCREASE OUR SALES BY 50% IN CENTRAL EUROPE IN FIVE YEARS
- WE DOUBLE OUR SALES IN NORTH AMERICA IN FIVE YEARS
- OUR TIRES ARE AVAILABLE IN ALL MAJOR WINTER TIRE MARKETS
- WE INCREASE THE EBITDA OF VIANOR (OWN) TO +3% BY THE END OF 2019
- WE INCREASE THE SALES OF HEAVY TYRES BY 50% IN FOUR YEARS

FINANCIAL TARGETS 2019–2021

GROWING FASTER THAN THE MARKET: ABOVE 5% CAGR WITH COMPARABLE CURRENCIES

HEALTHY PROFITABILITY: EBIT AT THE LEVEL OF 22%

GOOD RETURNS FOR OUR SHAREHOLDERS: DIVIDEND ABOVE 50% OF NET EARNINGS

SAFEST TIRES FOR ALL CONDITIONS

We operate within the premium passenger car tire segment and focus on the replacement tire market. We offer the world's best winter tires on all major winter tire markets. As pioneers in demanding conditions, our competitive summer tires, all-season tires, and all-weather tires take safety to a new level under all conditions.

CONSUMER-TRUSTED PREMIUM BRAND

Our tires are made for people, who value the promise of the Nordic premium: high-tech products that are manufactured sustainably. We make good on our promise on the road, as our tires offer reliability, performance, and peace of mind from winter snowfall to heavy summer rain.

PREFERRED PARTNER FOR CUSTOMERS

Our partners have higher earnings potential selling our products and our customer satisfaction is high. Nokian Tyres offers premium end-to-end digital customer and consumer experiences. Our branded retail concepts support strong sell-out and provide data, which enables us to serve our consumers better.

FORERUNNER IN SELECTED HEAVY TIRE PRODUCTS

In the development and manufacturing of heavy tires, we focus on carefully selected segments with high profit margins, such as tires intended for forestry, agriculture, and material handling. Our premium tires feature unique solutions that support the business of our end users, and we sell them on both the replacement and original equipment markets. We ensure the functionality of our tires by also serving our customers down in the mine or deep in the woods.

RESPONSIVE AND EFFICIENT SUPPLY CHAIN

We have some of the most efficient tire factories in the world. The high level of automation ensures superior productivity and product quality. Our customer oriented supply chain ensures excellent customer service capability even during high season.

HIGH-PERFORMING ENGAGED TEAM

Our open and participatory company and leadership culture ensures that we work, develop, and achieve great results together. Our motivated and committed personnel have a continuous desire to develop their personal competence as well as our company as a whole.

OUR SEVEN AMBITIONS

Nokian Tyres' ambition is to continue to be the market leader in the Nordic countries and Russia and to grow faster than the market in other main markets. Over a five-year period of 2018–2022, the target is to grow by 50% in Central Europe and double sales in North America. Heavy Tyres' ambition is to grow by 50% in four years. With Vianor (own), our ambition was to increase the EBITDA to +3% by the end of 2019. This target was reached in 2018.

Would you like to know more about our strategic ambitions? Here you can watch Hille Korhonen, the President and CEO of Nokian Tyres, present at our capital markets day in 2018.

THE NORDIC COUNTRIES

WE ARE THE MARKET LEADER IN SELECTED SEGMENTS IN THE NORDIC COUNTRIES

STATUS TODAY

- A big winter tire market and our home market
- Strong market position with high brand awareness
- Solid distribution setup

KEY INITIATIVES

- Leading product portfolio both in winter and summer segments
- Superior service level
- Vianor, strong own distribution channel

STRONG MARKET PRESENCE IN ALL CHANNELS

RUSSIA

WE ARE THE MARKET LEADER IN SELECTED SEGMENTS IN RUSSIA

STATUS TODAY

- The world's second biggest winter tire market and our home market
- Strong brand image
- Country-wide multi-channel distribution coverage, long-term partnership with distributors
- Large-scale, highly efficient local production provides a strong competitive advantage

KEY INITIATIVES

- Winning market share in A+B segments
- Further development of direct distribution in selected regions
- Effective support of customers' sell-out
- Development of direct and indirect online sales channels

CENTRAL EUROPE

WE INCREASE OUR SALES BY 50% IN CENTRAL EUROPE IN FIVE YEARS

STATUS TODAY

- Biggest winter tire area, with already strong Nokian Tyres presence in Eastern Europe
- Low market share – room to grow in selected segments and markets
- Our premium products and brand are well-aligned with regional consumer preferences

KEY INITIATIVES

- Market-relevant products
- Building selective distribution in focus markets
- Brand building through Vianor partners, NADs and focused marketing

NORTH AMERICA

WE DOUBLE OUR SALES IN NORTH AMERICA IN FIVE YEARS

STATUS TODAY

- After 30 years of market presence, a solid position in the Canadian winter tire market
- Premium winter tire brand known for superior technical performance
- Consumer segment valuing safety and sustainability

KEY INITIATIVES

- Expanding our market-relevant product offering
- Extending the geographic footprint by partnering with key retailers/independent distributors in all season markets
- Starting in 2020, local manufacturing will improve our service throughout North America

ALL MAJOR WINTER TIRE MARKETS

OUR TIRES ARE AVAILABLE IN ALL MAJOR WINTER TIRE MARKETS

FUTURE POTENTIAL

- Northern China has a sizable and growing premium winter tire market
- Japan has an established winter tire market, which offers a good strategic fit with our product portfolio and brand

KEY INITIATIVES

- Building distribution and logistics setup in selected areas in China
- Distribution partnership in Japan

JAPAN AND CHINA ARE POTENTIAL FUTURE GROWTH MARKETS FOR NOKIAN TYRES

VIANOR

TARGETING 3% EBITDA OF NOKIAN TYRES OWNED VIANOR BY THE END OF 2019

STATUS TODAY

- Unleashing the full potential of Vianor as a market-leading tire chain
- Shifting focus from expansion to profitable growth
- Vianor supports Nokian Tyres' home market position
- The target of 3% EBITDA was reached in 2018

KEY INITIATIVES

- Focus on operational efficiency
- Improve fixed cost management
- Optimize service center network
- Improve sales and pricing management
- Reform Vianor Partner concept

HEAVY TYRES

WE INCREASE THE SALES OF HEAVY TYRES BY 50% IN FOUR YEARS

STATUS TODAY

- $26bn global market with CAGR of 5% 2017–2022
- A long history of niche innovation in forestry and agriculture, together with OE customers
- Market leader in Forestry CTL tires
- Industry leading productivity

KEY INITIATIVES

- Capacity expansion 20 Mkg → 32 Mkg
- More than 200 new products by 2022 with new technologies
- Focus markets: the Nordic Countries, Central Europe and North America
- Focus segments: forestry, agriculture, on-road, and off-the-road (OTR)
- Growth in aftermarket

REPORT BY THE BOARD OF DIRECTORS 2018

JANUARY–DECEMBER 2018

The Nokian Tyres Group's net sales in 2018 increased by 1.5% and were EUR 1,595.6 million (2017: 1,572.5; 2016: 1,391.2). With comparable currencies, net sales increased by 5.7%, driven by Russia and North America. Currency exchange rates affected net sales negatively by EUR 67.2 million.

Net sales by market area

	M€ 2018	M€ 2017	Change %	CC* Change %	% of total net sales in 2018	% of total net sales in 2017
Nordic countries	**629.3**	625.2	0.6	3.5	**39.4**	39.8
Russia	**305.5**	305.2	0.1	14.7	**19.1**	19.4
Other Europe	**436.9**	440.8	–0.9	0.6	**27.4**	28.0
North America	**194.5**	172.0	13.1	17.0	**12.2**	10.9
Other countries	**29.5**	29.2	0.7	6.9	**1.8**	1.9

*Comparable currencies

Net sales by business unit**

	M€ 2018	M€ 2017	Change %	CC* Change %	% of total net sales in 2018	% of total net sales in 2017
Passenger Car Tyres	**1,150.8**	1,138.8	1.0	6.1	**72.1**	72.4
Heavy Tyres	**187.7**	172.3	8.9	10.7	**11.8**	11.0
Vianor	**337.2**	339.4	–0.6	1.9	**21.1**	21.6

**including internal sales

*Comparable currencies

Raw material costs (EUR/kg) in manufacturing decreased by 1.0% compared to the previous year, positively impacted by currencies.

Operating profit amounted to EUR 372.4 million (2017: 365.4; 2016: 310.5). Operating profit percentage was 23.3% (2017: 23.2%; 2016: 22.3%).

Operating profit by business unit

	M€ 2018	M€ 2017
Passenger Car Tyres	**356.5**	359.9
Heavy Tyres	**28.6**	32.2
Vianor	**1.6**	–5.8
Other operations and eliminations	**–14.3**	–20.9
Total	**372.4**	365.4

Net financial expenses were EUR 10.7 million (33.0), including net interest expenses of EUR 3.0 million (24.3; including EUR 18.3 million in interest related to tax disputes). Net financial expenses include an expense of EUR 7.7 million (8.7) due to exchange rate differences. Profit before tax was EUR 361.7 million (332.4) and taxes were EUR –66.5 million (–111.0). Profit for the period amounted to EUR 295.2 million (221.4), and earnings per share were EUR 2.15 (1.63). In 2017, profit was penalized by additional taxes and interest of EUR 59 million and EUR 3.1 million in interest related to the tax disputes.

Return on equity was 20.0% (2017: 15.1%; 2016: 18.7%).

Guidance given for 2018

In Nokian Tyres' financial statement bulletin for 2017 published in February 2018, the company published the following outlook for the year:

In 2018, with the current exchange rates, net sales and operating profit are expected to grow compared with 2017.

In the January–September 2018 interim report published in October 2018, the guidance was updated as follows:

In 2018, net sales and operating profit are expected to be at the same level or slightly higher compared with 2017 due to the continued negative currency impact.

Cash flow

In 2018, cash flow from operating activities was EUR 536.9 million (234.1; affected by payments totaling EUR 77.5 million related to tax disputes).

Working capital decreased by EUR 132.4 million (increased by EUR 72.9 million). Inventories increased by EUR 41.8 million (51.8) and receivables increased by EUR 11.0 million (69.0). Payables increased by EUR 185.3 million (47.9). The Finnish Tax Administration returned the previously paid EUR 148 million in additional taxes and interest to the company in June 2018. The Tax Recipient Services Unit has applied for permission to appeal.

Investments

Investments in 2018 amounted to EUR 226.5 million (134.9). This comprises the construction of the new US factory, production investments in the Russian and Finnish factories, molds for new products, and ICT and process development projects. Depreciations totaled EUR 93.4 million (98.3).

In 2018, the construction of the new US factory progressed in line with plan. Equipment installations started in all building areas. The commercial production is expected to commence in early 2020.

Financial position on December 31, 2018

	December 31, 2018	December 31, 2017
Cash and cash equivalents, M€	**447.5**	343.4
Interest-bearing financial liabilities, M€	**132.3**	135.2
of which current interest-bearing financial liabilities, M€	**126.0**	0.8
Interest-bearing net debt, M€	**−315.2**	−208.3
Unused credit limits*, M€	**558.8**	508.9
of which committed, M€	**205.5**	155.6
Gearing ratio, %	**−21.2**	−14.2
Equity ratio, %	**71.0**	78.2

* The current credit limits and the commercial paper program are used to finance inventories, trade receivables, and subsidiaries in distribution chains, thereby controlling the typical seasonality in the Group's cash flow.

Tax rate

The Group's tax rate in 2018 was 18.4% (33.4%; tax rate without tax disputes was 19.2%). The tax rate is positively affected by tax incentives in Russia which are valid until approximately 2022. The Group's estimated operational tax rate is expected to be at the level of 19% for 2019.

The tax rate in the coming years will depend on the timetable and final outcome of the ongoing tax disputes with the Finnish Tax Administration. The Group's corporate annual tax rate may rise as a result of these cases. For further information on the ongoing tax disputes, please see page 17.

Personnel

In 2018, the key focus areas in Human Resources management were global rewarding development and providing support to the implementation of Nokian Tyres' new operating model.

	2018	2017	2016
Group employees			
on average	**4,790**	4,630	4,433
at the end of the year	**4,719**	4,635	4,392
in Finland, at the end of the year	**1,769**	1,724	1,616
in Russia, at the end of the year	**1,574**	1,503	1,368
Vianor (own) employees, at the end of the review period	**1,563**	1,660	1,742

Salaries, incentives, and other related costs in 2018 totaled EUR 228.9 million (2017: 224.7; 2016: 219.0).

Research & Development

In 2018, Nokian Tyres introduced several new tire models. Approximately 50% of R&D investments are allocated to product testing. Nokian Tyres' R&D costs in 2018 totaled approximately EUR 20.8 million (2017: 21.8; 2016: 20.3), which is 5.8% (2017: 5.8%; 2016: 5.6%) of the Group's operating expenses.

To support the testing of new tires, Nokian Tyres launched the construction project of a new testing center in Spain in 2018. The first test tracks will be completed in 2019, and the testing center is expected to be fully in operation in 2020.

Sales and distribution

Good availability and precise, quick deliveries especially during season are increasingly important parts of a successful tire retail experience. Nokian Tyres is continuously developing the logistics systems and retailer network in order to ensure efficient distribution.

Nokian Tyres' distribution network consists of Nokian Tyres' own Vianor service centers and service centers run by partners, the Nokian Tyres Authorized Dealer (NAD) partners, the N-Tyre retailers, and other tire and vehicle retailers as well as online stores. At the end of 2018, the number of stores was as follows:

- Vianor: 1,318 (1,466) service centers in total, of which 1,130 (1,272) partners
- NAD: 2,162 (1,855) stores
- N-Tyre: 127 (127) stores

BUSINESS UNIT REVIEWS

Passenger Car Tyres

	2018	2017	Change %	CC* Change %
Net sales, M€	**1,150.8**	1,138.8	1.0	6.1
Operating profit, M€	**356.5**	359.9		
Operating profit, %	**31.0**	31.6		

* Comparable currencies

In 2018, net sales of Nokian Passenger Car Tyres totaled EUR 1,150.8 million (1,138.8). With comparable currencies, net sales increased by 6.1%. The growth was driven by higher sales volumes and price/mix with comparable currencies. Average Sales Price with comparable currencies increased slightly. Net sales in July–December were negatively impacted by high inventory levels of summer tires in Russia and lower new car sales in Sweden and Norway. Summer tire inventories are also at a high level in Central Europe. Winter season started late in Central Europe and the Nordic countries.

In 2018, the share of winter tires of sales was 69% (69%), the share of summer tires was 21% (21%), and the share of all season tires was 10% (10%).

Operating profit was EUR 356.5 million (359.9). Operating profit was negatively impacted by currencies and lower volumes in the second half of the year. Raw material costs (€/kg) were down by 1.7% year-over-year, positively impacted by currencies. In order to support further growth, the company is investing in sales and marketing in Central Europe and North America, and building scalable business platforms.

During the review period, capacity utilization increased year-over-year, and the production output (pcs) increased by 6%. In 2018, 84% (85%) of Nokian passenger car tires (pcs) were manufactured in Russia.

Nokian Tyres' products achieved success in several car magazine tests all over the world. For more information, see: www.nokiantyres.com/test-success/. A flow of product launches with new innovations – improving safety, comfort, and eco-friendly driving – continued in the review period. For example, the Nordic non-studded Nokian Hakkapeliitta R3 and Nokian Hakkapeliitta R3 SUV winter tires for the Nordic, Russian, and North American markets, the Nokian WR SUV 4 for the Central European markets, and the Nokian WR G4 for the North American markets were introduced in January 2018. The Nokian Powerproof and Nokian Wetproof summer tires for the Central European markets as well as the Nokian WR G4 SUV all-weather tire for North American markets were introduced in October 2018.

In May, Nokian Tyres introduced a tire scanning technology SnapSkan. SnapSkan allows people to find out the condition of their tires free of charge. Nokian Tyres aims to improve road safety and build a comprehensive network of SnapSkan stations. Read more at: www.nokiantyres.com/snapskan

Market situation in Russia

In 2019, sales of new cars in Russia are expected to grow by approximately 8–12% compared with 2018, driven by deferred demand but restricted by stagnating real incomes. The total replacement tire market sell-in in Russia is expected to grow by 5–7% in 2019 compared with 2018, with the winter tire sell-in growing and the summer tire sell-in declining due to high carry-over stocks.

Heavy Tyres

	2018	2017	Change %	CC* Change %
Net sales, M€	**187.7**	172.3	8.9	10.7
Operating profit, M€	**28.6**	32.2		
Operating profit, %	**15.2**	18.7		

* Comparable currencies

In 2018, net sales of Nokian Heavy Tyres totaled EUR 187.7 million (172.3). With comparable currencies, net sales increased by 10.7%. Demand was good in Nokian Heavy Tyres' core product groups. Sales of agricultural tires and forestry tires increased in particular.

Operating profit was EUR 28.6 million (32.2). The decrease is due to the negative currency impact, inventory valuation, and increased costs related to the ongoing ramp-up of new production capacity.

Production output (metric tons) increased slightly compared with the previous year.

Heavy Tyres is increasing its production capacity by 50% by investing a total of approximately EUR 70 million in the factory in Finland during the years 2018–2020. The aim is to increase the maximum capacity for heavy tire production from approximately 20 million kg to 32 million kg. As part of this investment, Heavy Tyres is building a new research and development center. The R&D center will accelerate the testing phase of new tire models. The investments started in April–June 2018, and the project is proceeding in line with plan.

A flow of product launches with new innovations continued in 2018. For example, the Nokian Armor Gard 2 for urban excavation was introduced in March, and the Nokian Tractor King for the heaviest of machinery and the most difficult terrain in forestry, earthmoving, and road construction was introduced in June. The Nokian Hakkapeliitta Truck T winter tire, the Nokian R-Truck tire for demanding use, and the Nokian MPT Agile 2 off-road tire for versatile use were introduced in August.

Vianor, own operations

	2018	2017	Change %	CC* Change %
Net sales, M€	**337.2**	339.4	–0.6	1.9
Operating profit, M€	**1.6**	–5.8		
Operating profit, %	**0.5**	–1.7		
Own service centers, pcs, at period end	**188**	194		

* Comparable currencies

In 2018, net sales totaled EUR 337.2 million (339.4). With comparable currencies, net sales increased by 1.9%.

Operating profit was EUR 1.6 million (–5.8). The improvement was driven by increased operational efficiency, and better sales management.

At the end of the review period, Vianor had 188 (194) own service centers in Finland, Sweden, Norway, and the USA.

CORPORATE GOVERNANCE

In its decision-making and administration, Nokian Tyres adheres to the Finnish Limited Liability Companies Act, the Finnish Securities Markets Act and the rules issued by Nasdaq Helsinki Ltd, Nokian Tyres' Articles of Association, and the Finnish Corporate Governance Code 2015 for listed companies. Nokian Tyres complies with the code without exceptions. The code is published at www.cgfinland.fi/en/.

The Corporate Governance Statement has been prepared pursuant to the Finnish Corporate Governance Code 2015 for listed companies and the Securities Markets Act (Chapter 7, Section 7) and it is issued separately from the Board of Directors' report. The Board of Directors has reviewed the Corporate Governance Statement, and the auditor KPMG has verified that the Statement has been issued and that the description of the main features of the internal control and risk management systems relating to the financial reporting process is consistent with the financial statements.

CHANGES IN MANAGEMENT

In April, Ms. Tytti Bergman started as SVP, People & Culture and a member of the Management Team.

In April, Nokian Tyres announced the resignation of Ms. Anne Leskelä, Vice President, Finance and IR from the company. Leskelä continued in her position until the beginning of July 2018.

In May, Mr. Mark Earl started as Vice President, Americas Business Area and a member of the Management Team. Ms. Päivi Antola started as Vice President, Investor Relations & Corporate Communications and a member of the Management Team.

In July, Mr. Teemu Kangas-Kärki started as Nokian Tyres' Chief Financial Officer (CFO) and a member of the Management Team.

In October, Mr. Jukka Kasi started as Vice President, Products and Technologies and a member of the Management Team.

In December, Nokian Tyres announced that the company is separating Business Area Europe into two business areas: Business Area Central Europe and Business Area Nordics. Anna Hyvönen, SVP, Vianor and member of Nokian Tyres' Management Team, was appointed SVP, Nordics and Vianor, with the additional responsibility for Nokian Tyres Nordics. Pontus Stenberg, SVP, Europe and member of Nokian Tyres' Management Team, left the company to pursue his career outside of Nokian Tyres. Hannu Liitsola, Managing Director, Central Europe, was appointed interim Head of Business Area, Central Europe.

Ms. Bergman, Mr. Earl, Ms. Antola, Mr. Kangas-Kärki, Mr. Kasi, Ms. Hyvönen, and Mr. Liitsola all report to the President & CEO.

Detailed information on management can be found at www.nokiantyres.com/company/investors/corporate-governance/the-groups-management-team/

SHARES AND SHAREHOLDERS

At the end of December 2018, the number of shares was 138,065,719.

Authorizations

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, or by granting special rights under Chapter 10, Section 1 of the Finnish Limited Liability Companies Act that entitle to shares (including convertible bonds), on one or more occasions. The authorization was effective until the Annual General Meeting of 2018.

In 2017, the Annual General Meeting authorized the Board of Directors to resolve to repurchase a maximum of 5,000,000 shares in the company by using the funds in the unrestricted shareholders' equity. The authorization was effective until the Annual General Meeting of 2018.

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, or by granting special rights under chapter 10, section 1 of the Finnish Limited Liability Companies Act that entitle to shares (including convertible bonds), on one or more occasions. The authorization will be effective until the next Annual General Meeting of Shareholders, however at most until June 30, 2019. This authorization invalidated all other Board authorizations regarding share issues and special rights.

In 2018, the Annual General Meeting authorized the Board of Directors to resolve to repurchase a maximum of 5,000,000 shares in the Company by using funds in the unrestricted shareholders' equity. The authorization will be effective until the next Annual General Meeting of Shareholders, however at most until June 30, 2019.

The Board did not utilize the authorizations in 2018.

Stock options on the Nasdaq Helsinki Stock Exchange

The share subscription period for stock options 2013B ended in May 2018. The total number of stock options 2013B was 1,150,000. Each stock option 2013B entitled its holder to subscribe to one share in Nokian Tyres plc. The shares with the stock options 2013B were subscribed during the period of May 1, 2016 to May 31, 2018.

The total number of stock options 2013C is 1,150,000. Each stock option 2013C entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013C during the period of May 1, 2017 to May 31, 2019. The current share subscription price with stock options 2013C is EUR 19.83/share. The dividends paid are deducted from the share subscription price.

Shares subscribed with option rights

On February 8, 2018, Nokian Tyres announced that after the registrations of new shares on December 21, 2017, a total of 10,370 shares in Nokian Tyres plc had been subscribed with the 2013B option rights and a total of 120 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 137,277,072 shares.

On May 22, 2018, Nokian Tyres announced that after the registrations of new shares on February 8, 2018, a total of 206,882 shares in Nokian Tyres plc had been subscribed with the 2013B option rights and a total of 706 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 137,484,660 shares.

On August 21, 2018, Nokian Tyres announced that after the registrations of new shares on May 22, 2018, a total of 553,277 shares in Nokian Tyres plc had been subscribed with the 2013B option rights and a total of 2,320 shares with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 138,040,257 shares.

On November 13, 2018, Nokian Tyres announced that after the registrations of new shares on August 21, 2018, a total of 25,462 shares in Nokian Tyres plc had been subscribed with the 2013C option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 138,065,719 shares.

Own shares

No share repurchases were made during the review period, and the company did not possess any own shares on December 31, 2018.

Nokian Tyres has an agreement from 2017 with a third-party service provider concerning the share-based incentive program for key personnel. The third party owns Nokian Tyres shares related to the incentive program until the shares are given to the participants of the program. In accordance with IFRS, these repurchased shares, 480,000 in 2017, have been reported as treasury shares in the Consolidated Statement of Financial Position. On December 31, 2018, the number of these shares was 278,083. This number of shares corresponded to 0.2% of the total shares and voting rights in the company.

Trading in shares

A total of 137,669,465 (117,227,947) Nokian Tyres' shares were traded in Nasdaq Helsinki in 2018, representing 100% (85%) of the company's overall share capital. The average daily volume in 2018 was 550,678 shares (467,044). Nokian Tyres' shares are also traded on alternative exchanges, such as BATS CXE, Turquoise, and BATS BXE. The total trading volume on these alternative exchanges was 106,076,128 (83,293,139) shares in 2018.

Nokian Tyres' share price was EUR 26.82 (37.80) at the end of 2018. The volume weighted average share price in 2018 was EUR 33.79 (37.25), the highest was EUR 41.26 (41.95) and the lowest was EUR 26.35 (34.24). The company's market capitalization at the end of 2018 was EUR 3.7 billion (5.2 billion).

At the end of the year, the company had 47,007 (39,028) registered shareholders. The percentage of Finnish shareholders was 28.7% (25.5%), and 71.3% (74.5%) were non-Finnish holders and foreign shareholders registered in the nominee register. Public sector entities owned 6.4% (6.0%), financial and insurance corporations 4.6% (3.2%), households 12.1% (10.6%), non-profit institutions 3.3% (3.2%), and private companies 2.3% (2.4%).

Major shareholders, December 31, 2018 (does not include nominee registrations)

	Number of shares	% of share capital
Varma Mutual Pension Insurance Company	3,772,007	2.7
Ilmarinen Mutual Pension Insurance Company	3,040,088	2.2
The State Pension Fund	1,150,000	0.8
Odin Norden	1,016,559	0.7
Mandatum Life Insurance Company Limited	749,711	0.5
Nordea Bank ABP	660,659	0.5
Nordea	577,366	0.4
Schweizer Nationalbank	530,789	0.4
OP Investment Funds	508,046	0.4
Svenska litteratursällskapet i Finland r.f.	501,470	0.4

Changes in ownership

Nokian Tyres has received notifications from BlackRock, Inc. on January 19, January 25, February 27, March 12, March 23, March 29, April 20, April 25, April 26, May 21, June 18, June 28, August 24, September 13, October 1, October 12, November 5, November 26, November 29, December 6, December 11, and December 12, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, exceeded the level of 5% of the share capital in Nokian Tyres plc as a result of a share transactions concluded on January 18, January 24, February 26, March 9, March 22, March 28, April 19, April 24, April 25, May 16, May 21, June 15, June 27, August 23, September 11, September 28, October 11, November 2, November 23, November 28, December 5, December 10, and December 11.

Nokian Tyres has received notifications from BlackRock, Inc. on January 24, February 20, February 28, March 19, March 26, April 3, April 19, April 24, June 19, June 29, September 5, September 17, October 3, November 6, November 22, November 30, and December 7, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, fell below the level of 5% of the share capital in Nokian Tyres plc as a result of share transactions concluded on January 23, February 19, February 27, March 16, March 23, March 29, April 18, April 23, June

18, June 28, September 4, September 13, October 2, November 5, November 21, November 29, and December 6.

Nokian Tyres has received a notification from Janus Henderson Group plc on July 2, according to which the indirect holding in Nokian Tyres shares reached the level of 5% of the share capital in Nokian Tyres plc as a result of share transactions concluded on June 29.

Nokian Tyres has received a notification from Bridgestone Corporation on November 13, according to which the direct holding in Nokian Tyres shares fell below level of 10% of the share capital in Nokian Tyres plc as a result of share transactions concluded on November 12.

Detailed information on notifications of change in shareholding can be found at www.nokiantyres.com/company/investors/share/flagging-notifications/.

Shareholdings of the Board of Directors, President and CEO, and Management Team on December 31, 2018

Board of Directors	Number of shares
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**

President and CEO	Number of shares	Stock options 2013 2013C
Hille Korhonen, President & CEO	40,308	0

Management Team	Number of shares	Stock options 2013 2013C
Päivi Antola, IR & Corporate Communications	0	0
Tytti Bergman, People & Culture	50	0
Mark Earl, Americas	0	0
Esa Eronen, Supply Chain & Sustainability	16,541	0
Anna Hyvönen, Nordics & Vianor	19,117	0
Teemu Kangas-Kärki, Finance	0	0
Jukka Kasi, Products & Technologies	0	0
Andrei Pantioukhov, Russia & Asia	63,588	0
Manu Salmi, Nokian Heavy Tyres	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
Total	**155,001**	**19,000**

On December 31, 2018, Nokian Tyres' Board members and the President and CEO held a total of 74,918 Nokian Tyres shares. The shares represent 0.05% of the total number of votes. The Board members and the President and CEO did not hold Nokian Tyres' stock options.

Managers' transactions

Nokian Tyres announced managers' transactions on February 20, 2018, on March 22, 2018, on March 27, 2018, on April 16, 2018, on April 18, 2018, on May 15, 2018, on May 22, 2018, on May 31, 2018, on August 23, 2018, and on September 3, 2018. Read more at: www.nokiantyres.com/company/publications/releases/2018/managementTransactions/.

DECISIONS MADE AT THE ANNUAL GENERAL MEETING

On April 10, 2018, the Annual General Meeting of Nokian Tyres approved the Financial Statements for 2017 and discharged the members of the Board of Directors and the President and CEO from liability for the 2017 financial year.

Dividend

The meeting decided that a dividend of EUR 1.56 per share shall be paid for the period ending on December 31, 2017. The dividend payment date was April 25, 2018, and the dividend was paid to shareholders included in the shareholder list maintained by Euroclear Finland Ltd on the record date of April 12, 2018.

Members of the Board of Directors and Auditors

The meeting decided that the Board of Directors has eight members. The current members Heikki Allonen, Raimo Lind, Veronica Lindholm, Inka Mero, George Rietbergen, and Petteri Walldén will continue on the Board of Directors. Mr. Kari Jordan and Mr. Pekka Vauramo were elected as new members of the Board.

Audit firm KPMG Oy Ab continue as auditors.

Remuneration of the Members of the Board of Directors

The meeting decided that the monthly fee paid to the Chairman of the Board shall be EUR 7,500 (or EUR 90,000 per year), the monthly fee paid to the Deputy Chairman of the Board and to the Chairman of the Audit Committee shall be EUR 5,625 (or EUR 67,500 per year), and the monthly fee paid to Members of the Board shall be EUR 3,750 (or EUR 45,000 per year).

50% of the annual fee is to be paid in cash and 50% in company shares, to the effect that during the period from April 11 to April 30, 2018, EUR 45,000 worth of shares in Nokian Tyres plc were purchased at the stock exchange on behalf of the Chairman of the Board, EUR 33,750 worth of shares in Nokian Tyres plc were purchased at the stock exchange on behalf of the Deputy Chairman of the Board and Chairman of the Audit committee, and EUR 22,500 worth of shares were purchased on behalf of each Board Member.

The company is liable to pay any asset transfer tax which may arise from the acquisition of shares. Furthermore, each member of the Board will receive EUR 600 for meetings held in their home country and EUR 1,200 for meetings held outside their home country. If a member participates in a meeting via telephone or video connection, the remuneration will be EUR 600. Travel expenses will be compensated in accordance with the company's travel policy.

Authorizations

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, or by granting special rights under chapter 10, section 1 of the Finnish Limited Liability Companies Act that entitle to shares (including convertible bonds), on one or more occasions. The authorization will be effective until the next Annual General Meeting of Shareholders, however at most until June 30, 2019. This authorization will invalidate all other Board authorizations regarding share issues and special rights.

In 2018, the Annual General Meeting authorized the Board of Directors to resolve to repurchase a maximum of 5,000,000 shares in the Company by using funds in the unrestricted shareholders' equity. The proposed number of shares corresponds to 3.6% of all shares in the Company. The authorization will be effective until the next Annual General Meeting of Shareholders, however at most until June 30, 2019.

BOARD OF DIRECTORS' WORKING ARRANGEMENTS

In the Board meeting on April 10, 2018, Petteri Walldén was elected Chairman of the Board and Kari Jordan was elected Deputy Chairman of the Board. The Board elected Kari Jordan (Chairman), Veronica Lindholm, and Petteri Walldén as members of the Personnel and Remuneration Committee. The Board elected Raimo Lind (Chairman), Heikki Allonen, Inka Mero, and Pekka Vauramo as members of the Audit Committee.

CORPORATE SUSTAINABILITY

In February 2018, Nokian Tyres received a Bronze Class distinction in the Auto Components category of the RobecoSAM Sustainability Yearbook 2018. Nokian Tyres also received the Industry Mover award.

In May 2018, Nokian Tyres joined the Science Based Targets initiative with the aim of setting more precise climate targets that are assessed and approved by an external organization. The new climate goals will be linked to the company's value chain as well as the environmental impacts of its products.

In September 2018, Nokian Tyres was again included in Dow Jones' DJSI World sustainability index. The company was also selected for the more strictly defined DJSI Europe index. In 20 out of the 21 criteria of the 2018 assessment, the company scored higher than the average of the global Auto Components sector.

Nokian Tyres will publish a Corporate Sustainability Report in March 2019.

PERFORMANCE SHARE PLAN: PERFORMANCE PERIOD 2018 AND REALIZATION OF PERFORMANCE PERIOD 2017

On February 2, 2018, Nokian Tyres announced that the potential reward from the performance period 2018 will be based on the Nokian Tyres Group´s net sales and operating profit. The rewards to be paid on the basis of the performance period 2018 correspond to an approximate maximum total of 560,000 shares in Nokian Tyres plc, including also the proportion to be paid in cash. During the performance period 2018, the Plan is directed at approximately 230 key employees, including the members of the Group's Management Team. The potential reward from the performance period 2018 will be paid partly as shares in the Company and partly in cash in 2019. The shares paid as reward may not be transferred during an approximately one-year restriction period established for the shares. For shares paid on the basis of the performance period 2018, the restriction period will end on March 31, 2020.

The rewards paid in 2018, based on the achievement of the performance criteria of the performance period 2017, corresponded to a total of 519,000 shares in Nokian Tyres plc, including also the proportion to be paid in cash. The rewards were paid in March 2018. For the key employees who have joined the Plan during the performance period 2017, including the President and CEO of Nokian Tyres plc and a member of the Group´s Management Team, the rewards were paid in September 2018. The Plan was directed to 201 key employees, including the members of the Group's Management Team. The shares paid as reward may not be transferred during an approximately one-year restriction period established for the shares. For shares paid on the basis of the performance period 2017, the restriction period will end on March 31, 2019. The members of the Group's Management Team must hold 25% of the received gross shares until the member's shareholding in the Company equals the member's fixed gross annual salary.

FINANCIAL TARGETS FOR 2019–2021

On November 12, 2018, Nokian Tyres announced financial targets for 2019–2021. In line with the strategy update earlier in 2018, Nokian Tyres has entered the next phase of growth and is looking for faster growth especially in North America and Central Europe.

Nokian Tyres' new financial targets are:

- Growing faster than the market: CAGR above 5% with comparable currencies
- Healthy profitability: EBIT at the level of 22%
- Good returns for our shareholders: Dividend above 50% of net earnings

The financial targets will guide the company in reaching its six strategic ambitions, which were set in early 2018:

1. We are the market leader in selected segments in the Nordic countries and Russia
2. We increase our sales by 50% in Central Europe in five years
3. We double our sales in North America in five years
4. Our tires are available in all major winter tire markets
5. We increase the EBITDA of Vianor (own) to +3% by the end of 2019
6. We increase the sales of Heavy Tyres by 50% in four years

SIGNIFICANT RISKS AND UNCERTAINTIES, AND ONGOING DISPUTES

Nokian Tyres' business and financial performance may be affected by several uncertainties. 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 risk management process aims to identify and evaluate the risks, and to plan and implement the practical measures for each risk. Nokian Tyres has detailed the overall business risks and risk management in the 2018 Corporate Governance Statement.

For example, the following risks could potentially have an impact on Nokian Tyres' development:

- Nokian Tyres is subject to risks related to consumer confidence and macroeconomic and geopolitical conditions. Political uncertainties may cause serious disruption and additional trade barriers and affect the company's sales and credit risk. Economic downturns may increase trade customers' payment problems and Nokian Tyres may need to recognize impairment of trade receivables.
- The tire wholesale and retail landscape is evolving to meet changing consumer needs. New technologies are fueling this with increasing digitalization. A failure to adapt to the changes in the sales channel could have an adverse effect on Nokian Tyres' financial performance.
- Nokian Tyres' success is dependent on its ability to innovate and develop new products and services that appeal to its customers and consumers. Despite extensive testing of its products, product quality issues and failure to meet demands on performance and safety could harm Nokian Tyres' reputation and have an adverse effect on its financial performance.
- Nokian Tyres' production facilities are located in Finland and Russia. Any unexpected production or delivery breaks at these facilities would have a negative impact on the company's business. A new factory is under construction in the US in order to diversify the manufacturing footprint. Interruptions in logistics could have a significant impact on peak season sales.
- Significant fluctuations in raw material prices may impact margins. Nokian Tyres sources natural rubber from producers in countries such as Indonesia and Malaysia. Although Nokian Tyres has policies such as the Supplier Code of Conduct, and established processes to monitor the working conditions, it cannot fully control the actions of its suppliers. The violation of laws, regulations or standards by raw material producers, or their divergence from practices generally accepted as ethical in the European Union or the international community, could have a material adverse effect on Nokian Tyres' reputation.
- Foreign exchange risk consists of transaction risk and translation risk. The most significant currency risks arise from the Russian ruble, the Swedish and Norwegian krona, and the US and Canadian dollar. Approximately 60% of the Group's sales are generated outside of the euro-zone.
- In May 2017, the Finnish Financial Supervisory Authority filed a request for investigation with the National Bureau of Investigation regarding possible securities market offences. The National Bureau of Investigation has initiated a preliminary investigation into the matter.

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's reputation and product quality. Analyses and projects related to information security, data protection, and customer information were a special focus area.

Tax disputes

Dispute concerning 2007–2011

Administrative Court ruling in the tax dispute case concerning the years 2007–2010 positive for the company

In May 2018, the company received the ruling of the Administrative Court in the tax dispute concerning the years 2007–2010. The Administrative Court overturned the tax reassessment decisions of EUR 89.2 million of the Board of Adjustment completely and ordered the Tax Administration to pay Nokian Tyres' legal costs to the amount of EUR 40,000. The company has recorded the tax reassessment decisions in full to the financial statement and result in earlier years. The company received back the previously paid EUR 89.2 million in additional taxes and interest in June 2018. The Tax Recipient Services Unit applied for permission to appeal in July 2018. Adjustments to the financial reporting will be done when the ruling is final.

Background of the Administrative court ruling:
The Large Taxpayers' Office carried out a transfer pricing tax audit regarding the tax years 2007–2011 during 2012–2013, investigating if the intercompany transactions between Nokian Tyres plc and its subsidiaries were at arm's length. The Company paid a total of EUR 89.2 million in additional taxes and tax increases concerning the tax years 2007–2010 based on tax reassessment decisions from the Tax Administration and filed an appeal concerning them with the Administrative Court in January 2017.

Tax Administration's decision in the appeal concerning the tax year 2011 positive for the company

In June 2018, the company received the reassessment decision from the Tax Administration concerning the tax year 2011. The Tax Administration approved the appeal Nokian Tyres made in November 2017, and the Tax Administration returned the previously paid EUR 59 million in additional taxes and interest to the company in June 2018. The company has recorded the tax reassessment decision in full to the financial statement and result in earlier years. The Tax Recipient Services Unit applied for permission to appeal in July 2018. Adjustments to the financial reporting will be done when the decision is final.

Background of the Tax Administration's decision:
In October 2017, Nokian Tyres received a reassessment decision from the Tax Administration concerning the tax year 2011, according to which the company was obliged to pay a total of EUR 59 million, of which EUR 39 million were additional taxes and EUR 20 million were tax increases and interest. The company recorded the amount in full to the financial statement and result of Q3/2017 and paid it in Q4/2017. The company considered the reassessment decision of the Tax Administration unfounded and appealed to the Board of Adjustment in November 2017.

Dispute concerning the US subsidiary 2007–2013

Nokian Tyres U.S. Finance Oy, a subsidiary of Nokian Tyres plc (ownership: 100% of the shares), received reassessment decisions from the Finnish Tax Administration in 2013 and 2014. According to the reassessment decisions, and with interest until the actual payment in August 2017, the company was obliged to pay a total of EUR 18.5 million in additional taxes, with tax increases and interest concerning the tax years 2007–2013. Of this amount, EUR 11.0 million were additional taxes and EUR 7.5 million were tax increases and interest. The company recorded them in full in the financial statements and results for 2013, 2014, and 2017.

The Large Taxpayers' Office carried out a tax audit concerning the Finnish Business Tax Act, where the Tax Administration raised an issue regarding the restructuring of the sales company and acquisitions by the Nokian Tyres Group in North America, completely ignoring the business rationale and corresponding precedent rulings presented by the company.

Nokian Tyres U.S. Finance Oy considered the reassessment decision of the Tax Administration unfounded and filed a claim for rectification with the Board of Adjustment.

In June 2017, the Board of Adjustment rejected the company's claim for rectification. The company considers the decision unfounded and appealed against it by filing a claim with the Administrative Court in July 2017. The company has paid the amount of EUR 18.5 million in full in August 2017.

NON-FINANCIAL REPORTING STATEMENT

Nokian Tyres is the Nordic pioneer in demanding conditions and the inventor of the winter tire. The company develops and manufactures premium tires for consumers and customers who value safety, sustainability and innovative products. In addition to the Passenger Car Tyres unit, the Group includes Nokian Heavy Tyres, which develops and manufactures tires for trucks and heavy machinery, and Vianor, chain of tire and car service centers. In 2018, the company's net sales were EUR 1.6 billion and it employed on average 4,800 people. Nokian Tyres' share is listed on Nasdaq Helsinki.

The company has factories in Finland and Russia and is currently constructing a new factory in the United States. In 2018, Nokian Tyres' products were sold in 62 countries. The home markets are the Nordic countries and Russia, where the company is the market leader in premium tires. Central Europe and North America are important growth markets for the company.

The risk management policy adopted by Nokian Tyres' Board of Directors supports achieving the company's strategic goals and ensuring business continuity. You can read more about the company's risk management in the Report by the Board of Directors, section Significant Risks and Uncertainties and in the Corporate Governance Statement.

Corporate Sustainability at Nokian Tyres

Nokian Tyres has joined the United Nations Global Compact (UNGC) initiative as a supporting member. The initiative's ten principles cover the areas of Human Rights, Labor, Environment, and Anti-Corruption measures. The purpose of the voluntary initiative is to guide companies in integrating the principles as part of their business.

In May 2018, Nokian Tyres joined the Science Based Targets initiative with the aim of setting more precise climate targets that are assessed and approved by an external organization. The new climate goals will be linked to the company's value chain as well as the environmental impacts of its products.

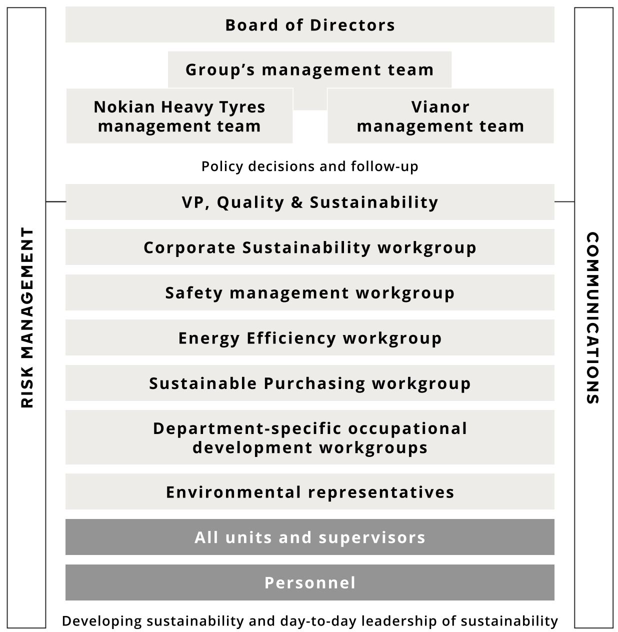
In September 2018, Nokian Tyres was again included in Dow Jones' DJSI World sustainability index. The company was also selected for the more strictly defined DJSI Europe index.

Sustainability management

At Nokian Tyres, sustainability is part of daily work and company culture. The guiding principle in Nokian Tyres sustainability management is continuous improvement, and ambition level is extended to go beyond the minimums required by the law and applicable standards. In sustainability management Nokian Tyres takes into account the entire product lifecycle and all of the business activities.

The company's sustainability activities are led by a member of the Group's management team who is ultimately responsible for meeting the goals of corporate sustainability. All supervisors' duties include day-to-day leadership of sustainability. Ambitions, targets and other key topics are discussed by the Management Team and at least once a year by the Board of Directors.

Leadership and direction of corporate sustainability within the Nokian Tyres group



Five areas of corporate sustainability

Nokian Tyres has divided corporate sustainability into five categories:

1. Our Way to Sustainable Business
2. World on Wheels
3. Economy
4. People
5. Planet

OUR WAY TO SUSTAINABLE BUSINESS

Indicator: All of our major natural rubber processors (at least 80% of our natural rubber purchasing volume) have been audited by 2020.

Nokian Tyres has nine sustainability principles that are connected with the company's strategy and way of working. Three of these principles apply to Our Way to Sustainable Business -section:

Responsible and ethical purchasing policies

As a participant in the UN Global Compact initiative, Nokian Tyres follows the UNGC's ethical principles as well as the company's own principles, which address the issues of responsibility in the supply chain. Furthermore, Nokian Tyres requires all raw material suppliers to adhere to Nokian Tyres' Supplier Code of Conduct, which was revised in 2018. All raw material suppliers must, at a minimum, have an ISO 9001-certified quality management system in place. Nokian Tyres prefers suppliers with an ISO 14001-certified environmental management system. One of the basic raw materials of tires is natural rubber. Nokian Tyres only purchases natural rubber from processors that the company has approved. Nokian Tyres supervises their activities through audits, among other things. In 2018 the company conducted four audits and four follow-up audits.

Risk management and good governance

At Nokian Tyres, Corporate Risk Management (CRM) includes sustainability aspects. Nokian Tyres' business is guided by the ethical principles presented in the Board-approved Code of Conduct, which was revised in 2018. The document specifies the principles for Nokian Tyres' business, instructions for various ethical issues and a procedure for all Group personnel including anti-bribery guidelines. Our employees or their closely associated persons may not offer, accept or otherwise approve of benefits, gifts or hospitality that may have an inappropriate effect on their decision-making at work. Suspected infringements can always be reported internally, or by sending an email to whistleblow@nokiantyres.com or by regular mail.

SUSTAINABILITY MANAGEMENT

VALUES, STRATEGY AND GOALS

Sustainability is a part of our company's culture, strategy, and goals.
We manage our sustainability in five areas.

1. OUR WAY TO SUSTAINABLE BUSINESS
The principles that guide our operations throughout the Group

- Risk management and good governance
- Responsible and ethical purchasing policies
- Human rights in the supply chain

Our Group's business is guided by our Code of Conduct, whistleblowing policy; Environment, Safety and Quality policy; purchasing and communication policy, SDG's, GRI reporting and the UN Global Compact initiative.

AREAS OF OPERATIONAL SUSTAINABILITY MANAGEMENT

2. WORLD ON WHEELS

We develop and manufacture eco-friendly, safe and high-quality tires that reach their destination safely even under demanding conditions.

We emphasize the eco-friendliness of our products.

3. ECONOMY

Through profitable growth, we enable the further development of our operations and ensure financial security, work and well-being for our stakeholders.

We aim for good dividends for our shareholders.

4. PEOPLE

We develop and maintain a company culture that promotes fair and equal treatment, caring and respect.

We guarantee a safe working environment for our employees and partners.

5. PLANET

We ensure that our actions do not harm the environment or people; instead, our objective is promoting well-being in general.

We aim to be among the tire industry pioneers as regards the environmental aspects.

THE ESSENTIAL STANDARDS, GROUP POLICIES AND PROCEDURES IN TERMS OF DEVELOPING OUR OPERATIONS

2. World on Wheels	3. Economy	4. People	5. Planet
Tire/vehicle safety (e.g. type approval tests), EU Tyre Labels, chemical regulation, indoor & outdoor testing to fulfil internal criteria.	Rules of the stock exchange, IFRS codes, good accounting practice, Corporate Governance system, risk management, objective decision making, credits, legal matters.	Safety and well-being, hiring, induction, people reviews, further development of personnel competence, travel, social media, privacy protection.	ISO 14001, environmental protection, control of chemicals, the Responsible Care program.

LOCAL GUIDELINES AND PROCEDURES

In addition to the categories of sustainability at Nokian Tyres, the figure visualizes the essential principles, commitments, and guidelines.

Human rights in supply chain

Through commitment to Code of Conduct, local legislation and external social responsibilities, Nokian Tyres ensures equal opportunities for all employees and promotes fair and equal treatment at each of the company's locations. Nokian Tyres respects the privacy of its personnel, and handles personal data in line with this principle. Employment in Nokian Tyres is based on employment contracts in accordance with the local legislation and any collective agreements. Nokian Tyres respects its employees' right to organize and cooperates with the appointed representatives of trade unions.

WORLD ON WHEELS

Indicator: A decrease in CO_2 emissions from traffic by 500 million kg by reducing the rolling resistance of the product range by 7% from 2013➞2020.

As a tire manufacturer, Nokian Tyres is responsible for the user safety of its products. Our mission is to offer peace of mind in demanding weather conditions. Nokian Tyres has a long experience in developing the safest tires for winter conditions. This expertise is utilized in developing other advanced solutions for the products, for example the rolling resistance of tires (fuel consumption, carbon dioxide emissions) or the ground compression caused by tires in agriculture and forestry.

In 2015, the company set a goal for 2020 to reduce the rolling resistance of Nokian Tyres product range by 7% compared to the 2013 baseline, resulting in a decrease of 500 million kg in CO_2 emissions from traffic during the target period. The company reached this goal well ahead of schedule in 2017. The company made progress in 2018 and has reduced the rolling resistance by 8% in average since 2013.

The proportion of tires that reduce fuel consumption through low rolling resistance was 91% in 2018 (90% in 2017), which translates to an annual decrease of approximately 100 million kg in CO_2 emissions.

Nokian Tyres actively looks for and tests renewable raw materials. For example, in connection with the testing center currently under construction in Spain, the company supports the local university's project that is among the first in Europe to study growing guayule, intended as a replacement for natural rubber.

ECONOMY

Indicator: We aim for profitable financial results and paying good dividends each year.

Financial success and the ability to create value for our stakeholders lay the foundation for Nokian Tyres' financial responsibility. Business must be profitable in order the company to be able to offer work and well-being for its personnel and suppliers, while being a good investment for investors and a good partner for customers and other stakeholders.

In November 2018, Nokian Tyres' Board of Directors decided on new financial targets for 2019–2021. Nokian Tyres' financial targets for 2019–2021 are:

- Growing faster than the market: CAGR above 5% with comparable currencies
- Healthy profitability: EBIT at the level of 22%
- Good returns for our shareholders: Dividend above 50% of net earnings

Nokian Tyres contributes to society and communities through the payment of salaries and taxes. We directly employ around 4,800 people around the world. All of the subcontractors included, Nokian Tyres' role as a job creator becomes even more significant.

PEOPLE

Indicator: Occupational health and safety: 70% improvement in the LTIF accident frequency from 2015➞2020.

The company's principles in all operations are fair treatment and respecting human rights when dealing with its personnel or other stakeholders. This principle of equality and non-discrimination is an essential part of the company's operations, and the management of diversity is based on the concept of equality and equal prerequisites for work. Diversity is important in terms of the company's success, since people with different backgrounds and competencies play a key role in the development of the company as well as new innovative solutions.

Motivated personnel through goal-oriented HR management

Nokian Tyres is an internationally growing business that builds the implementation and management of its strategy on strong corporate culture. Good management and supervisor work support the development of competence, well-being, and equal treatment of the company's motivated and professional staff. Leadership aims at top results based on the Hakkapeliitta culture, which is built around the entrepreneurship, inventiveness and team spirit of the personnel.

Internal job rotation, on-the-job learning, and training solutions are used to support personnel development. Personal People Reviews have a key role in personnel development. The People Reviews focus on managing performance and personal goals and development. In 2018, a total of 82.2% of our personnel took part in a People Review (83.4% in 2017). The personnel satisfaction survey allows the company to actively receive feedback from the personnel concerning areas for improvement. In the survey performed in 2018, 86.2% responded (91.3% in 2017).

The focus areas of Nokian Tyres supervisors' education in 2018 were People Reviews and team development. The new EU regulations on General Data Protection Regulation were implemented and personnel were educated on being aware of the impacts of the new GDPR.

Nokian Tyres has launched several projects to bring a more global approach into the way of working. The company has a pilot project, where the working hours of the pilot groups are more flexible and adjusted to the global way of working in between different time zones. New digital tools are introduced to enable more flexible working conditions. In 2018 we introduced a Group wide HR data system which helps Nokian Tyres to synchronize the life span of an employment relationship with remuneration, global activities as well as Personal Reviews.

Safety culture is developed together

A safe and comfortable working environment is integral for Nokian Tyres operations. Occupational safety is promoted through risk management, continuous improvement of processes, and new investments. The company's goal is to make operations even safer and aim for zero harm target. In 2018, the development of safety culture continued and more than 12,000 safety actions were made. A number of technical improvements were carried out to improve the safety of the operators. However, the main KPI on safety did not improve. The number of lost time injuries occurring in a workplace per 1 million hours worked (LTIF) was 8.3 in 2018 (7.5 in 2017). Safety update is part of every Management Team meeting.

Managing health at work was executed by co-operating closely with occupational health care and by together completing planned improvements. Managing health at work is a part of the supervisor's daily work. In 2018, the positive development continued as long term absences due to illness declined. Well-being at work is supported by, for example, the comprehensive selection of physical exercise we offer for our employees, group activities and personnel events.

Committed and competent personnel together with a safe working environment enable business growth in line with Nokian Tyres strategy.

PLANET

Indicator: We will utilize 100% of our production waste and take no production waste to landfills; Finland 2016, Russia 2020.

At Nokian Tyres, environmental and chemical safety and the coordination of sustainability belong to the Quality and Sustainability department. Its goals are accident prevention in all areas of operations, uninterrupted production, sustainable operations and good corporate citizenship. When developing activities, the company applies best practices and advanced solutions while taking into account human factors and financial circumstances. Nokian Tyres promotes environmental and chemical safety through risk management, continuous improvement of processes, and new investments.

The factories in Finland and Russia and the Swedish sales company Nokian Däck AB are certified pursuant to the international ISO 14001 environmental management system standard and the ISO 9001 quality system standard. The company has held ISO/TS 16949 approval for the automotive industry since 2013.

Nokian Tyres emphasizes eco-friendliness of its products and processes. A lifespan approach is the starting point for environmental protection: the company takes responsibility for the environmental effects of its products throughout their lifespan. The company is a shareholder in Suomen Rengaskierrätys Oy, which centrally manages the collection and reuse of used tires in Finland. In Finland, nearly 100% of decommissioned tires are recycled, and in Europe, the degree of recycling is approximately 94%. In Russia, Nokian Tyres has been actively participating in discussions for improving tire recycling. Together with some other major tire manufacturers, the company has established the Eco tire association in Russia. The association manages tire recycling for actors in the tire industry. The activities started in 2017.

In 2018, the environmental impacts of production were at the level of 2017. In 2018, VOC emissions in relation to production were down approximately 27% compared to previous year, but they are still above the level required by the EC directive. In 2018, special attention was paid to energy efficiency improvement, chemicals safety and sustainability work across different fields of business. While building the US factory and the testing center in Spain, the environmental and chemical safety was taken into account already in the planning phase.

At the production facilities, emphasis remained on reusing waste, and the utilization degree of waste was 100% at the Finnish factory and 88% at the Russian factory. The biomass power plant in Nokia has reduced the use of fossil fuels and increased the use of local energy sources.

MATTERS AFTER THE REVIEW PERIOD

Changes in ownership

Nokian Tyres has received a notification from BlackRock, Inc. on January 7, 2019, and January 11, 2019 according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on January 4, 2019, and January 10, 2019

Nokian Tyres has received notifications from BlackRock, Inc. on January 2, 2019, January 8, 2019, January 22, 2019, and January 29, 2019, according to which the holdings of the mutual funds managed by BlackRock, or indirect holding in Nokian Tyres shares, fell below the level of 5% of the share capital in Nokian Tyres plc as a result of share transactions concluded on December 31, 2018, January 7, 2019, January 21, 2019, and January 28, 2019.

Nokian Tyres has received a notification from Janus Henderson Group plc on January 17, 2019, according of which the indirect holding in Nokian Tyres shares fell below the level of 5% of the share capital in Nokian Tyres plc as a result of share transactions concluded on January 16, 2019.

Detailed information on notifications of change in shareholding can be found at www.nokiantyres.com/company/investors/share/flagging-notifications/.

ASSUMPTIONS FOR 2019

In 2019, the market demand for replacement car tires is expected to increase slightly. The company's replacement tire market position (sell-in) is expected to improve in 2019.

The demand for Nokian Heavy Tyres' core products is estimated to remain healthy.

Vianor (partners) and Nokian Tyres' other branded distribution, such as Nokian Tyres Authorized Dealers (NAD) and the N-Tyre network, will continue to expand.

Raw material costs (€/kg) are estimated to increase slightly in 2019 compared with 2018.

As a result of ongoing investment programs to support Nokian Tyres growth, operating profit in 2019 will include significant additional operating costs compared to the previous year, driven especially by the US factory ramp-up, Heavy Tyres capacity expansion in Finland as well as building the testing center in Spain.

GUIDANCE FOR 2019

In 2019, net sales with comparable currencies are expected to grow and operating profit to be approximately at the level of 2018. In line with Nokian Tyres updated 2018 strategy, the company is targeting further growth in Russia, Central Europe and North America. As a result of ongoing investment programs to support the growth, operating profit in 2019 will include significant additional operating costs.

THE PROPOSAL FOR THE USE OF PROFITS BY BOARD OF DIRECTORS

The distributable funds in the Parent company total EUR 683.0 million.

The Board of Directors proposes to the Annual General Meeting that the distributable funds are to be used as follows:

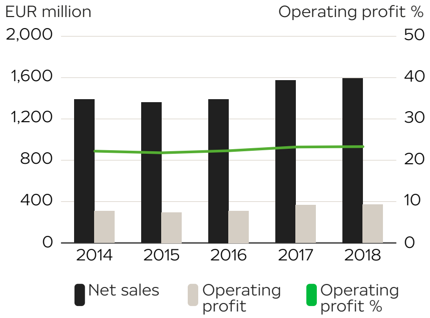
A dividend of	1.58 EUR/share
be paid out, totaling	EUR 218.6 million
retained in equity	EUR 464.4 million
Total	EUR 683.0 million

No material changes have taken place in the financial position of the company since the end of the financial year. The liquidity of the company is good, and the proposed distribution of profits does not compromise the financial standing of the company as perceived by the Board of Directors.

Nokia, February 5, 2019

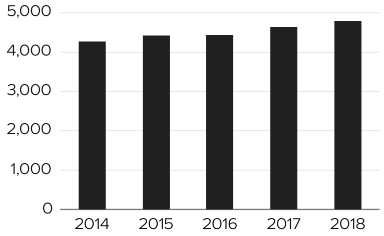
Nokian Tyres plc
Board of Directors

Net sales, operating profit and operating profit %



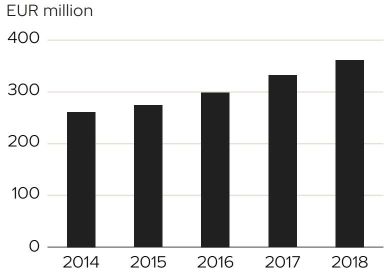
	2014	2015	2016	2017	2018
Net sales, EUR	1,389.1	1,360.1	1,391.2	1,572.5	**1,595.6**
Operating profit, EUR	308.7	296.0	310.5	365.4	**372.4**
Operating profit %	22.2	21.8	22.3	23.2	**23.3**

Average number of personnel



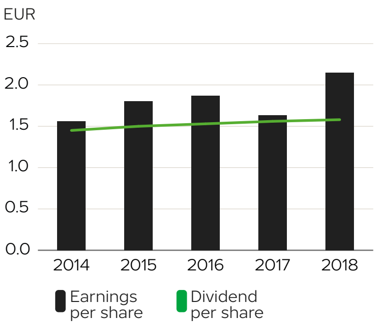
	2014	2015	2016	2017	2018
Persons	4,272	4,421	4,433	4,630	**4,790**

Profit before tax



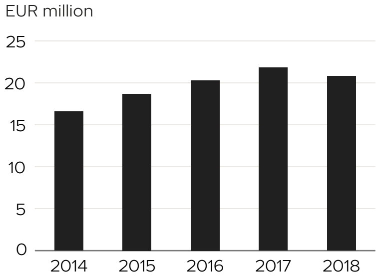
	2014	2015	2016	2017	2018
EUR million	261.2	274.2	298.7	332.4	**361.7**

Earnings per share and dividend per share



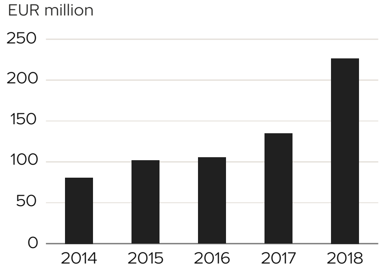
	2014	2015	2016	2017	2018
Earnings per share	1.56	1.8	1.87	1.63	**2.15**
Dividend per share	1.45	1.50	1.53	1.56	**1.58**

R&D expenses



	2014	2015	2016	2017	2018
EUR million	16.6	18.7	20.3	21.8	**20.8**

Gross investments



	2014	2015	2016	2017	2018
EUR million	80.6	101.7	105.6	134.9	**226.5**

Net sales by market area, %

	2017	2018
Nordic countries	40	**39**
Russia	19	**19**
Other Europe	28	**27**
North America	11	**12**
Other Countries	2	**2**

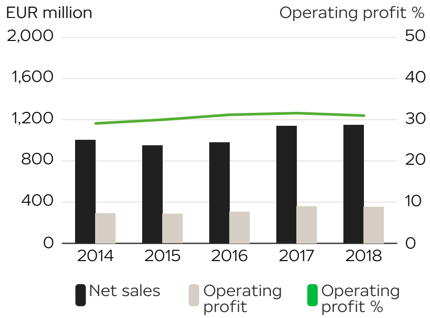
Net sales by business unit*, %

	2017	2018
Passenger Car Tyres	72	**72**
Heavy Tyres	11	**12**
Vianor	22	**21**

* including internal sales

Passenger Car Tyres

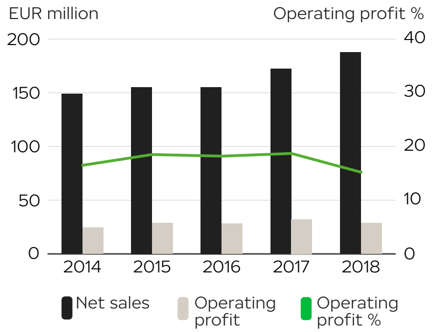
Net sales, Operating profit and Operating profit %



	2014	2015	2016	2017	2018
Net sales, EUR	1,003.2	951.5	981.1	1,138.8	**1,150.8**
Operating profit, EUR	292.2	285.5	305.8	359.9	**356.5**
Operating profit %	29.1	30.0	31.2	31.6	**31.0**

Heavy Tyres

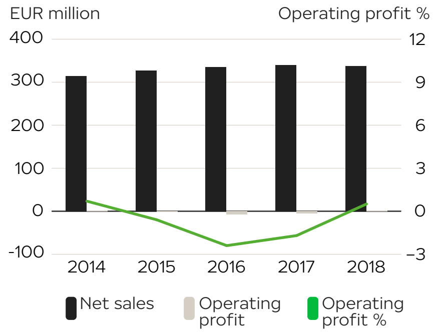
Net sales, Operating profit and Operating profit %



	2014	2015	2016	2017	2018
Net sales, EUR	149.1	155.3	155.3	172.3	**187.7**
Operating profit, EUR	24.6	28.7	28.2	32.2	**28.6**
Operating profit %	16.5	18.5	18.2	18.7	**15.2**

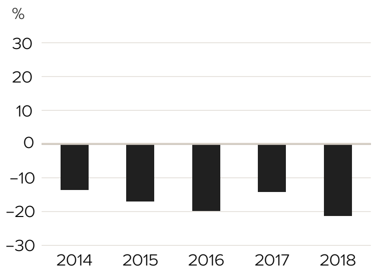
Vianor

Net sales, Operating profit and Operating profit %



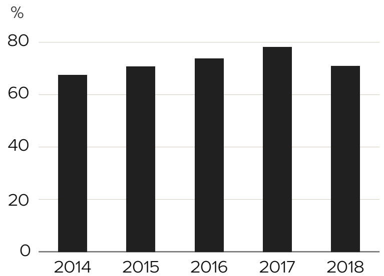
	2014	2015	2016	2017	2018
Net sales, EUR	314.8	327.6	334.8	339.4	**337.2**
Operating profit, EUR	2.1	−1.9	−8.1	−5.8	**1.6**
Operating profit %	0.7	−0.6	−2.4	−1.7	**0.5**

Gearing



	2014	2015	2016	2017	2018
%	−13.6	−16.9	−19.7	−14.2	**−21.2**

Equity ratio



	2014	2015	2016	2017	2018
EUR million	67.5	70.8	73.8	78.2	**71.0**

FINANCIAL STATEMENTS 2018

This report is a translation. The original Finnish is the authoritative version.

CONSOLIDATED INCOME STATEMENT, IFRS

EUR million 31.12.	Notes	2018	2017
Net sales	(1)	**1,595.6**	1,572.5
Cost of sales	(3)(6)(7)	**-865.5**	-838.8
Gross profit		**730.2**	733.7
Other operating income	(4)	**2.5**	5.8
Selling and marketing expenses	(6)(7)	**-286.4**	-294.3
Administration expenses	(6)(7)	**-47.9**	-52.7
Other operating expenses	(5)(6)(7)	**-25.9**	-27.0
Operating profit		**372.4**	365.4
Financial income	(8)	**83.3**	118.3
Financial expenses [1]	(9)	**-94.0**	-151.3
Profit before tax		**361.7**	332.4
Tax expense [2][3]	(10)	**-66.5**	-111.0
Profit for the period		**295.2**	221.4
Attributable to:			
Equity holders of the parent		**295.2**	221.4
Non-controlling interest		**-**	-
Earnings per share (EPS) for the profit attributable to the equity holders of the parent:	(11)		
Basic, euros		**2.15**	1.63
Diluted, euros		**2.14**	1.61

EUR million 31.12.	Notes	2018	2017
CONSOLIDATED OTHER COMPREHENSIVE INCOME			
Result for the period		**295.2**	221.4
Other comprehensive income, items that may be reclassified subsequently to profit and loss, net of tax			
Gains/Losses from hedge of net investment in foreign operations	(10)	**0.0**	0.0
Cash flow hedges	(10)	**1.3**	1.3
Translation differences on foreign operations[4]		**-67.8**	-33.5
		-66.6	-32.2
Total comprehensive income for the period			
		228.7	189.2
Total comprehensive income attributable to:			
Equity holders of the parent		**228.7**	189.2
Non-controlling interest		**-**	-

[1] Financial expenses in 1–12/17 contain EUR 15.2 million expensed interest for tax reassessment decisions on year 2011. Additionally financial expenses 1–12/17 contain EUR 3.1 million expensed interest for tax reassessment decisions on years 2007–2013 of a group company.

[2] Tax expense in 1–12/17 contains EUR 43.7 million expensed back taxes with increases for tax reassessment decisions on year 2011.

[3] Otherwise tax expense in the consolidated income statement is based on the taxable result for the period.

[4] Since the beginning of year 2014 the Group had internal loans that were recognised as net investments in foreign operations in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". The impact in 1–9/17 was EUR 0.2 million and 1–12/17 EUR 0.2 million. These internal loans have been converted to equity in the subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

EUR million 31.12.	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	(12)	**647.3**	554.1
Goodwill	(2)(13)	**83.6**	83.3
Other intangible assets	(13)	**33.6**	35.6
Investments in associates	(15)	**0.1**	0.1
Non-current financial investments [1]	(15)	**0.7**	0.7
Other receivables	(14)(16)	**7.3**	8.9
Deferred tax assets	(17)	**9.3**	9.2
		781.8	691.9
Current assets			
Inventories	(18)	**369.2**	340.1
Trade and other receivables	(19)(27)	**481.3**	489.6
Current tax assets		**13.0**	12.3
Cash and cash equivalents	(20)	**447.5**	343.4
		1,311.0	1,185.4
Total assets	(1)	**2,092.9**	1,877.4

EUR million 31.12.	Notes	2018	2017
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	(21)(22)		
Share capital		**25.4**	25.4
Share premium		**181.4**	181.4
Treasury shares		**−11.4**	−20.3
Translation reserve		**−365.4**	−297.6
Fair value and hedging reserves		**−0.6**	−1.8
Paid-up unrestricted equity reserve		**222.6**	203.9
Retained earnings		**1,434.1**	1,377.4
		1,486.1	1,468.4
Non-controlling interest		**-**	-
Total equity		**1,486.1**	1,468.4
Liabilities			
Non-current liabilities			
Deferred tax liabilities	(17)	**32.5**	30.4
Provisions	(24)	**0.0**	0.1
Interest-bearing financial liabilities	(25)(27)	**6.3**	134.4
Other liabilities		**0.5**	0.4
		39.3	165.3
Current liabilities			
Trade and other payables	(26)	**430.5**	231.5
Current tax liabilities		**6.5**	6.9
Provisions	(24)	**4.4**	4.4
Interest-bearing financial liabilities	(25)(29)	**126.0**	0.8
		567.4	243.6
Total liabilities	(1)	**606.8**	409.0
Total equity and liabilities		**2,092.9**	1,877.4

[1] With the adaption of IFRS 9 the previous term "Available-for-sale financial assets" has been changed to "Non-current financial investments". No other changes regarding the asset class have been made.
Changes in net working capital arising from operative business are partly covered by EUR 350 million domestic commercial paper programme.

CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

EUR million 31.12.	2018	2017
Profit for the period	**295.2**	221.4
Adjustments for		
Depreciation, amortisation and impairment	**93.4**	98.4
Financial income and expenses	**10.7**	33.1
Gains and losses on sale of intangible assets, other changes	**11.8**	5.9
Income Taxes	**66.5**	111.0
Cash flow before changes in working capital	**477.6**	469.8
Changes in working capital		
Current receivables, non-interest-bearing, increase (–) / decrease (+)	**–11.0**	–69.0
Inventories, increase (–) / decrease (+)	**–41.8**	–51.8
Current liabilities, non-interest-bearing, increase (+) / decrease (–)	**185.3**	47.9
Changes in working capital	**132.4**	–72.9
Financial items and taxes		
Interest and other financial items, received	**2.2**	2.6
Interest and other financial items, paid	**–12.4**	–36.5
Dividens received	**0.0**	0.0
Income taxes paid	**–63.0**	–128.9
Financial items and taxes	**–73.2**	–162.7
Cash flow from operating activities (A)	**536.9**	234.1
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	**–226.5**	–134.9
Proceeds from sale of property, plant and equipment and intangible assets	**0.3**	1.7
Acquisitions of Group companies	**–0.9**	–0.3
Change in non-controlling interest	**-**	-
Acquisitions of other investments	**0.0**	0.0
Cash flows from investing activities (B)	**–227.1**	–133.5

EUR million 31.12.	2018	2017
Cash flow from financing activities:		
Proceeds from issue of share capital	**18.7**	35.0
Purchase of treasury shares	**-**	–17.8
Change in current financial receivables, increase (–) / decrease (+)	**–9.0**	–16.2
Change in non-current financial receivables, increase (–) / decrease (+)	**0.5**	0.7
Change in current financial borrowings, increase (+) / decrease (–)	**123.5**	–78.4
Change in non-current financial borrowings, increase (+) / decrease (–)	**–125.1**	11.5
Dividens received	**0.5**	0.1
Dividends paid	**–214.2**	–208.0
Cash flow from financing activities (C)	**–205.1**	–273.1
Change in cash and cash equivalents, increase (+) / decrease (–) (A+B+C)	**104.7**	–172.0
Cash and cash equivalents at the beginning of the period	**343.4**	513.2
Effect of exchange rate fluctuations on cash held	**0.7**	–2.2
Cash and cash equivalents at the end of the period	**447.5**	343.4

Based on the annulled and later renewed tax reassessment decisions on years 2007–2013 of a group company the financial items and taxes contain paid tax increases and interest of EUR 18.5 million in 1–12/17. Changes in working capital include EUR 59.0 million based on the tax reassessment decision on year 2011 and EUR 89.2 million based on the tax reassessment decision on years 2007–2013. Based on the tax reassessment decisions on years 2007–2013 the financial items and taxes contain paid tax increases and interest of EUR 77.5 million in 1–12/17.

Groups financial borrowings were at the beginning of the year 1.1.2018 total EUR 135.2 million and at the end of the year EUR 132.3 million. Changes affecting cash flow were EUR 0.2 million and non-cash changes were EUR –3.0 million.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, IFRS

		Equity attributable to equity holders of the parent								
EUR million	**Notes**	**Share capital**	**Share premium**	**Treasury shares**	**Translation reserve**	**Fair value and hedging reserves**	**Paid-up unrestricted equity reserve**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Equity, 1 Jan 2017		25.4	181.4	−6.7	−264.1	−3.1	168,9	1,356.6	-	1,458.5
Profit for the period								221.4		221.4
Other comprehensive income, net of tax:										
Cash flow hedges						1.3				1.3
Net investment hedge										-
Translation differences					−33,5					−33.5
Total comprehensive income for the period					−33,5	1,3		221,4		189.2
Dividends paid	(22)							−208,0		−208.0
Exercised warrants	(22)						35,0			35.0
Acquisition of treasury shares				−17.8						−17.8
Share-based payments	(23)			4.2				7,4		11.5
Total transactions with owners for the period				−13.6			35,0	−200,6		−179.3
Equity, 31 Dec 2017		25.4	181.4	−20.3	−297.6	−1.8	203.9	1,377.4	-	1,468.4
Equity, 31 Dec 2017		**25.4**	**181.4**	**−20.3**	**−297.6**	**−1.8**	**203.9**	**1,377.4**	**-**	**1,468.4**
Change in accounting principles (IFRS 2)								**6.1**		**6.1**
Change in accounting principles (IFRS 9)								**−9.6**		**−9.6**
Equity, 1 Jan 2018		**25.4**	**181.4**	**−20.3**	**−297.6**	**−1.8**	**203.9**	**1,373.8**	**-**	**1,464.8**
Profit for the period								**295.2**		**295.2**
Other comprehensive income, net of tax:										
Cash flow hedges						**1.3**				**1.3**
Net investment hedge										**-**
Translation differences					**−67.8**					**−67.8**
Total comprehensive income for the period					**−67.8**	**1.3**		**295.2**		**228.7**
Dividends paid	(22)							**−214.2**		**−214.2**
Exercised warrants	(22)						**18.7**			**18.7**
Acquisition of treasury shares										**-**
Share-based payments	(23)			**8.9**				**−20.7**		**−11.8**
Total transactions with owners for the period				**8.9**			**18.7**	**−234.9**		**−207.3**
Equity, 31 Dec 2018		**25.4**	**181.4**	**−11.4**	**−365.4**	**−0.6**	**222.6**	**1,434.2**	**-**	**1,486.1**

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information

Nokian Tyres Plc is a Finnish public corporation founded in accordance with the Finnish laws and domiciled in the city of Nokia. The shares of Nokian Tyres Plc have been quoted on the Nasdaq Helsinki Oy since 1995.

Nokian Tyres Group develops and manufactures summer and winter tyres for passenger cars and vans, and special tyres for heavy machinery. The Group also manufactures retreading materials and retreads tyres. The largest and most extensive tyre retail chain in the Nordic countries, Vianor, is also a part of the Group. The core business areas in the Group are Passenger Car Tyres, Heavy Tyres and Vianor.

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards and in compliance with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on 31 December 2018. International Financial Reporting Standards refer to the standards and related interpretations to be applied within the Community as provided in the Finnish Accounting Act and the provisions issued on the basis of this Act, and in accordance with the procedure laid down in Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. Notes to the consolidated financial statements also comply with the Finnish accounting and corporate laws.

The information in the financial statements is presented in millions of euro and is prepared under the historical cost convention except as disclosed in the following accounting policies.

Revised standards and interpretations

The Group has adopted new and revised standards and interpretations enforced in the EU during the period. The changes had no material impact on the result, the financial position or the other information presented in the financial statements of the Group for the period.

IFRS are under constant development. Other new standards, interpretations or their amendments have also been published but they are not yet in force and the Group will not apply them before they are enforced. The Group will adopt each standard and interpretation on the effective date or from the beginning of the following financial period.

■ IFRS 2 - Share-based Payments

The Group adopted IFRS 2 – Share-based Payments standard on January 1, 2018.

The amendment concerns incentive schemes with net settlement features to cover withholding tax obligations and where the employer has an obligation to withhold tax from the received benefit on the share-based payment. The previous standard requires the entity to divide the payment in to equity-settled component and a cash-settled component. According to the new standard, all compensation costs will be recognized based on the entire scheme being an equity-settled payment. The withholding tax paid by the Group is recognized directly in equity.

The Group's financial statements 2017 included a EUR 6.1 million short-term liability relating to cash-settled component. Due to the amendment, this portion has been adjusted in the opening balance sheet from the liabilities to equity's retained earnings.

■ IFRS 9 – Financial Instruments

The Group adopted IFRS 9 – Financial Instruments standard on January 1, 2018. The new standard replaced the IAS 39 – Financial Instruments: Recognition and Measurement standard and related interpretations. IFRS 9 includes renewed guidance on the classification and measurement of financial instruments, the recognition of expected credit losses, and the application of hedge accounting.

The Group recognized the difference of the expected credit losses (IFRS 9) and incurred credit losses (IAS 39) of EUR –9.6 million as an adjustment to trade receivables and retained earnings at the date of initial application of IFRS 9, on January 1, 2018.

The following table on the next page show the measurement categories and carrying amounts of the financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 at the date of initial application of the new standard, on 1 January 2018.

■ IFRS 15 – Revenue from Contracts with Customers

In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The impacts of IFRS 15 on Nokian Tyres' consolidated financial statements have been assessed as follows:

Key concepts of IFRS 15 have been analysed for different revenue streams and based on that a preliminary survey has been conducted on the standard and its differences to the current reporting practices, and possible needs for adjustments. The Group business activity primarily comprises of the trade in consumer discretionary with conventional customer contracts, payment and other terms, involving traditional delivery chains in diverse lengths. Rebates and other variable considerations are tracked while defining the transaction price. Sale of services and goods form separate performance obligations. For the time being services generate only a minor share of the net sales.

According to the performed surveys the expected impacts in the Group are limited with the current business operations. Any possible adjustment needs to contracts and thresholds for revenue recognition are minimal. In the future as the share of the service business and complexity within is expected to increase the Group will emphasize system development and contract management in relation to revenue recognition. The renewed instruction on agent/principal was assessed not to change present handling of the commissions payable to distributors.

The Group has implemented the standard fully retrospectively with no special relieves applied.

CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Million euros	Measurement category Original under IAS 39	New under IFRS 9	1 Jan 2018 Carrying amount Original under IAS 39	New under IFRS 9	Difference
Financial assets					
Derivatives held for trading	Financial assets at fair value through profit or loss	Fair value through profit or loss	9.5	9.5	-
Derivatives designated as hedges	Financial assets at fair value through profit or loss*	Fair value through profit or loss*	12.8	12.8	-
Money market instruments	Financial assets at fair value through profit or loss	Amortized cost	30.0	30.0	-
Other non-current receivables	Loans and receivables	Amortized cost	8.9	8.9	-
Trade and other receivables	Loans and receivables	Amortized cost	433.4	423.8	–9.6
Bank deposits	Loans and receivables	Amortized cost	14.4	14.4	-
Cash in hand and at bank	Loans and receivables	Amortized cost	299.1	299.1	-
Unquoted shares	Available-for-sale financial assets	Fair value through other comprehensive income	0.7	0.7	-
Total financial assets			808.8	799.2	–9.6
Financial liabilities					
Derivatives held for trading	Financial liabilities at fair value through profit or loss	Fair value through profit or loss	1.2	1.2	-
Derivatives designated as hedges	Financial liabilities at fair value through profit or loss*	Fair value through profit or loss*	3.2	3.2	-
Interest-bearing financial liabilities	Financial liabilities measured at amortized cost	Amortized cost	135.2	135.2	-
Trade and other payables	Financial liabilities measured at amortized cost	Amortized cost	72.8	72.8	-
Total financial liabilities			212.4	212.4	-

* Fair value changes are recognised according to the hedge accounting standards for hedging relationships.

IFRS 16 – Leases
The Group has assessed the impact of the standard, and estimates that the new standard will have some impact on the future financial statements of the Group.

The standard will primarily affect the accounting for the Group's operating leases. At the reporting date, the Group has non-cancellable operating lease commitments of EUR 159.3 million. This amount includes payments for short-term and low value leases which will be recognized on a straight-line basis as an expense in profit and loss. However, the Group has assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is not yet possible to precisely estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date is for financial years commencing on or after 1 January 2019. The Group have not adopted the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group estimates that the other published improvements or amendments will not have a material impact on the result, financial position or other disclosures of the future financial statements of the Group.

Use of estimates

The preparation of financial statements in compliance with IFRS requires the use of estimates and assumptions that affect the amount of assets and liabilities shown in the statement of financial position at the time of preparation, the presentation of contingent assets and liabilities in the financial statements, and the amount of revenues and expenses during the reporting period. Estimates have been used e.g. to determine the amount of items reported in the financial statements, to measure assets, to test goodwill and other assets for impairment, and for the future use of deferred tax assets. Since the estimates are based on the best current assessments of the management, the final figures may deviate from those used in the financial statements.

Key sources of estimation uncertainty still relate to the country risk in the Russian business environment. Though the positive development in global economy is expected to continue in 2019, political uncertainties could cause serious disruption and additional trade barriers, and affect the company's sales and credit risk. Brexit, as such, has practically no effect on Nokian Tyres' business. Other sources of uncertainty relate to the challenging pricing environment of tyres in line with price development of raw materials.

Principles of consolidation

The consolidated financial statements include the financial statements of the parent company Nokian Tyres Plc as well as all subsidiaries in which the Parent company owns, directly or indirectly, more than 50% of the voting rights or in which the Parent company otherwise exercises control. Control exists when the Group through participation in an investee is exposed or entitled to its variable returns and is able to affect the returns through exercising power over the investee.

Associated companies in which the Group has 20 to 50% of the voting rights and in which it exercises significant influence but not control, have been consolidated using the equity method. If the Group's share of the associated company's losses exceeds its holding in the associated company, the carrying amount will be recorded in the balance sheet at nil value and losses in excess of that value will be ignored unless the Group has obligations towards the associated companies. Investments in associates include the carrying amount of the investment in an associated company according to the equity method, and possible other non-current investments in the associated company, which are, in substance, part of a net investment in the associated company.

A joint arrangement refers to a contractual undertaking, in which the Group has agreed to share control over material financial and business principles with one or more parties. A joint arrangement is either a joint operation or a joint venture. In a joint venture the Group holds rights to the net assets of the arrangement whereas in a joint operation the Group holds rights to the assets and carries obligations on the liabilities of the arrangement. Nokianvirran Energia Oy is a joint operation as the parties share control according to a specific Mankala-principle where the company is not intended to make profit while the parties have agreed to utilize the total output. Nokianvirran Energia Oy is accounted for as a Group company using the proportionate consolidation method on each row according to the 32.3% shareholding.

Acquired subsidiaries have been consolidated using the acquisition method, according to which the acquired company's assets and liabilities are measured at fair value on the date of acquisition. The cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Acquisition-related costs, except for the costs to issue debt or equity securities, are expensed. Possible contingent consideration is measured at fair value on the date of acquisition and is classified as a liability. Contingent consideration classified as a liability is measured at fair value on each reporting date and the following gain or loss is recognized in the income statement. Under IFRS goodwill is not amortised but is tested annually for impairment. Subsidiaries acquired during the financial year have been consolidated from the acquisition date and those divested until the divestment date.

All internal transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated while preparing the consolidated financial statements.

Profit for the period is attributed to the owners of the Parent company and to the non-controlling interests. Moreover, non-controlling interests are disclosed as a separate item under the consolidated equity.

Foreign currency items

Transactions in foreign currencies have been recorded at the exchange rates effective on the transaction date. In the statement of financial position all items in foreign currencies unsettled on the reporting date are measured at the European Central Bank's closing exchange rate. The quotations of the relevant central bank are applied if the European Central Bank does not quote a specific currency. Foreign exchange gains and losses related to business operations and financing activities have been recorded under financial income and expenses.

Foreign Group companies

The statements of financial position of foreign subsidiaries have been translated into euro using the European Central Bank's closing rates, and the income statements monthly using the average rate for the period. Translation differences arising from the subsidiaries' income statements and statements of financial position have been recorded under other comprehensive income and in the translation reserve within equity as a separate item. Translation differences arising from the elimination of foreign company acquisition cost and from the profits and losses incurred after the acquisition have been recorded under other comprehensive income as a separate item and in the translation reserve within equity. If settlement of a loan to a foreign operation is neither planned nor likely to occur in the fore-seeable future, then the loan is considered as a net investment in a foreign operation and the foreign exchange gains and losses arising on the item are recognized in other comprehensive income and accumulated in the translation reserve in equity.

When a subsidiary is divested fully or in part, the related accumulated translation differences are brought from equity to the income statement and entered as a gain or loss on the sale.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and other current investments, such as commercial papers and bank deposits.

Financial assets and liabilities

Classification of financial instruments

When recognizing a financial asset in its statement of financial position the Group classifies it into one of the following measurement categories:

- Amortized cost
- Fair value through other comprehensive income
- Fair value through profit or loss

These categories apply to subsequent measurement and profit or loss recognition. The classification is based on the business model for managing the asset and the contractual cash flow characteristics of the asset.

A financial asset is classified as subsequently measured at amortized cost when the objective is to hold financial assets to collect contractual cash flows that are payments of principal and interest on the principal amount outstanding. In the Group in principle this measurement category includes trade receivables, loan receivables and cash and cash equivalents including liquid short-term investments in money market instruments.

A debt instrument in the financial assets is classified as subsequently measured at fair value through other comprehensive income when the objective is to both hold the financial assets to collect contractual cash flows that are payments of principal and interest on the principal amount outstanding and sell the financial assets.

If there are other business objectives for the holding of a financial asset than the foresaid, it is classified as subsequently measured at fair value through profit or loss. The Group's derivative assets are included in this category. However, when recognizing an investment in an equity instrument in its statement of financial position the Group may make an irrevocable election to present subsequent changes in fair value in other comprehensive income. The election is made on an instrument-by-instrument basis. The Group typically designates investments in quoted and unquoted shares that are not held for trading as at fair value through other comprehensive income.

The measurement category of a financial liability is either at amortized cost or at fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is held-for-trading, is a derivative or is specifically designated as such. Other financial liabilities are subsequently measured at amortized cost. The financial liabilities of the Group are classified as measured at amortized cost except for derivative liabilities.

Measurement of financial instruments

At initial recognition all financial assets and liabilities are measured at its fair value taking into account any transaction costs and in the statement of financial position they are included in current or non-current assets or liabilities depending on the maturity of the item. Financial assets and financial liabilities are subsequently measured at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss in accordance with the measurement category of the item.

Impairment of financial assets

At each reporting date the Group recognizes a loss allowance for expected credit losses on a financial asset that is not measured at fair value through profit or loss. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. When measuring expected credit losses the Group reviews actual credit losses, current conditions and forecasts of future economic conditions.

For trade receivables the Group follows the simplified approach whereby the impairment recognized in trade receivables corresponds to lifetime expected credit losses for trade receivables.

Derivative financial instruments and hedge accounting

The Group may hold derivative financial instruments to hedge its interest rate, foreign currency and commodity price risk exposures. Derivatives are recognized initially at fair value and subsequently measured at fair value. Publicly quoted market prices and rates, as well as generally used measurement models, are used to define the fair value of derivatives. The data and assumptions used in the measurement models are based on verifiable market prices and values.

Fair value changes of derivatives are recognized in profit or loss unless the derivative is part of a hedging relationship when fair value changes are recognized according to the hedge accounting standards for hedging relationships.

In general, hedge accounting is not applied to the derivatives used to hedge cash flows from the Group's business operations in foreign currencies.

Hedge accounting can be used to reduce the volatility in the income statement caused by the items measured at fair value through profit or loss. Hedge accounting eliminates the accounting asymmetry between the hedging instrument and the hedged item as it enables the foresaid to affect the income statement simultaneously. The Group may designate derivative financial instruments as hedging instruments to hedge the variability in cash flows that is attributable to changes in foreign exchange rates, interest rates and electricity prices. In addition, the Group may, if necessary, designate derivative financial instruments and other financial instruments as hedging instruments in hedges of foreign exchange risk on a net investment in a foreign operation.

At the inception of hedge accounting for a hedging relationship the Group designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes an assessment whether the hedge effectiveness requirements are met in the hedging relationship. The Group aims to use hedging instruments that create no ineffective portion.

Cash flow hedges

In cash flow hedges the effective portion of changes in the fair value of the hedging instrument is recognized in other comprehensive income and accumulated in the cash flow hedge reserve in equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The amount accumulated in the cash flow hedge reserve is reclassified to profit or loss as the hedged item affects profit or loss.

The Group applies hedge accounting to interest rate swaps by which floating rate borrowings have been converted into fixed rate borrowings and interest rate and currency swaps where foreign currency floating rate loan receivables have been converted into functional currency floating rate loan receivables. The gains or losses related to both the effective and ineffective portion of the hedge are presented in profit or loss within financial items.

The price risk of the Group's forecast electricity purchases in Finland is hedged with electricity derivatives to which hedge accounting is applied. The Group may hedge separately the two components of electricity price risk, the system price and the area price difference, or a combination of these components. The gain or loss related to the effective portion of the hedge is presented in profit or loss within cost of sales. The ineffective portion is recognized in profit or loss within other operating income or expenses.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of changes in the fair value of the hedging instrument is recognized in other comprehensive income and accumulated in the translation reserve in equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The amount accumulated in the translation reserve is reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

The Group does not currently have hedges of a net investment in a foreign operation.

Income recognition

Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. Rebates and other variable considerations are tracked while defining the transaction price. Sale of services and goods form separate performance obligations.

Research and development costs

Research costs are recorded as other operating expenses for the financial period in which they incurred. Development costs are capitalised once certain criteria associated with commercial and technical feasibility have been met. Capitalised development costs primarily comprising materials, supplies and direct labour costs, as well as related overheads, are amortised systematically over their expected useful life. The amortisation period is 3–5 years.

Government grants

Grants received from governments or other parties are recognised adjustments to related expenses in the income statement for the period. Grants received for the acquisition of property, plant and equipment reduce the acquisition cost.

Operating profit

The Group has defined operating profit as follows: operating profit is the net sum of net sales plus other operating income less cost of sales, selling and marketing expenses, administration expenses and other operating expenses. Operating profit does not include exchange rate gains or losses.

Borrowing costs

The borrowing costs of items included in property, plant and equipment or other intangible assets, and requiring a substantial construction period, are capitalised for the period needed to produce the investment for the intended purpose. Other borrowing costs are recognised as expenses for the period in which they incurred.

Income taxes

The tax expense of the Group include taxes based on the profit or loss for the period or dividend distribution of the Group companies, as well as change in deferred tax, and adjustment of taxes from prior periods. The penalty interests on those are recorded as financial expenses. The tax impact of items recorded directly in equity or other comprehensive income is correspondingly recognised directly in equity or in other comprehensive income. The share of associated companies' profit or loss is shown in the income statement calculated from the net result, and thereby includes the impact of taxes. Deferred taxes are measured with tax rates enacted by the reporting date, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The most significant temporary differences arise from the amortisation and depreciation differences of intangible assets and property, plant and equipment, measuring the net assets of business combinations at fair value, measuring available-for-sale financial assets and hedging instruments at fair value, internal profits in inventory and other provisions, appropriations and unused tax losses. Deferred tax liabilities will also be recognised from the subsidiaries' non-distributed retained earnings if profit distribution is likely and will result in tax consequences. Deferred tax assets relating to the temporary differences is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised before expiration. Deferred taxes are not recorded on goodwill that is not deductible for tax purposes.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to the equity holders of the parent for the period by the weighted average number of shares outstanding during the period. The average number of treasury shares has been deducted from the number of shares outstanding.

For the calculation of the diluted earnings per share the diluting impact of all potentially diluting share conversions have been taken into account. The Group has share options and previously also convertible bonds as diluting instruments. The dilution of share options has been computed using the treasury stock method. In dilution, the denominator includes the shares obtained through the assumed conversion of the options, and the repurchase of treasury shares at the average market price during the period with the funds generated by the conversion. The assumed conversion of options is not taken into account for the calculation of earnings per share if the effective share subscription price defined for the options exceeds the average market price for the period. The convertible bonds are assumed to have been traded for company shares after the issue.

Property, plant and equipment

The values of property, plant and equipment acquired by the Group companies are based on their costs. The assets of acquired subsidiaries are measured at fair value on the date of acquisition. Depreciation is calculated on a straight-line basis from the original acquisition cost, based on the expected useful life. Depreciation includes any impairment losses.

In the statement of financial position, property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The borrowing costs of items included in property, plant and equipment, and requiring a substantial construction period, are capitalised for the period needed to produce the investment for the intended purpose. Other borrowing costs are recognised as expenses in the period they incurred.

Depreciation is based on the following expected useful lives:

Buildings	20–40 years
Machinery and equipment	4–20 years
Other tangible assets	10–40 years

Land is not depreciated.

The expected useful lives are reviewed at each reporting date, and if they differ materially from previous estimates, the depreciation schedules are changed accordingly.

Regular maintenance and repair costs are recognised as expenses for period. Expenses incurred from significant modernisation or improvement projects are recorded in the statement of financial position if the company gains future economic benefits in excess of the originally assessed standard of performance of the existing asset. Modernisation and improvement projects are depreciated on a straight-line basis over their useful lives. Gains and losses from the divestment and disposal of property, plant and equipment are determined as the difference of the net disposal proceeds and the carrying amounts. Sales gains and losses are included in operating profit in the income statement.

Goodwill and other intangible assets

Goodwill arising from business combinations is recognised as the amount by which the aggregate of the transferred consideration, any non-controlling interest in the acquiree and any previously held interest exceeds the fair value of the net assets acquired. Goodwill is not amortised but is tested for impairment annually and whenever an indication of possible impairment exists.

Other intangible assets include customer relationships, capitalised development costs, patents, copyrights, licences and software. Intangible rights acquired in business combinations are measured at fair value and amortised on a straight-line basis over their useful lives. Other intangible assets are measured at cost and amortised on a straight-line basis over their useful lives. An intangible asset is only recorded in the statement of financial position if it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and cost can be measured reliably. Subsequent expenses related to the assets are only recorded in the statement of financial position if the company gains future economic benefits in excess of the originally assessed standard of performance of the existing asset; otherwise, costs are recognised as expenses at the time of occurrence.

In the statement of financial position, intangible assets are recorded at cost less accumulated amortisation and impairment losses. The borrowing costs of items included in other intangible assets, and requiring a substantial construction period, are capitalised for the period needed to produce the investment for the intended purpose. Other borrowing costs are recognised as expenses in the period they incurred. The amortisation schedule for intangible assets is 3–10 years.

Impairment

At reporting date the Group shall assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset in question is estimated. Goodwill and intangible assets not yet available for use are tested for impairment at least annually. To assess impairment, the Group's assets are allocated to cash-generating units on the smallest group that is largely independent of other units and the cash flows of which can be separated.

The recoverable amount is the higher of fair value of the asset less costs to sell and a value in use. As a rule, value in use is based on the discounted future cash flows that the corresponding asset or the cash-generating unit can derive. The impairment recognised in the income statement is the amount by which the carrying amount of the asset exceeds the corresponding recoverable amount, and in the statement of financial position it is allocated first to reduce the carrying amount of any goodwill of the unit and then pro rata against the other assets. An impairment loss recognised in prior periods will be reversed if the estimates used to determine the recoverable amount change. However, a reversal of impairment loss shall not exceed the carrying amount that would have been determined in the statement of financial position without the recognised impairment loss in prior periods. Impairment loss on goodwill is not reversed under any circumstances.

Leasing agreements

Leasing agreements are classified as either finance leases or operating leases. Leasing agreements by which the risks and benefits associated with the ownership of an asset are substantially transferred to the lessee company represent finance leases.

The Group as a lessee

Assets held under finance leases, less depreciation, are included in intangible assets and property, plant and equipment and the obligations resulting from the lease in financial liabilities. Lease payments resulting from finance leases are apportioned between finance charges and the reduction of the outstanding liability. Charges paid under operating leases are recognized as expenses in the income statement.

Finance leases have been recorded in the statement of financial position in the amount equaling the fair value of the leased property or, if lower, present value of minimum lease payments, each determined at the inception of the lease. The assets are depreciated consistent with assets that are owned and any impairment losses are recorded. Depreciation is carried out over the useful life or a shorter lease term.

The Group as a lessor

Assets held under finance leases have been recorded in the statement of financial position as receivables at amount equal to the net investment in the lease. Lease income resulting from finance leases are recorded in the income statement with constant periodic rate of return on the lessor's net investment in the finance lease. Assets held under leases other than finance leases are included in intangible assets and property, plant and equipment in the statement of financial position. These are depreciated over their useful lives, consistent with assets in the company's own use. Lease income is recorded in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are measured at the lower of cost or the net realisable value. Cost is primarily determined in accordance with standard cost accounting, which corresponds to the cost calculated in accordance with the FIFO (first-in, first-out) method. The cost of finished goods and work in progress includes raw material purchase costs, direct manufacturing wages, other direct manufacturing costs, and a share of production overheads, borrowing costs excluded. Net realisable value is the estimated sales price in ordinary activities less the costs associated with the completion of the product and the estimated necessary costs incurred to make the sale of the product.

Trade receivables

Trade receivables in the statement of financial position are carried at the original invoice value (and those in foreign currencies are measured at the closing rate of the European Central Bank) less a loss allowance for expected credit losses and credits for returned goods.

Dividend

The dividend proposed by the Board of Directors at the Annual General Meeting has not been recognised in the financial statements. Dividends are only accounted for on the basis of the decision of the Annual General Meeting.

Equity

The acquisition cost of treasury shares repurchased by the Group is recognised as a deduction in equity. The consideration received for the treasury shares when sold, net of transaction costs and tax, is included in equity.

Provisions

A provision is entered into the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions may be related to the reorganisation of activities, unprofitable agreements, environmental obligations, trials and tax risks. Warranty provisions include the cost of product replacement during the warranty period. Provisions constitute best estimates at the balance sheet date and are based on past experience of the level of warranty expenses.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by realization of an uncertain future event not totally controllable by the Group. A contingent liability is also defined as a present obligation that probably will not require the settlement of the obligation, or cannot be measured reliably. A contingent liability is disclosed in the notes to the consolidated financial statements.

Correspondingly, a contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by realization of an uncertain future event not totally controllable by the Group. In case an inflow of economic benefits is probable, a contingent asset is disclosed in the notes to the consolidated financial statements.

Employee benefits

Pension liabilities

The Group companies have several pension schemes in different countries based on local conditions and practices. These pension arrangements are classified as either defined contribution plans or defined benefit plans. Payments for defined contribution plans are recorded as expenses in the income statement for the period they relate to. All of the material pension arrangements in the Group are defined contribution plans.

Share-based payments

Share options are measured at fair value on the grant date and expensed on a straight-line basis over the vesting period. Corresponding amounts are recorded as an increase in equity. The expense determined on the grant date is based on the Group's estimate of the number of options that are assumed to vest at the end of the vesting period. The Black & Scholes' option pricing model is used to determine the fair value of options. The impact of non-market-based conditions (such as profitability and a certain profit growth target) is not included in the fair value of the option; instead, it is taken into account in the final number of options that are assumed to vest at the end of the vesting period. The Group updates the assumption of the final number on each reporting date. Changes in the estimates are recognised in the income statement.

When options are exercised, the payments received on the basis of share subscriptions (adjusted with any transaction costs) are recorded in paid-up unrestricted equity reserve.

Performance shares are measured at fair value on the grant date and are expensed on a straight-line basis over the vesting period. The equity-settled amounts are recorded as an increase in equity. The expense determined on the grant date is based on the Group's estimate of the number of shares that are assumed to vest at the end of the vesting period. The impact of non-market-based conditions (such as net sales and operating profit) is not included in the fair value of the share; instead, it is taken into account in the final number of shares that are assumed to vest at the end of the vesting period. The Group updates the assumption of the final number on each reporting date. The fair values of cash-settled amounts are similarly updated on each reporting date and recorded as in equity. Changes in the estimates of both the equity and cash-settled amounts are recognised in the income statement.

Other option and incentive schemes

No other option and incentive schemes were in use during 2018.

Non-current assets held for sale and discontinued operations

A non-current asset, or a group of disposable items, is classified as being held for sale if the amount corresponding to its carrying amount will primarily be generated from the sale of the asset instead of being generated from the continued use of the asset. Non-current assets held for sale, and assets related to discontinued operations, are measured at their carrying amounts, or the lower fair value less costs to sell, if the amount corresponding to its carrying amount will primarily be generated from the sale of the asset and if the sales transaction is most likely to take place.

A discontinued operation is a part of the entity that has been divested or classified as being held for sale and represents a separate core business area or a geographic operating area.

The Group's financial statements for 2018 and 2017 do not include any non-current assets held for sale or any discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENT INFORMATION

The Group's management team is the chief operating decision maker. The segment information is presented in respect of the business and geographical segments. Business segments are based on the internal organization and financial reporting structure.

The business segments comprise of entities with assets and operating activities providing products and services. The segments are managed as separate entities.

Pricing of inter-segment transactions is based on current market prices and the terms of evaluating profitability and resources allocated to segments are based on profit before interests and taxes.

Segment assets and liabilities include items directly attributable to a segment and items that can be allocated on a reasonable basis. The unallocated items contain tax and financial items together with joint Group resource items. Capital expenditure comprises of additions to intangible assets and property, plant and equipment used in more than one period.

Operating segments

2018 EUR million	Passenger Car Tyres	Heavy Tyres	Vianor	Other operations	Eliminations	Group
Net sales from external customers	1,090.1	159.1	336.5	9.9	0.0	1,595.6
Services			86.6			86.6
Sales of goods	1,090.1	159.1	250.0	9.9	0.0	1,509.0
Inter-segment net sales	60.7	28.7	0.7	0.6	-90.6	
Net sales	1,150.8	187.7	337.2	10.5	-90.6	1,595.6
Operating result	356.5	28.6	1.6	-13.3	-1.0	372.4
% of net sales	31.0%	15.2%	0.5%	-126.7%		23.3%
Financial income and expenses						-10.7
Profit before tax						361.7
Tax expense						-66.5
Profit for the period						295.2
Assets	1,275.7	143.0	161.2	21.0	-14.3	1,586.6
Unallocated assets						506.3
Total assets						2,092.9
Liabilities	184.6	38.0	51.4	0.7	-12.2	262.5
Unallocated liabilities						344.3
Total liabilities						606.8
Capital expenditure	201.5	17.9	6.2	0.9	0.0	226.5
Depreciation and amortisation	74.3	9.7	8.5	0.9	0.0	93.4
Other non-cash expenses	10.2	1.5	1.2	-0.5	0.0	12.5

2017 EUR million	Passenger Car Tyres	Heavy Tyres	Vianor	Other operations	Eliminations	Group
Net sales from external customers	1,076.6	146.6	338.6	10.6	0.0	1,572.5
Services			118.5			118.5
Sales of goods	1,076.6	146.6	220.1	10.6	0.0	1,453.9
Inter-segment net sales	62.3	25.7	0.7	0.6	-89.3	
Net sales	1,138.8	172.3	339.4	11.2	-89.3	1,572.5
Operating result	359.9	32.2	-5.8	-23.7	2.8	365.4
% of net sales	31.6%	18.7%	-1.7%	-210.8%		23.2%
Financial income and expenses						-33.0
Profit before tax						332.4
Tax expense						-111.0
Profit for the period						221.4
Assets	1,166.3	134.6	163.3	21.4	-7.4	1,478.3
Unallocated assets						399.1
Total assets						1,877.4
Liabilities	155.8	26.8	46.6	3.9	0.2	233.2
Unallocated liabilities						175.7
Total liabilities						409.0
Capital expenditure	117.1	11.6	6.2	0.1	0.0	134.9
Depreciation and amortisation	79.4	9.0	8.9	0.9	0.0	98.3
Other non-cash expenses	6.2	0.8	0.9	1.3	0.0	9.1

Business segments

Passenger Car Tyres business unit covers the development and production of summer and winter tyres for cars and vans.

Heavy Tyres business unit comprises tyres for forestry machinery, special tyres for agricultural machinery, tractors and industrial machinery as well as retreading and truck tyre business.

Vianor tyre chain sells car and van tyres as well as truck tyres. In addition to Nokian brand, Vianor sells other leading tyre brands and other automotive products and services.

Other operations contain business development and Group management unallocated to the segments.

Eliminations consist of eliminations between different business segments.

Notes concerning geographical segments

The business segments are operating in seven geographic regions: Finland, Sweden, Norway, Russia, the rest of Europe, North America and the rest of the world.

In presenting information on the basis of geographical segments, segment revenue is based on the location of the customers and segment assets are based on the location of the assets.

Geographical information

2018 EUR million	Finland	Sweden	Norway	Russia	the rest of Europe	North America	the rest of the world	Group
Net sales	**233.8**	**204.1**	**191.4**	**305.5**	**436.9**	**194.5**	**29.5**	**1,595.6**
Services	**33.7**	**20.6**	**29.8**	**0.0**	**0.0**	**2.6**		**86.6**
Sales of goods	**200.1**	**183.5**	**161.6**	**305.5**	**436.9**	**191.9**	**29.5**	**1,509.0**
Assets	**472.5**	**82.6**	**62.0**	**518.4**	**187.3**	**206.0**	**8.8**	**1,537.6**
Unallocated assets								**555.3**
Total assets								**2,092.9**
Capital expenditure	**64.8**	**1.3**	**3.4**	**38.8**	**12.1**	**105.9**	**0.1**	**226.5**

2017 EUR million	Finland	Sweden	Norway	Russia	the rest of Europe	North America	the rest of the world	Group
Net sales	221.5	214.3	189.4	305.2	440.8	172.0	29.2	1,572.5
Services	30.4	58.2	26.7	0.0	0.9	2.4		118.5
Sales of goods	191.1	156.2	162.7	305.2	439.9	169.6	29.2	1,453.9
Assets	444.9	91.6	53.3	558.6	164.4	96.8	7.2	1,416.9
Unallocated assets								460.5
Total assets								1,877.4
Capital expenditure	57.8	1.4	3.1	65.2	1.2	6.2	0.0	134.9

2. ACQUISITIONS

Acquisitions and other changes in 2018

On December 31 2018 Vianor AS acquired Dekksenteret Forde AS. This acquisition has minor impact on group accounts

EUR million	2018
Purchase consideration	
Consideration paid in cash	1.0
Contingent consideration liability	-
Total consideration	**1.0**

Recognised amounts of identifiable assets acquired and liabilities assumed:

EUR million	Note	2018
Property, plant and equipment	(12)	0.0
Inventories		0.1
Trade and other receivables		0.2
Cash and cash equivalents		0.1
Total Assets		**0.5**
Deferred tax liabilities	(18)	-
Financial Liabilities		-
Trade and other payables		0.3
Total Liabilities		**0.3**
Total identifiable net assets		**0.1**
Composition of goodwill in the acquisition		
Consideration transferred		1.0
Total identifiable net assets		0.1
Goodwill	(14)	**0.9**
Consideration paid in cash		1.0
Cash and cash equivalents in the subsidiaries acquired		0.1
Net cash outflow		**0.9**

The expectations relating to the growth in sales through increased customer base, and the future expectations on improved market area coverage and sales increase resulted in the recognition of goodwill.

The actual acquisition dates and the nature of the operations taken into account the effect of the acquisitions on the consolidated net sales and profit is not material even if they all were combined as of the beginning of the financial year.

The acquisition related costs of EUR 0.0 million have been recorded as cost of sales expenses. There were no other transactions recognised separately from these acquisitions. The consideration has been transferred in cash and no significant contingent consideration arrangements were included. No non-controlling interest remained in the acquiree. The identifiable asset acquired and liabilities assumed are recorded in fair value.

Acquisitions and other changes in 2017

On September 29 2017 the Group acquired the studding operations from Nokian Nasta Oy through an asset deal. This acquisition has minor impact on group accounts.

EUR million	2017
Purchase consideration	
Consideration paid in cash	0.3
Contingent consideration liability	-
Total consideration	0.3

Recognised amounts of identifiable assets acquired and liabilities assumed:

EUR million	Note	2017
Property, plant and equipment	(12)	0.5
Inventories		-
Trade and other receivables		-
Cash and cash equivalents		-
Total Assets		0.5
Deferred tax liabilities	(18)	-
Financial Liabilities		-
Trade and other payables		0.1
Total Liabilities		0.1
Total identifiable net assets		0.3
Composition of goodwill in the acquisition		
Consideration transferred		0.3
Total identifiable net assets		0.3
Goodwill	(14)	0.0
Consideration paid in cash		0.3
Cash and cash equivalents in the subsidiaries acquired		-
Net cash outflow		0.3

The actual acquisition dates and the nature of the operations taken into account the effect of the acquisitions on the consolidated net sales and profit is not material even if they all were combined as of the beginning of the financial year.

The acquisition related costs of EUR 0.0 million have been recorded as cost of sales expenses. There were no other transactions recognised separately from these acquisitions. The consideration has been transferred in cash and no significant contingent consideration arrangements were included. No non-controlling interest remained in the acquiree. The identifiable asset acquired and liabilities assumed are recorded in fair value.

3. COST OF SALES

EUR million	2018	2017
Raw materials	**347.9**	355.6
Goods purchased for resale	**226.3**	217.5
Wages and social security contributions on goods sold	**46.4**	43.8
Other costs	**140.6**	137.7
Depreciation of production	**70.3**	69.3
Sales freights	**58.6**	53.4
Change in inventories	**−24.5**	−38.6
Total	**865.5**	838.8

4. OTHER OPERATING INCOME

EUR million	2018	2017
Gains on sale of property, plant and equipment	**0.9**	1.7
Other income	**1.6**	4.1
Total	**2.5**	5.8

5. OTHER OPERATING EXPENSES

EUR million	2018	2017
Losses on sale of property, plant and equipment and other disposals	**0.6**	0.3
Research and development costs	**20.8**	21.8
Quality control	**3.1**	3.0
Other expenses	**1.4**	1.9
Total	**25.9**	27.0

Other operating expenses include the ineffective portion of the electricity derivatives used as cash flow hedges amounting to EUR 0.0 million (EUR 0.2 million in 2017).

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

EUR million	2018	2017
Depreciation and amortisation by asset category		
Intangible rights	**8.1**	10.4
Other intangible assets	**2.0**	1.9
Buildings	**11.1**	12.3
Machinery and equipment	**71.3**	72.3
Other tangible assets	**0.9**	1.3
Total	**93.4**	98.3
Impairment losses by asset category		
Intangible assets	**1.9**	-
Goodwill	**-**	1.4
Total	**1.9**	1.4
Depreciation and amortisation by function		
Production	**70.3**	69.3
Selling and marketing	**11.2**	14.0
Administration	**9.1**	11.6
Other depreciation and amortisation	**2.8**	3.4
Total	**93.4**	98.3
Impairment losses by function		
Selling and marketing	**-**	1.4
Administration	**1.9**	-
Total	**1.9**	1.4

7. EMPLOYEE BENEFIT EXPENSES

EUR million	2018	2017
Wages and salaries	**173.0**	164.8
Pension contributions - defined contribution plans	**27.1**	25.4
Share-based payments	**11.4**	16.1
Other social security contributions	**17.4**	18.3
Total	**228.9**	224.7

Information on the employee benefits and loans of the key management personnel is presented in note 33 Related party transactions.

8. FINANCIAL INCOME

EUR million	2018	2017
Interest income		
Financial assets measured at amortized cost	**2.0**	2.6
Dividend income		
Non-current financial investments measured at fair value through other comprehensive income	**0.0**	0.0
Exchange rate gains and changes in fair value		
Financial assets and liabilities at amortized cost	**32.4**	22.8
Foreign currency derivatives	**48.7**	92.8
Other financial income	**0.2**	0.1
Total	**83.3**	118.3

9. FINANCIAL EXPENSES

EUR million	2018	2017
Interest expenses		
Financial liabilities measured at amortized cost	**−2.9**	−5.4
Interest rate derivatives designated as hedges	**−0.9**	−0.9
Exchange rate losses and changes in fair value		
Financial assets and liabilities at amortized cost	**−42.0**	−61.5
Foreign currency derivatives	**−46.8**	−62.8
Other financial expenses	**−1.4**	−20.7
Total	**−94.0**	−151.3

Financial expenses in 2017 contain EUR 15.2 million expensed punitive interest for tax reassessment decisions on year 2011. Additionally financial expenses 2017 contain EUR 3.1 million expensed interest for tax reassessment decisions on years 2007–2013 of a group company.

10. TAX EXPENSE

EUR million	2018	2017
Current tax expense	**−64.3**	−71.5
Adjustment for prior periods	**−0.4**	−42.1
Change in deferred tax	**−1.7**	2.6
Total	**−66.5**	−111.0

The reconciliation of tax expense recognised in the income statement and tax expense using the domestic corporate tax rate (2018: 20.0%, 2017: 20.0%):

EUR million	2018	2017
Profit before tax	**361.7**	332.4
Tax expense using the domestic corporate tax rate	**−72.3**	−66.5
Effect of deviant tax rates in foreign subsidiaries	**7.1**	2.2
Tax exempt revenues and non-deductible expenses	**−5.2**	−6.9
Losses on which no deferred tax benefits recognised	**3.7**	1.6
Adjustment for prior periods	**−0.4**	−42.1
Other items	**0.6**	0.6
Tax expense	**−66.5**	−111.0

Income tax relating to components of other comprehensive income:

2018 EUR million	Before tax amount	Tax benefit	Net of tax amount
Cash flow hedges	**1.6**	**−0.3**	**1.3**
Translation differences on foreign operations	**−67.8**		**−67.8**
	−66.2	**−0.3**	**−66.6**

2017 EUR million	Before tax amount	Tax benefit	Net of tax amount
Cash flow hedges	1.6	−0.3	1.3
Translation differences on foreign operations	−33.5		−33.5
	−31.9	−0.3	−32.2

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss for the period by the weighted average number of shares outstanding during the period. The average weighted number of shares used for the calculation of diluted EPS takes into consideration the dilutive effect of the options outstanding during the period.

EUR million	2018	2017
Profit attributable to the equity holders of the parent	**295.2**	221.4
Profit for the period to calculate the diluted earnings per share	**295.2**	221.4
Shares, 1,000 pcs		
Weighted average number of shares	**137,260**	136,253
Dilutive effect of the options	**884**	1,024
Diluted weighted average number of shares	**138,144**	137,277
Earnings per share, euros		
Basic	**2.15**	1.63
Diluted	**2.14**	1.61

12. PROPERTY, PLANT AND EQUIPMENT

EUR million	Land property	Buildings	Machinery and equipment	Other tangible assets	Advances and fixed assets under construction	Total
Accumulated cost, 1 Jan 2017	8.2	291.5	933.3	17.9	43.9	1,294.8
Increase	0.0	3.0	41.4	1.3	81.2	126.9
Acquisitions through business combinations						0.0
Decrease	-0.2	-1.5	-7.4	-0.2	0.0	-9.4
Transfers between items		1.2	56.2	0.5	-57.9	0.0
Other changes		0.0	-1.2	-0.4	0.0	-1.6
Exchange differences	-0.2	-12.3	-30.7	-1.2	-3.6	-48.0
Accumulated cost, 31 Dec 2017	7.8	281.9	991.7	17.8	63.6	1,362.7
Accum. Depreciation, 1 Jan 2017	0.0	-88.6	-649.9	-13.9		-752.4
Depreciation for the period		-12.3	-72.3	-1.3		-85.9
Decrease			3.1	0.2		3.3
Other changes		0.0	0.9	0.3		1.2
Exchange differences		5.0	19.3	1.0		25.3
Accum. Depreciation, 31 Dec 2017	0.0	-95.9	-698.9	-13.7		-808.6
Carrying amount, 31 Dec 2017	7.7	185.9	292.8	4.1	63.6	554.2
Accumulated cost, 1 Jan 2018	**7.8**	**281.9**	**991.7**	**17.8**	**63.6**	**1,362.7**
Increase	**4.6**	**2.4**	**46.6**	**0.4**	**176.0**	**212.6**
Acquisitions through business combinations						**0.0**
Decrease	**0.0**	**-1.4**	**-11.6**	**-0.1**	**-0.2**	**-13.2**
Transfers between items		**8.9**	**41.9**	**0.3**	**-57.1**	**-6.0**
Other changes		**-0.2**	**0.0**	**0.0**	**0.0**	**-0.2**
Exchange differences	**-0.3**	**-21.4**	**-54.5**	**-0.7**	**-1.4**	**-78.3**
Accumulated cost, 31 Dec 2018	**12.1**	**270.2**	**1,014.2**	**17.7**	**180.9**	**1,495.0**
Accum. Depreciation, 1 Jan 2018	**0.0**	**-95.9**	**-698.9**	**-13.7**		**-808.6**
Depreciation for the period		**-11.1**	**-71.3**	**-0.9**		**-82.9**
Decrease			**3.2**	**0.1**		**3.3**
Other changes		**0.6**	**0.4**	**0.0**		**0.6**
Exchange differences		**6.2**	**33.0**	**0.7**		**39.9**
Accum. Depreciation, 31 Dec 2018	**0.0**	**-100.2**	**-733.6**	**-13.9**		**-847.7**
Carrying amount, 31 Dec 2018	**12.1**	**170.0**	**280.5**	**3.8**	**180.9**	**647.3**

13. INTANGIBLE ASSETS

EUR million	Goodwill	Intangible rights	Other intangible assets	Total
Accumulated cost, 1 Jan 2017	86.5	74.1	21.4	182.0
Increase		9.4	1.2	10.5
Acquisitions through business combinations	0.8			0.8
Decrease			0.0	0.0
Transfers between items			0.7	0.7
Other changes				-
Exchange differences	-2.8	0,0	-0.9	-3.7
Accumulated cost, 31 Dec 2017	84.6	83.4	22.4	190.4
Accum. Depreciation, 1 Jan 2017	-	-44.3	-14.1	-58.4
Depreciation for the period		-10.4	-1.9	-12.3
Impairment	-1.4			-1.4
Decrease				-
Other changes				-
Exchange differences	0.1	0.0	0.5	0.6
Accum. Depreciation, 31 Dec 2017	-1.3	-54.7	-15.5	-71.5
Carrying amount, 31 Dec 2017	83.3	28.7	6.9	118.9

EUR million	Goodwill	Intangible rights	Other intangible assets	Total
Accumulated cost, 1 Jan 2018	**84.6**	**83.4**	**22.4**	**190.4**
Increase		**6.2**	**3.1**	**9.2**
Acquisitions through business combinations	**1.0**			**1.0**
Decrease		**-0.6**	**0.0**	**-0.6**
Transfers between items		**0.3**	**0.0**	**0.3**
Other changes		**0.0**		**0.0**
Exchange differences	**-0.7**	**-0.1**	**-1.6**	**-2.4**
Accumulated cost, 31 Dec 2018	**84.9**	**89.2**	**23.8**	**197.9**
Accum. Depreciation, 1 Jan 2018	**-1.3**	**-54.7**	**-15.5**	**-71.5**
Depreciation for the period		**-6.3**	**-2.0**	**-8.2**
Impairment		**-1.9**		**-1.9**
Decrease				**0.0**
Other changes				**0.0**
Exchange differences	**0.0**	**0.1**	**0.9**	**0.9**
Accum. Depreciation, 31 Dec 2018	**-1.3**	**-62.8**	**-16.6**	**-80.7**
Carrying amount, 31 Dec 2018	**83.6**	**26.4**	**7.2**	**117.2**

Impairment losses

In 2018 Vianor recorded impairment losses of total EUR 1.9 million on intangible assets. The impairments were caused by operational cancellations of certain functionalities in the ICT-system. This is fully recognized as losses, which are reported in administration expenses.

In 2017 Vianor recorded impairment losses of total EUR 1.4 million on other intangible assets. The losses were caused by an impairment of goodwill due the profit improvement program and the network optimization and are reported in selling and marketing expenses.

Impairment tests for goodwill

Goodwill has been allocated to the Group's cash-generating units that have been defined according to the business organization.

Allocation of goodwill

EUR million	
Passenger Car Tyres	**69.0**
Vianor	**14.6**
Total goodwill	**83.6**

The recoverable amount of a cash-generating unit is based on calculations of the value in use. The cash flow forecasts used in these calculations are based on five-year financial plans approved by the management. The estimated sales and production volumes are based on the current condition and scope of the existing assets. The key assumptions used in the plans include product selection, country-specific sales distribution, margin on products, and their past actual outcomes. Assumptions are also based on commonly used growth, demand and price forecasts provided by market research institutes.

The discount rate used is the weighted average cost of capital (WACC) before taxes defined for the Group. The calculation components are risk-free rate of return, market risk premium, industry-specific beta co-efficient, borrowing cost and the capital structure at market value at the time of testing. The discount rate used for Passenger Car Tyres is 6.0% (6.2% in 2017) and for Vianor is 5.3–7.9% (5.7–7.2% in 2017) varying through country locations. Future cash flows after the forecast period approved by the management have been capitalised as a terminal value using a steady 2% growth rate and discounted with the discount rate specified above.

The testing indicated no need to recognise impairment losses. In Vianor the calculations indicated that the recoverable amount exceeded the carrying value by EUR 38 million (EUR 25 million in 2017). Of the key assumptions, Vianor is the most sensitive to actual realisation of gross margin levels based on demand forecasts. A lag of mere 1.3%-units from the gross margin target levels in future years might lead to a need for impairment. The recoverable amount in Passenger Car Tyres significantly (well over 100%) exceeds the carrrying amount of the cash-generating unit, and small sales margin or sales volume changes have no effect on the impairment testing results. A possible impairment would require e.g. an annual decrease above 20% in net sales or a weakening of the present gross margin level permanently over 50%.

14. CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

		2018				2017			
			Fair value				Fair value		
EUR million	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial assets									
Fair value through profit or loss									
Derivatives held for trading	(28)	**5.5**	**-**	**5.5**	**-**	9.5	-	9.5	-
Derivatives designated as hedges	(28)	**23.4**	**-**	**23.4**	**-**	12.8	-	12.8	-
Amortized cost									
Other non-current receivables	(16)	**7.3**	**-**	**6.1**	**-**	8.9	-	8.3	-
Trade and other receivables	(19)	**409.9**	**-**	**410.5**	**-**	433.4	-	434.0	-
Money market instruments	(20)	**83.0**	**-**	**83.0**	**-**	30.0	-	30.0	-
Bank deposits	(20)	**-**	**-**	**-**	**-**	14.4	-	14.4	-
Cash in hand and at bank	(20)	**364.4**	**-**	**364.4**	**-**	299.1	-	299.1	-
Fair value through other comprehensive income									
Unquoted shares	(15)	**0.7**	**-**	**-**	**0.7**	0.7	-	-	0.7
Total financial assets		**894.3**	**-**	**892.9**	**0.7**	808.8	-	808.0	0.7
Financial liabilities									
Fair value through profit or loss									
Derivatives held for trading	(28)	**9.9**	**-**	**9.9**	**-**	1.2	-	1.2	-
Derivatives designated as hedges	(28)	**3.9**	**-**	**3.9**	**-**	3.2	-	3.2	-
Amortized cost									
Interest-bearing financial liabilities	(25)	**132.3**	**-**	**133.1**	**-**	135.2	-	136.0	-
Trade and other payables	(26)	**111.0**	**-**	**111.0**	**-**	72.8	-	72.8	-
Total financial liabilities		**257.1**	**-**	**257.8**	**-**	212.4	-	213.2	-

The carrying amount of financial assets corresponds to the maximum exposure to the credit risk on the reporting date.

See note 27 for the impairments in respect of trade receivables. Other financial assets measured at amortized cost and fair value through other comprehensive income are not subject to material impairment.

Fair value measurements have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

All items measured at fair value through profit or loss have been classified to Level 2 in the fair value hierarchy and items include Group's derivative financial instruments. To establish the fair value of these instruments the Group uses generally accepted valuation models with inputs based on observable market data.

Level 3 includes unquoted shares measured at fair value through other comprehensive income since cost is assessed to represent the fair value.

Financial assets and liabilities not measured at fair value but for which the fair value can be measured are categorised in Level 2 in the fair value hierarchy. Level 2 includes financial assets and financial liabilities measured at amortized cost. Their fair values are based on the future cash flows that are discounted with market interest rates on the reporting date.

There were no transfers between different levels during the financial year.

15. INVESTMENTS IN ASSOCIATES AND NON-CURRENT FINANCIAL INVESTMENTS

EUR million	Investments in associates	Unquoted shares
Accumulated cost, 1 Jan 2018	0.1	0.7
Decrease/Increase	-	-
Accumulated cost, 31 Dec 2018	0.1	0.7
Carrying amount, 31 Dec 2018	0.1	0.7
Carrying amount, 31 Dec 2017	0.1	0.7

16. OTHER NON-CURRENT RECEIVABLES

EUR million	2018	2017
Loan receivables	7.3	8.9
Total	7.3	8.9

17. DEFERRED TAX ASSETS AND LIABILITIES

EUR million	31 Dec 2016	Recognised in income statement	Recognised in other comprehensive income	Net exchange differences	Acquisitions/ disposals of subsidiaries	31 Dec 2017
Deferred tax assets						
Intercompany profit in inventory	13.4	−0.1				13.2
Provisions	0.8	0.2				0.9
Tax losses carried forward	0.0	−0.3				−0.3
Cash flow hedges	−0.3		0.0			−0.3
Other items	13.7	−2.0		0.2		12.0
Total	27.7	−2.3	0.0	0.2	-	25.7
Deferred tax assets offset against deferred tax liabilities	−15.3	−1.2				−16.5
Deferred tax assets	12.4	−3.4	0.0	0.2	-	9.2
Deferred tax liabilities						
Property, plant and equipment and intangible assets	18.3	−1.0		0.1		17.3
Untaxed reserves	0.6	−0.2				0.5
Undistributed earnings in subsidiaries	29.8	−2.5				27.3
Other items	17.3	−15.4				1.9
Total	65.9	−19.2	-	0.1	-	46.9
Deferred tax liabilities offset against deferred tax assets	−15.3	−1.2				−16.5
Deferred tax liabilities	50.6	−20.3	-	0.1	-	30.4

EUR million	31 Dec 2017	Recognised in income statement	Recognised in other comprehensive income	Net exchange differences	Acquisitions/ disposals of subsidiaries	31 Dec 2018
Deferred tax assets						
Intercompany profit in inventory	**13.2**	**1.7**				**14.9**
Provisions	**0.9**	**0.0**				**0.9**
Tax losses carried forward	**−0.3**	**0.3**				**0.0**
Cash flow hedges	**−0.3**					**−0.3**
Other items	**12.0**	**−0.9**		**0.0**		**11.1**
Total	**25.7**	**1.1**	**-**	**0.0**	**-**	**26.8**
Deferred tax assets offset against deferred tax liabilities	**−16.5**	**−1.0**				**−17.5**
Deferred tax assets	**9.2**	**0.0**	**-**	**0.0**	**-**	**9.3**
Deferred tax liabilities						
Property, plant and equipment and intangible assets	**17.3**	**−0.7**		**0.0**		**16.6**
Untaxed reserves	**0.5**	**0.9**				**1.3**
Undistributed earnings in subsidiaries	**27.3**	**3.0**				**30.3**
Other items	**1.9**	**0.0**				**1.9**
Total	**46.9**	**3.2**	**-**	**0.0**	**-**	**50.0**
Deferred tax liabilities offset against deferred tax assets	**−16.5**	**−1.0**				**−17.5**
Deferred tax liabilities	**30.4**	**2.1**	**-**	**0.0**	**-**	**32.5**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

On 31 December 2018 the Group had carry forward losses for EUR 0.0 million (EUR 9.1 million in 2017), on which no deferred tax asset was recognised. It is not probable that future taxable profit will be available to offset these losses before they expire by 2026.

The Group has utilised previously unrecognised tax losses from prior periods with EUR 0.0 million in 2018 (EUR 0.0 million in 2017).

No deferred tax liability was recognised on the undistributed earnings, EUR 54.8 million in 2018 (EUR 52.8 million in 2017), of foreign subsidiaries as the earnings have been invested permanently to the countries in question.

18. INVENTORIES

EUR million	2018	2017
Raw materials and supplies	**126.4**	115.8
Work in progress	**6.9**	6.6
Finished goods	**236.0**	217.7
Total	**369.2**	340.1

Annually an additional expense is recognised in the carrying amounts of all separate inventory items to avoid them exceeding their maximum probable net realisable values. In 2018 EUR 1.1 million expense was recognised to decrease the carrying amount of the inventories to reflect the net realisable value (EUR 0.7 million in 2017).

19. TRADE AND OTHER RECEIVABLES

EUR million	2018	2017
Trade receivables	**409.5**	432.9
Loan receivables	**0.5**	0.5
Accrued revenues and deferred expenses	**21.1**	14.9
Derivative financial instruments		
Designated as hedges	**20.6**	12.9
Measured at fair value through profit or loss	**5.6**	10.2
Current tax assets	**13.0**	12.3
Other receivables	**21.9**	18.1
Total	**492.1**	501.9

The carrying amount of trade and other receivables corresponds to the maximum exposure to the credit risk on the reporting date.

The carrying amount of trade and other receivables is a reasonable approximation of their fair value.

See note 27 for the impairments in respect of trade receivables.

Significant items under accrued revenues and deferred expenses

EUR million	2018	2017
Annual discounts, purchases	**5.9**	3.3
Financial items	**0.6**	0.4
Social security contributions	**1.9**	2.9
Insurances	**0.5**	0.3
Payments in transit	**2.9**	-
Other items	**9.4**	8.2
Total	**21.1**	14.9

Significant items under other receivables

EUR million	2018	2017
VAT receivables	**19.6**	13.3
Advance payments	**2.3**	4.8
Total	**21.9**	18.1

20. CASH AND CASH EQUIVALENTS

EUR million	2018	2017
Cash in hand and at bank	**364.4**	299.1
Bank deposits	**-**	14.4
Money market instruments	**83.0**	30.0
Total	**447.5**	343.4

21. EQUITY

Reconciliation of the number of shares EUR million	Number of shares (1,000 pcs)	Share capital	Share premium	Paid-up unrestricted equity reserve	Treasury shares	Total
1 Jan 2017	135,679	25.4	181.4	168.9	−6.7	369.1
Exercised warrants	1,355	-	-	35.0	-	35.0
Acquisition/conveyance of treasury shares	−289	-	-	-	−17.8	−17.8
Other changes	-	-	-	-	4.2	4.2
31 Dec 2017	136,745	25.4	181.4	203.9	−20.3	390.4
1 Jan 2018	**136,745**	**25.4**	**181.4**	**203.9**	**−20.3**	**390.4**
Exercised warrants	**799**	**-**	**-**	**18.7**	**-**	**18.7**
Acquisition/conveyance of treasury shares	**243**	**-**	**-**	**-**	**8.9**	**8.9**
Other changes	**-**	**-**	**-**	**-**	**-**	**-**
31 Dec 2018	**137,788**	**25.4**	**181.4**	**222.6**	**−11.4**	**418.0**

The nominal value of shares was abolished in 2008, hence no maximum share capital of the Group exists anymore. All outstanding shares have been paid for in full.

Below is a description of the reserves within equity:

Share premium

Before the nominal value of shares was abolished, the amount exceeding the nominal value of shares received by the company in connection with share issue and share subscription were recognised in share premius.

Translation reserve

Translation reserve includes the differences arising from the translation of the foreign subsidiaries' financial statements. The gains and losses from the net investments in foreign units and hedging those net investments are also included in translation reserve once the requirements of hedge accounting have been met.

Fair value and hedging reserves

The fair value and hedging reserves comprises of two sub reserves: a fair value reserve for financial assets measured at fair value through other comprehensive income and a hedging fund for changes in the fair value of the derivative financial instruments used for cash flow hedging.

Paid-up unrestricted equity reserve

After the nominal value of shares was abolished, the entire share subscription made by option rigts are entered in the paid-up unrestricted reserve.

Treasury shares

The Group or the Parent company themselves do not directly hold any treasury shares.

Nokian Tyres has an agreement from 2017 with a third-party service provider concerning the share-based incentive program for key personnel. The third party owns Nokian Tyres shares related to the incentive program until the shares are given to the participants of the program. In accordance with IFRS, these repurchased shares, 480,000 in 2017, have been reported as treasury shares in the Consolidated Statement of Financial Position. On December 31, 2018, the number of these shares was 278,083. This number of shares corresponded to 0.2% of the total shares and voting rights in the company.

Dividends

After the balance sheet date, the Board of Directors proposed that a dividend of EUR 1.58 per share be paid (EUR 1.56 in 2017).

Specification of the distributable funds

The distributable funds on 31 December 2018 total EUR 683.0 million (EUR 658.0 million on 31 December 2017) and are based on the balance of the Parent company and the Finnish legislation.

22. SHARE-BASED PAYMENTS

SHARE OPTION PLANS

Share option plan 2013 directed at personnel

The Annual General Meeting in 2013 decided to issue a share option plan, as a part of the Group's incentive scheme, to employees of the Group or persons recruited to the Group at a later stage. The Board issued the shares in spring 2014 (2013B warrants) and 2015 (2013C warrants).

The share options were granted to the personnel employed by or in the service of the Nokian Tyres Group and to Direnic Oy, a wholly owned subsidiary of Nokian Tyres. Should a share option holder cease to be employed by or in the service of the Nokian Tyres Group before the warrants become exercisable, for any other reason than the death of the employee, or the statutory retirement of the employee in compliance with the employment contract, or the retirement of the employee otherwise determined by the company, the holder shall without delay and compensation offer to Nokian Tyres or its order the share options for which the share subscription period under the terms and conditions had not begun at the last day of such holder's employment or service.

The following tables present more specific information on the share option plans.

	2013 warrants		
BASIC INFORMATION	**2013B**	**2013C**	**Total**
Annual General Meeting date	11 April 2013	11 April 2013	
Initial amount of options, pcs	1,150,000	1,150,000	2,300,000
Shares to subscribe per option, pcs	1	1	
Initial exercise price, EUR	29.54	24.42	
Dividend adjustment	yes	yes	
Current exercise price, EUR	23.50	19.83	
Initial allocation date	5 May 2014	7 May 2015	
Vesting date	1 May 2016	1 May 2017	
Expiration date	31 May 2018	31 May 2019	
Maximum contractual life, years	4.1	4.1	4.1 *
Remaining contractual life, years	0.0	0.4	0.2 *
Participants at the end of period	0	859	
Method of settlement	in equity		
Vesting condition	employment requirement until the vesting date		

* Weighted average

TRANSACTIONS DURING THE PERIOD	2013 warrants 2013B	2013C	Exercise price, weighted average, €	Total
1 January 2018				
At the beginning of the period (pcs)				
outstanding	935,575	911,460	23.25	1,847,035
reserve	40,321	136,005	22.23	176,326
Changes during the period (pcs)				
Granted during the period	0	0		
Forfeited during the period	350	0	23.50	350
Exercised during the period	760,159	28,818	23.37	788,977
Weighted average exercise price during the exercise period, €	23.50	19.84	23.37	
Weighted average share price during the excercise period, € *	35.97	33.79	34.88	
Expired during the period	1,312	0	25.39	1,312
Not issued & expired	40,321			40,321
31 December 2018				
At the end of the period (pcs)				
exercised	934,263	131,353	23.05	1,065,616
outstanding	0	882,642	20.44	882,642
vested & outstanding	0	882,645	20.44	882,642
reserve	0	136,005	20.67	136,005

*The weighted average price of the Nokian Tyres plc share during the period that the option in question was exercisable in 2018.

EUR million	2018	2017
Impact on period profits and financial position		
Expense recognised for the period	-	1.8
Expense recognised for the period, equity-settled	**0.4**	1.8

PERFORMANCE SHARE PLANS

Performance share plan 2013 directed at key employees

In 2013 the Board approved a new share based incentive plan for the key employees of the Group. The plan was intended to combine the objectives of the shareholders and the key employees in order to increase the value of the Group, to commit the key employees to the Group, and to offer them a competitive incentive plan based on earning the Nokian Tyres's shares. The plan included three earning periods, calendar years 2013, 2014 and 2015. The Board decided on the performance criteria and their targets for the plan at the beginning of each earning period.

The performance shares were granted to the key employees of the Nokian Tyres Group. In general no performance shares were released, if the key employee's employment or service ended before the delivery point of the shares. The performance shares may not be transferred during an approximately two-year restriction period established for the shares.

Performance share plan 2016 directed at key employees

In 2016 the Board approved a new share based incentive plan for the key employees of the Group. The plan is intended to combine the objectives of the shareholders and the key employees in order to increase the value of the Group, to commit the key employees to the Group, and to offer them a competitive incentive plan based on earning the Nokian Tyres's shares. The plan includes three earning periods, calendar years 2016, 2017 and 2018. The Board will decide on the performance criteria and their targets for the plan at the beginning of each earning period.

The performance shares are granted to the key employees of the Nokian Tyres Group. In general no performance shares will be released, if the key employee's employment or service ends before the end of the restriction period. The performance shares may not be transferred during an approximately one-year restriction period established for the shares. The members of the Group's Management Team must hold 25% of the received gross shares until the member's shareholding in the Company equals the member's fixed gross annual salary.

The following tables present more specific information on the performance share plans.

Measurement of fair value

Inputs to the fair value determination of the performance shares expensed during the financial year 2018 are listed in the below table as weighted average values. The total fair value of the performance shares is based on the company's estimate on 31 December 2018 as to the number of shares to be eventually vesting.

BASIC INFORMATION	PSP 2013 Earning period 2015	Earning period 2016	PSP 2016 Earning period 2017	Earning period 2018	Total
Issuing date	5 February 2013	23 February 2016	23 February 2016	23 February 2016	
Annual General Meeting date	11 April 2013	12 April 2016	12 April 2016	12 April 2016	
Initial amount of shares, pcs	200,000	515,000	540,000	560,000	1,815,000
Dividend adjustment	no	no	no	no	
Initial allocation date	7 May 2015	23 February 2016	31 January 2017	2 February 2018	
Beginning of earning period	1 January 2015	1 January 2016	1 January 2017	1 January 2018	
End of earning period	31 December 2015	31 December 2016	31 December 2017	31 December 2018	
End of restriction period	31 December 2018	31 March 2018	31 March 2019	31 March 2020	
Vesting conditions	Net sales & operating profit	Net sales & operating profit	Net sales & operating profit	Net sales & operating profit	
Maximum contractual life, years	3.7	2.1	2.2	2.2	2.5*
Remaining contractual life, years	0.0	0.0	0.3	1.3	0.4*
Participants at the end of period	0	0	190	224	
Method of settlement	in equity & cash	in equity & cash	in equity & cash	in equity & cash	

* Weighted average

TRANSACTIONS DURING THE PERIOD	PSP 2013 Earning period 2015	Earning period 2016	PSP 2016 Earning period 2017	Earning period 2018	Total
1 January 2018					
At the beginning of the period (pcs) outstanding	164,000	397,175	519,100	0	1,080,275
Changes during the period (pcs)					
Granted during the period	0	0	0	522,050	522,500
Forfeited during the period	0	0	34,500	26,600	61,100
Restriction period ended during FY	164,000	397,175	0	0	561,175
Earned during the period (gross)	0	0	415,100	0	415,100
Delivered during the period (net)	0	0	220,324	0	220,324
31 December 2018					
At the end of the period (pcs) outstanding	0	0	484,600	495,450	980,050

Earning period 2018	
Share price at grant, EUR	**37.96**
Share price at reporting date, EUR	**26.82**
Expected dividends, EUR	**1.60**
Fair market value per share at grant, EUR	**36.36**
Total fair value 31 December 2018, EUR million	**5.0**

EUR million	2018	2017
Impact on period profits and financial position		
Expense for the period	**-**	14.3
Expense for the period, equity-settled	**9.9**	5.6

23. PENSION LIABILITIES

All material pension arrangements in the Group are defined contribution plans.

24. PROVISIONS

EUR million	Warranty provision	Restructuring provision	Total
1 Jan 2018	**4.4**	**0.1**	**4.5**
Provisions made	**0.9**	**-**	**0.9**
Provisions used	**−0.9**	**−0.1**	**−1.0**
31 Dec 2018	**4.4**	**0.0**	**4.4**

EUR million	2018	2017
Non-current provisions	**-**	-
Current provisions	**4.4**	4.5

Warranty provision

The goods are sold with a normal warranty period. Additionally, a Hakka Guarantee warranty has been established in certain markets for certain products to compensate tyre damages not covered by the normal warranty, one year after the purchase and to a certain wear limit. Damaged goods will be repaired at the cost of the company or replaced with a corresponding product. The provisions are based on the sales and statistical compensation volumes of the tyres sold under these warranties. The warranty provisions are expected to be utilised within 1 year.

25. INTEREST-BEARING FINANCIAL LIABILITIES

EUR million	2018	2017
Non-current		
Loans from financial institutions and pension loans	**6.3**	134.4
	6.3	134.4
Current		
Commercial papers	**-**	-
Current portion of non-current loans from financial institutions and pension loans	**126.0**	0.8
	126.0	0.8

Interest-bearing financial liabilities by currency

EUR million	2018	2017
Currency		
EUR	**112.3**	112.1
RUB	**20.1**	23.1
Total	**132.3**	135.2

Effective interest rates for interest-bearing financial liabilities

	2018		2017	
	Without hedges	With hedges	Without hedges	With hedges
Loans from financial institutions and pension loans	**2.0%**	**2.7%**	2.0%	2.7%
Total	**2.0%**	**2.7%**	2.0%	2.7%

See note 14 for the fair values of the interest-bearing financial liabilities.

26. TRADE AND OTHER PAYABLES

EUR million	2018	2017
Trade payables	**111.0**	72.8
Accrued expenses and deferred revenues	**292.9**	124.6
Advance payments	**0.6**	0.8
Derivative financial instruments		
Designated as hedges	**2.3**	3.8
Measured at fair value through profit or loss	**10.0**	2.0
Current tax liabilities	**6.5**	6.9
Other liabilities	**23.4**	27.6
Total	**437.1**	238.4

The carrying amount of trade and other payables is a reasonable approximation of their fair value.

Significant items under accrued expenses and deferred revenues

EUR million	2018	2017
Wages, salaries and social security contributions	**38.2**	37.3
Annual discounts, sales	**63.9**	54.2
Financial items	**0.0**	0.0
Commissions	**5.4**	5.6
Share-based payments	**-**	5.7
Goods received and not invoiced	**1.3**	1.9
Marketing expenses	**4.9**	8.4
Transportation costs	**3.9**	1.3
Warranties	**4.3**	5.3
Returned taxes from tax disputes	**148.2**	-
Value added tax liabilities	**7.3**	2.2
Other items	**15.4**	2.7
Total	**292.9**	124.6

Accrued expenses and deferred revenues include EUR 59.0 million based on the tax reassessment decision on year 2011 and EUR 89.2 million based on the tax reassesment decision on years 2007–2013 that the Group received back. The rulings are not final.

27. FINANCIAL RISK MANAGEMENT

The objective of financial risk management is to protect the Group's planned profit development from adverse movements in financial markets. The principles and targets of financial risk management are defined in the Group's financial policy, which is approved by the Board. Financing activities and financial risk management are centralized to the parent company Group Treasury, which executes financing and hedging transactions with external counterparties and acts as a primary counterparty to business units in financing activities like funding, foreign exchange transactions and cash management. The Group Credit Committee makes credit decisions that have a significant impact on the credit exposure of the Group.

Foreign currency risk

The Nokian Tyres Group consists of the parent company in Finland, the sales companies in Russia, Sweden, Norway, the USA, Canada, Czech Republic, Switzerland, Ukraine, Kazakhstan, Belarus and China, the tire chain companies in Finland, Sweden, Norway and the USA. The tire plants are located in Nokia, Finland and Vsevolozhsk, Russia. The Group is currently building a third tire plant in Dayton, Tennessee, USA.

Transaction risk

According to the Group's financial policy, transactions between the parent company and the foreign subsidiaries are primarily carried out in the local currency of the subsidiary in question, and the transaction risk is carried by the parent company and there is no significant currency risk in the foreign subsidiaries. Exceptions to the main rule are subsidiaries, which have non-home currency items due to the nature of business activities. In this case transactions between the parent company and the subsidiary are carried out in a currency appropriate for the Group currency exposure. The parent company manages transaction risk in these subsidiaries and implements required hedging transactions for hedging the currency exposure of the subsidiary according to the Group hedging principles. Hedging principles are not applied to the currency exposures of the Ukrainian and Belarusian subsidiaries as UAH and BYN are non-convertible currencies.

The transaction exposure of the parent company and the subsidiaries with non-home currency items comprises of the foreign currency denominated receivables and payables in the statement of financial position and the foreign currency denominated binding purchase and sales contracts. According to the Group's financial policy the significant transaction exposure in every currency pair is hedged, although 20% over-hedging or under-hedging is allowed if a +/– 10% change in the exchange rate does not create over EUR 1 million impact on the income statement. However, a simultaneous +/– 10% change in all the Group exposure currencies against EUR must not create over a EUR 5 million impact on the income statement. Exceptions to the main rule are non-convertible currencies, which do not have active hedging markets available. For budget exposure the estimated currency cash flows are added to the transaction exposure so that the overall foreign currency risk exposure horizon covers the next 12 months. The budget exposure may be hedged according to the market situation and the hedge ratio can be up to 70% of the budget exposure. Currency forwards, currency options and cross-currency swaps are used as hedging instruments.

Transaction risk

EUR million	31 Dec 2018								31 Dec 2017							
Functional currency	EUR	EUR	EUR	EUR	EUR	CZK	UAH	RUB	EUR	EUR	EUR	EUR	EUR	CZK	UAH	RUB
Foreign currency	CAD	NOK	RUB	SEK	USD	EUR	EUR	EUR	CAD	NOK	RUB	SEK	USD	EUR	EUR	EUR
Trade receivables	17.7	20.5	16.7	23.4	27.7	92.8	0.0	24.1	11.3	20.6	24.0	26.9	24.8	92.3	0.0	68.3
Loans and receivables	8.4	39.1	95.4	54.7	10.6	1.7	0.0	0.1	6.6	35.7	123.4	54.5	10.2	59.9	0.0	0.0
Total currency income	26.2	59.6	112.1	78.1	38.4	94.5	0.0	24.2	17.8	56.3	147.4	81.3	35.0	152.2	0.0	68.3
Trade payables	0.0	0.0	–42.3	0.0	–1.7	–42.0	0.0	–6.1	0.0	0.0	–0.1	0.0	–0.7	–52.6	0.0	–7.2
Borrowings	–7.6	–39.3	–125.8	–11.8	–19.0	–84.2	–6.0	–20.0	0.0	–39.3	–180.6	–0.1	–20.1	–121.3	–6.9	–72.0
Total currency expenditure	–7.6	–39.3	–168.1	–11.8	–20.7	–126.2	–6.0	–26.1	0.0	–39.3	–180.6	–0.1	–20.7	–173.9	–7.0	–79.2
Foreign exchange derivatives	–16.0	–20.1	53.3	–71.2	–18.8	30.7	0.0	0.0	–13.3	–12.7	32.1	–70.6	–12.5	19.7	0.0	0.0
Binding sales contracts	7.1	5.0	1.3	2.6	0.8	10.8	0.0	0.0	3.8	3.3	1.1	2.4	5.0	51.1	0.0	0.0
Binding purchase contracts	0.0	0.0	–0.3	0.0	–6.2	–5.1	0.0	0.0	0.0	0.0	0.0	0.0	–2.8	–41.0	0.0	0.0
Future interest items	0.1	0.6	0.1	0.4	0.0	–0.6	0.0	–0.1	0.0	0.6	–0.7	0.4	0.1	–0.2	0.0	–0.5
Net exposure	9.7	5.9	–1.7	–1.9	–6.6	4.6	–6.0	–2.0	8.4	8.1	–0.6	13.5	4.1	8.1	–7.0	–10.9

Translation risk

In financial statements the statements of financial position of the foreign subsidiaries are translated into euro using the European Central Bank's closing rates and the income statements monthly using the monthly average rate for the period. The impacts of the exchange rate fluctuations arising on translation of the subsidiaries' income statements and statements of financial position are recorded as translation differences in other comprehensive income and in the translation reserve in equity. The net investments in foreign subsidiaries are not hedged based on the Board decision in 2013.

Group's total comprehensive income was negatively affected by translation differences on foreign operations by EUR –67.8 million (EUR –33.5 in 2017) of which EUR 0.0 million (EUR 0.2 million in 2017) was recorded on internal loans recognized as net investment in foreign operation. In 2018 no internal loans were recognized as net investment in foreign operation.

Translation risk

Net investments by currency

EUR million	31 Dec 2018	31 Dec 2017
Currency of net investment		
CZK	**45.0**	39.4
NOK	**44.4**	39.1
RUB	**542.2**	560.5
SEK	**16.6**	14.2
USD	**167.8**	96.9

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the base currency against the quote currency, with all other variables held constant, of the Group's profit before tax and equity due to changes in the fair value of financial assets and liabilities.

A reasonably possible change is assumed to be a 10 % base currency appreciation or depreciation against the quote currency. A change of a different magnitude can also be estimated fairly accurately because the sensitivity is nearly linear.

	31 Dec 2018				31 Dec 2017			
	Base currency				Base currency			
	10% stronger		10% weaker		10% stronger		10% weaker	
EUR million	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Base currency / Quote currency								
EUR/CAD	**–0.3**	**-**	**0.3**	**-**	–0.5	-	0.5	-
EUR/CZK	**–0.1**	**-**	**0.1**	**-**	–0.4	-	0.4	-
EUR/NOK	**–1.0**	**-**	**0.4**	**-**	–0.9	-	0.5	-
EUR/RUB	**0.1**	**-**	**–0.1**	**-**	–1.0	-	1.0	-
EUR/SEK	**0.5**	**-**	**–0.5**	**-**	–1.2	-	0.3	-
EUR/UAH	**–0.6**	**-**	**0.6**	**-**	–0.7	-	0.7	-
EUR/USD	**0.4**	**-**	**–0.5**	**-**	–0.2	-	0.2	-

Interest rate risk

The interest rate risk of the Group consists mainly of borrowing, which is split between floating and fixed rate instruments. On the reporting date the floating rate interest-bearing financial liabilities amounted to EUR 25.4 million (EUR 28.6 million in 2017) and the fixed rate interest-bearing liabilities EUR 107.0 million (EUR 106.6 million in 2017) including the interest rate derivatives. The Group's policy aims to have at least 50% of the non-current financial liabilities in fixed rate instruments. Interest rate risk is managed by using interest rate derivatives. On the reporting date the portion of the non-current fixed rate interest-bearing financial liabilities was 100% (79% in 2017) and the average fixing period of the interest-bearing financial liabilities was 8 months (17 months in 2017) including the interest rate derivatives. The Group uses interest rate derivatives as cash flow hedges and hedge accounting is mainly applied for those derivatives.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and interest rate hedges measured at fair value through profit or loss and the Group's equity due to changes in the fair value of cash flow hedges.

A reasonably possible change is assumed to be a 1%-point increase or decrease of the market interest rates. A change of a different magnitude can also be estimated fairly accurately because the sensitivity is nearly linear.

	31 Dec 2018				31 Dec 2017			
	Interest rate				Interest rate			
	1%-point higher		1%-point lower		1%-point higher		1%-point lower	
EUR million	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Impact of interest rate change	**−1.3**	**1.7**	**1.3**	**−1.7**	−1.3	1.6	1.3	−1.6

Electricity price risk

The Group purchases electricity in Finland at market price from the Nordic electricity exchange and this leads to an electricity price exposure. Annually around 90 GWh of electricity is procured. According to the procurement policy electricity purchases are hedged with electricity derivatives within the limits set by the pre-defined hedge ratios for the coming five year period. On the reporting date the energy amount of the electricity derivatives amounted to 180 GWh (210 GWh in 2017).

Sensitivity analysis for electricity price risk

The following table demonstrates the sensitivity to a reasonably possible change in electricity price, with all other variables held constant, of the Group's profit before tax and equity due to changes in the fair value of the electricity derivatives.
A reasonably possible change is assumed to be a 5 EUR/MWh increase or decrease of the electricity market prices.
A change of a different magnitude can also be estimated fairly accurately because the sensitivity is nearly linear.

	31 Dec 2018				31 Dec 2017			
	Electricity price				Electricity price			
	5 EUR/MWh higher		5 EUR/MWh lower		5 EUR/MWh higher		5 EUR/MWh lower	
EUR million	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Impact of electricity price change	**-**	**0.9**	**-**	**−0.9**	0.0	1.0	0.0	−1.0

Liquidity and funding risk

In accordance with the Group's financial policy, the Group Treasury is responsible for maintaining the Group's liquidity, efficient cash management and sufficient sources of funding. The committed credit limits cover all funding needs, like outstanding commercial papers, other current loans, working capital changes arising from operative business and investments.

Refinancing risk is reduced by split maturity structure of loans and credit limits. The revolving credit facility with an international bank syndicate was increased from EUR 100 million to EUR 150 million due in 2023 as a 2-year extension option was executed. Additionally, there is a EUR 350 million domestic commercial paper program available. The current credit limits and the commercial paper program are used to finance inventories, trade receivables, subsidiaries in distribution chains and thus to control the typical seasonality in the Group's cash flows.

The Group reports the main financial covenants to creditors quarterly. If the Group does not satisfy the requirements set in financial covenants, creditor may demand accelerated repayment of the credits. In 2018 the Group has met all the requirements set in the financial covenants, which are mainly linked to equity ratio. Management monitors regularly that the covenant requirements are met. Financing agreements contain terms and conditions upon which the agreement may be terminated, if control in the company changes as a result of a public tender offer.

On the reporting date the Group's liquidity in cash and cash equivalents was EUR 447.5 million (EUR 343.4 million in 2017). At the end of the year the Group's credit limits available were EUR 558.8 million (EUR 508.9 million in 2017), out of which the committed limits were EUR 205.5 million (EUR 155.6 million in 2017). The available committed non-current credits amounted to EUR 150.0 million (EUR 150.0 million in 2017).

The Group's interest-bearing financial liabilities totaled EUR 132.3 million, compared to the year before figure of EUR 135.2 million. Around 85% of the interest-bearing financial liabilities were in EUR. The average interest rate of interest-bearing financial liabilities was 2.7%. Current interest-bearing financial liabilities, including the portion of non-current financial liabilities maturing within the next 12 months, amounted to EUR 126.0 million (EUR 0.8 million in 2017).

Contractual maturities of financial liabilities

	2018							
		Contractual maturities*						
EUR million	**Carrying amount**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024–**	**Total**
Non-derivative financial liabilities								
Loans from financial institutions and pension loans								
Fixed rate loans	**7.0**	**−0.8**	**−0.8**	**−0.7**	**−0.7**	**−1.2**	**−3.7**	**−7.9**
Floating rate loans	**125.4**	**−126.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**−126.6**
Trade and other payables	**111.0**	**−111.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**−111.0**
Derivative financial liabilities								
Interest rate derivatives								
Designated as hedges	**1.6**	**−0.8**	**−0.7**	**−0.4**	**−0.1**	**0.2**	**0.2**	**−1.6**
Foreign currency derivatives								
Designated as hedges								
Cashflow out	**0.7**	**−56.2**	**−1.7**	**−1.6**	**−1.6**	**−19.1**	**0.0**	**−80.2**
Cashflow in	**−18.9**	**68.7**	**0.2**	**0.2**	**0.3**	**18.8**	**0.0**	**88.2**
Measured at fair value through profit or loss								
Cashflow out	**7.9**	**−435.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**−435.0**
Cashflow in	**−3.5**	**431.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**431.8**
Electricity derivatives								
Designated as hedges	**−2.9**	**1.6**	**0.9**	**0.3**	**0.1**	**0.0**	**0.0**	**2.9**
Total	**228.2**	**−228.3**	**−2.0**	**−2.2**	**−2.0**	**−1.3**	**−3.5**	**−239.3**

* The figures are undiscounted and include both the finance charges and the repayments.

	2017							
		Contractual maturities*						
EUR million	**Carrying amount**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023–**	**Total**
Non-derivative financial liabilities								
Loans from financial institutions and pension loans								
Fixed rate loans	6.6	−0.7	−0.7	−0.7	−0.6	−0.6	−4.3	−7.6
Floating rate loans	128.6	−2.8	−129.5	0.0	0.0	0.0	0.0	−132.3
Trade and other payables	72.8	−72.8	0.0	0.0	0.0	0.0	0.0	−72.8
Derivative financial liabilities								
Interest rate derivatives								
Designated as hedges	1.3	−0.9	−0.3	0.0	0.0	0.0	0.0	−1.3
Foreign currency derivatives								
Designated as hedges								
Cashflow out	1.5	−4.5	−61.9	0.0	0.0	0.0	0.0	−66.4
Cashflow in	−12.2	0.9	68.6	0.0	0.0	0.0	0.0	69.5
Measured at fair value through profit or loss								
Cashflow out	1.2	−382.4	0.0	0.0	0.0	0.0	0.0	−382.4
Cashflow in	−9.5	391.5	0.0	0.0	0.0	0.0	0.0	391.5
Electricity derivatives								
Designated as hedges	0.0	−0.3	0.1	0.2	0.1	0.0	0.0	0.0
Total	190.2	−72.0	−123.7	−0.5	−0.6	−0.6	−4.3	−201.8

* The figures are undiscounted and include both the finance charges and the repayments.

Credit Risk

The Group is exposed to credit risk from customers' trade receivables and also from deposits and derivative transactions with different banks and financial institutions.

The credit risk in financial transactions is controlled by doing business only with banks and financial institutions with high credit ratings. In investments the Group's placements are current and funds are invested only in solid domestic listed companies, public institutions or non-listed domestic companies which meet the criteria set by the investment policy. The Board approves the investment policy for financial instruments annually.

The principles of customers' credit risk management are documented in the Group's credit policy approved by the Board. The Group Credit Committee makes all the significant credit decisions. Financial statements as well as credit analysis and payment history collected by credit information companies are used for evaluating credit worthiness. The credit status of the customers is reviewed at the subsidiaries regularly according to the Group credit policy principles. Bank guarantees, documentary credits and specific payment terms are used in controlling the credit risk in trade receivables. Payment programs, which customer is committed to, are always agreed upon for past due receivables. In addition, the country risk is monitored constantly and credits are limited in countries where political or economic environment is unstable. There are no over 15% customer or country risk concentrations in trade receivables, other than the Russian customers' share of 39% (35% in 2017) on the reporting date.

Aging and impairment of trade receivables

Impairment recognized in trade receivables corresponds to lifetime expected credit losses for trade receivables. When measuring expected credit losses the Group reviews sales over the past five years, customer payment behavior, actual credit losses, current conditions and forecasts of future economic conditions.

The aging and impairment of trade receivables

	31 Dec 2018		1 Jan 2018	
EUR million	**Trade receivables gross amount**	**Impairment loss allowance**	**Trade receivables gross amount**	**Impairment loss allowance**
Not past due	**362.5**	**-2.8**	382.4	-3.3
Past due less than 30 days	**38.4**	**-1.1**	30.0	-1.0
Past due between 30 and 90 days	**3.6**	**-0.2**	5.2	-0.4
Past due between 91 and 180 days	**2.7**	**-0.3**	3.0	-0.4
Past due more than 180 days	**53.2**	**-46.5**	55.6	-48.0
Total	**460.4**	**-51.0**	476.3	-53.0

Changes in the impairment loss allowance for trade receivables

EUR million	**2018**	**2017**
Loss allowance, 1 Jan under IAS 39	**43.4**	58.6
Adjustment on initial application of IFRS 9	**9.6**	
Loss allowance, 1 Jan under IFRS 9	**53.0**	
Write-offs	**-2.0**	-15.4
Change in loss allowance recognized in profit or loss	**0.0**	0.2
Loss allowance, 31 Dec	**51.0**	43.4

Capital Management

The Group's objective of managing capital is to secure with an efficient capital structure the Group's access to capital markets at all times despite of the seasonal nature of the business. The Group monitors its capital structure on the basis of Net debt to EBITDA ratio and Equity ratio. Equity ratio has to be at least at the level of 30% in accordance with the financial covenants. Equity ratio is calculated as a ratio of total equity to total assets excluding advances received.

Net debt / EBITDA

EUR million	2018	2017
Average interest-bearing liabilities	**133.8**	177.3
Less: Average liquid funds	**274.5**	272.5
Average net debt	**−140.7**	−95.2
Operating profit	**372.4**	365.4
Add: Depreciations and amortisations	**93.4**	98.3
EBITDA	**465.8**	463.7
Average net debt / EBITDA	**−0.30**	−0.21

Equity ratio

EUR million	2018	2017
Equity attributable to equity holders of the parent	**1,486.1**	1,468.4
Add: Non-controlling interest	**0.0**	0.0
Total equity	**1,486.1**	1,468.4
Total assets	**2,092.9**	1,877.4
Less: Advances received	**0.6**	0.8
Adjusted total assets	**2,092.3**	1,876.6
Equity ratio	**71.0%**	78.2%

28. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

	2018			2017		
EUR million	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives measured at fair value through profit or loss						
Foreign currency derivatives						
Currency forwards	**420.0**	**5.2**	**9.7**	387.2	9.4	1.1
Currency options, purchased	**27.5**	**0.3**	**-**	15.2	0.1	-
Currency options, written	**37.6**	**-**	**0.2**	30.5	-	0.2
Derivatives designated as cash flow hedges						
Foreign currency derivatives						
Interest rate and currency swaps	**86.0**	**18.9**	**0.7**	67.5	12.2	1.5
Interest rate derivatives						
Interest rate swaps	**200.0**	**1.6**	**3.1**	100.0	-	1.3
Electricity derivatives						
Electricity forwards	**4.8**	**2.9**	**0.0**	5.6	0.5	0.5

Derivatives are maturing within the next 12 months excluding the interest rate and currency swaps, interest rate swaps and electricity forwards.
The fair value of forward exchange contracts is measured using the forward rates on the reporting date. The fair value of currency options is calculated using an option valuation model.
The fair values of interest rate and currency swaps and interest rate derivatives are determined as the present value of the future cash flows based on market interest rates on the reporting date.
The fair value of electricity derivatives is based on quoted market prices in active markets on the reporting date.

29. FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

CASH FLOW HEDGES

Financial instruments designated as hedging instruments

	2018						
	Maturity						
	2019	2020	2021	2022	2023	2024–	Total
Interest rate and currency swaps							
Hedged item: Floating rate RUB loan receivables							
Notional amount, EUR million	67.5				18.4		86.0
Average EUR/RUB rate	59.22				76.06		62.83
Interest rate swaps							
Hedged item: Floating rate EUR debt							
Notional amount, EUR million	100.0					100.0	200.0
Average fixed rate	0.6%					0.5%	0.5%
Electricity forwards							
Hedged item: Electricity system price							
Notional amount, EUR million	1.7	1.5	0.9	0.5			4.6
Notional amount, GWh	70	61	35	18			184
Average forward rate, e/MWh	24.8	24.2	25.3	27.3			25.0
Hedged item: Electricity Finnish area price difference							
Notional amount, EUR million	0.1	0.1					0.2
Notional amount, GWh	20	18					37
Average forward rate, e/MWh	4.9	3.8					4.4

	2017						
	Maturity						
	2018	2019	2020	2021	2022	2023–	Total
Interest rate and currency swaps							
Hedged item: Floating rate RUB loan receivable							
Notional amount, EUR million		67.5					67.5
Average EUR/RUB rate		59.22					59.22
Interest rate swaps							
Hedged item: Floating rate EUR debt							
Notional amount, EUR million		100.0					100.0
Average fixed rate		0.6%					0.6%
Electricity forwards							
Hedged item: Electricity system price							
Notional amount, EUR million	2.3	1.5	1.0	0.7			5.4
Notional amount, GWh	74	61	44	26			206
Average forward rate, e/MWh	30.3	24.6	22.9	25.1			26.4
Hedged item: Electricity Finnish area price difference							
Notional amount, EUR million	0.1	0.0	0.1				0.2
Notional amount, GWh	13	9	18				39
Average forward rate, e/MWh	6.2	4.9	3.8				4.8

Effect of hedging instruments on the statement of financial position and statement of comprehensive income

	2018		
	Foreign currency derivatives	Interest rate derivatives	Electricity derivatives
EUR million	Interest rate and currency swaps	Interest rate swaps	Electricity forwards
Notional amount	86.0	200.0	4.8
Notional amount, GWh	-	-	221
Assets			
Carrying amount	18.9	1.6	2.9
Line item in the statement of financial position	Trade and other receivables	Trade and other receivables	Trade and other receivables
Liabilities			
Carrying amount	0.7	3.1	0.0
Line item in the statement of financial position	Trade and other payables	Trade and other payables	Trade and other payables
Change in value for recognizing hedge ineffectiveness			
Hedged item	−7.4	1.2	−3.7
Hedging instrument	7.4	−1.2	3.7
Effective portion			
Amount recognized in other comprehensive income	7.4	−1.2	3.7
Amount reclassified from the cash flow hedge reserve to profit or loss	−8.3	0.9	−1.0
Line item in the income statement	Financial items	Financial items	Cost of sales
Ineffective portion			
Amount recognized in profit or loss	-	-	-
Line item in the income statement	Financial items	Financial items	Other operating income or expenses

	2017		
	Foreign currency derivatives	Interest rate derivatives	Electricity derivatives
EUR million	Interest rate and currency swaps	Interest rate swaps	Electricity forwards
Notional amount	67.5	100.0	5.6
Notional amount, GWh	-	-	250
Assets			
Carrying amount	12.2	-	0.5
Line item in the statement of financial position	Trade and other receivables	Trade and other receivables	Trade and other receivables
Liabilities			
Carrying amount	1.5	1.3	0.5
Line item in the statement of financial position	Trade and other payables	Trade and other payables	Trade and other payables
Change in value for recognizing hedge ineffectiveness			
Hedged item	−4.8	0.0	−0.5
Hedging instrument	4.8	0.0	0.5
Effective portion			
Amount recognized in other comprehensive income	4.8	0.0	0.5
Amount reclassified from the cash flow hedge reserve to profit or loss	−4.6	0.9	0.0
Line item in the income statement	Financial items	Financial items	Cost of sales
Ineffective portion			
Amount recognized in profit or loss	-	-	−0.2
Line item in the income statement	Financial items	Financial items	Other operating income or expenses

Effect of hedging instruments on equity

EUR million	2018	2017
Cash flow hedge reserve, 1 Jan	**–1.8**	–3.1
Cash flow hedges		
Change in fair value recognized in other comprehensive income		
Interest rate and currency swaps	**7.4**	4.8
Interest rate swaps	**–1.2**	0.0
Electricity forwards	**3.7**	0.5
Amount reclassified to profit or loss		
Interest rate and currency swaps	**–8.3**	–4.6
Interest rate swaps	**0.9**	0.9
Electricity forwards	**–1.0**	0.0
Tax effect	**–0.3**	–0.3
Cash flow hedge reserve, 31 Dec	**–0.6**	–1.8

30. OPERATING LEASE COMMITMENTS

EUR million	2018	2017
The Group as a lessee		
Non-cancellable minimum operating lease payments		
In less than 1 year	**42.4**	21.7
In 1 to 5 years	**96.2**	53.6
In over 5 years	**20.8**	14.0
	159.3	89.3

The Group leases office and warehouse spaces and retail outlets under various non-cancellable operating leases. The terms of the leases vary from few years to 15 years. The most significant agreements from the financial reporting point of view are Vianor service centers. The income statement in 2018 contains EUR 60.8 million expenses for operating lease agreements (EUR 58.4 million in 2017).

The Group as a lessor

Vianor has conventional lease contracts for truck tyre frames and treads with short lease periods. These do not involve options for purchase nor lease period extentions.
The leasing income is not material.

31. CONTINGENT LIABILITIES AND ASSETS AND CONTRACTUAL COMMITMENTS

EUR million	2018	2017
For own debt		
Mortgages	**0.9**	1.0
Pledged assets	**4.7**	4.6
On behalf of other companies		
Guarantees	**0.4**	0.4
Other own commitments		
Guarantees	**27.7**	10.3
Contractual commitments	**29.9**	1.1

32. SIGNIFICANT RISKS AND UNCERTAINTIES, AND ONGOING DISPUTES

Nokian Tyres' business and financial performance may be affected by several uncertainties. 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 risk management process aims to identify and evaluate the risks, and to plan and implement the practical measures for each risk. Nokian Tyres has detailed the overall business risks and risk management in the 2018 Corporate Governance Statement.

For example, the following risks could potentially have an impact on Nokian Tyres' development:

- Nokian Tyres is subject to risks related to consumer confidence and macroeconomic and geopolitical conditions. Political uncertainties may cause serious disruption and additional trade barriers and affect the company's sales and credit risk. Economic downturns may increase trade customers' payment problems and Nokian Tyres may need to recognize impairment of trade receivables.
- The tire wholesale and retail landscape is evolving to meet changing consumer needs. New technologies are fueling this with increasing digitalization. A failure to adapt to the changes in the sales channel could have an adverse effect on Nokian Tyres' financial performance.
- Nokian Tyres' success is dependent on its ability to innovate and develop new products and services that appeal to its customers and consumers. Despite extensive testing of its products, product quality issues and failure to meet demands on performance and safety could harm Nokian Tyres' reputation and have an adverse effect on its financial performance.
- Nokian Tyres' production facilities are located in Finland and Russia. Any unexpected production or delivery breaks at these facilities would have a negative impact on the company's business. A new factory is under construction in the US in order to diversify the manufacturing footprint. Interruptions in logistics could have a significant impact on peak season sales.
- Significant fluctuations in raw material prices may impact margins. Nokian Tyres sources natural rubber from producers in countries such as Indonesia and Malaysia. Although Nokian Tyres has policies such as the Supplier Code of Conduct, and established processes to monitor the working conditions, it cannot fully control the actions of its suppliers. The violation of laws, regulations or standards by raw material producers, or their divergence from practices generally accepted as ethical in the European Union or the international community, could have a material adverse effect on Nokian Tyres' reputation.
- Foreign exchange risk consists of transaction risk and translation risk. The most significant currency risks arise from the Russian ruble, the Swedish and Norwegian krona, and the US and Canadian dollar. Approximately 60% of the Group's sales are generated outside of the euro-zone.
- In May 2017, the Finnish Financial Supervisory Authority filed a request for investigation with the National Bureau of Investigation regarding possible securities market offences. The National Bureau of Investigation has initiated a preliminary investigation into the matter.

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's reputation and product quality. Analyses and projects related to information security, data protection, and customer information were a special focus area.

Tax disputes

Dispute concerning 2007–2011

Administrative Court ruling in the tax dispute case concerning the years 2007–2010 positive for the company

In May 2018, the company received the ruling of the Administrative Court in the tax dispute concerning the years 2007–2010. The Administrative Court overturned the tax reassessment decisions of EUR 89.2 million of the Board of Adjustment completely and ordered the Tax Administration to pay Nokian Tyres' legal costs to the amount of EUR 40,000. The company has recorded the tax reassessment decisions in full to the financial statement and result in earlier years. The company received back the previously paid EUR 89.2 million in additional taxes and interest in June 2018. The Tax Recipient Services Unit applied for permission to appeal in July 2018. Adjustments to the financial reporting will be done when the ruling is final.

Background of the Administrative court ruling:
The Large Taxpayers' Office carried out a transfer pricing tax audit regarding the tax years 2007–2011 during 2012–2013, investigating if the intercompany transactions between Nokian Tyres plc and its subsidiaries were at arm's length. The Company paid a total of EUR 89.2 million in additional taxes and tax increases concerning the tax years 2007–2010 based on tax reassessment decisions from the Tax Administration and filed an appeal concerning them with the Administrative Court in January 2017.

Tax Administration's decision in the appeal concerning the tax year 2011 positive for the company

In June 2018, the company received the reassessment decision from the Tax Administration concerning the tax year 2011. The Tax Administration approved the appeal Nokian Tyres made in November 2017, and the Tax Administration returned the previously paid EUR 59 million in additional taxes and interest to the company in June 2018. The company has recorded the tax reassessment decision in full to the financial statement and result in earlier years. The Tax Recipient Services Unit applied for permission to appeal in July 2018. Adjustments to the financial reporting will be done when the decision is final.

Background of the Tax Administration's decision:
In October 2017, Nokian Tyres received a reassessment decision from the Tax Administration concerning the tax year 2011, according to which the company was obliged to pay a total of EUR 59 million, of which EUR 39 million were additional taxes and EUR 20 million were tax increases and interest. The company recorded the amount in full to the financial statement and result of Q3/2017 and paid it in Q4/2017. The company considered the reassessment decision of the Tax Administration unfounded and appealed to the Board of Adjustment in November 2017.

Dispute concerning the US subsidiary 2007–2013

Nokian Tyres U.S. Finance Oy, a subsidiary of Nokian Tyres plc (ownership: 100% of the shares), received reassessment decisions from the Finnish Tax Administration in 2013 and 2014. According to the reassessment decisions, and with interest until the actual payment in August 2017, the company was obliged to pay a total of EUR 18.5 million in additional taxes, with tax increases and interest concerning the tax years 2007–2013. Of this amount, EUR 11.0 million were additional taxes and EUR 7.5 million were tax increases and interest. The company recorded them in full in the financial statements and results for 2013, 2014, and 2017.

The Large Taxpayers' Office carried out a tax audit concerning the Finnish Business Tax Act, where the Tax Administration raised an issue regarding the restructuring of the sales company and acquisitions by the Nokian Tyres Group in North America, completely ignoring the business rationale and corresponding precedent rulings presented by the company.

Nokian Tyres U.S. Finance Oy considered the reassessment decision of the Tax Administration unfounded and filed a claim for rectification with the Board of Adjustment.

In June 2017, the Board of Adjustment rejected the company's claim for rectification. The company considers the decision unfounded and appealed against it by filing a claim with the Administrative Court in July 2017. The company has paid the amount of EUR 18.5 million in full in August 2017.

33. RELATED PARTY TRANSACTIONS

Parent and Group company relations:

	Domicile	Country	Group holding %	Voting rights %	Parent company holding %
Parent company					
Nokian Tyres plc	Nokia	Finland			
Group companies					
Nokian Heavy Tyres Ltd.	Nokia	Finland	100	100	100
Nokian Däck AB		Sweden	100	100	100
Nokian Dekk AS		Norway	100	100	100
Nokian Tyres GmbH		Germany	100	100	100
Nokian Tyres AG		Switzerland	100	100	100
Nokian Tyres U.S. Holdings Inc.		USA	100	100	100
Nokian Tyres Inc		USA	100	100	
Nokian Tyres U.S. Operations LLC		USA	100	100	
Nokian Tyres Canada Inc.		Canada	100	100	100
Nokian Tyres s.r.o.		Czech Rep.	100	100	100
TOV Nokian Shina		Ukraine	100	100	100
TOO Nokian Tyres		Kazakhstan	100	100	100
OOO Nokian Shina	Vsevolozhsk	Russia	100	100	100
TAA Nokian Shina Belarus		Belarus	100	100	99
Nokian Tyres Holding Oy	Nokia	Finland	100	100	99
OOO Nokian Tyres	Vsevolozhsk	Russia	100	100	
OOO Hakkapeliitta Village	Vsevolozhsk	Russia	100	100	
Nokian Tyres Trading (Shanghai) Co Ltd		China	100	100	
NT Tyre Machinery Oy	Nokia	Finland	100	100	100
Direnic Oy	Nokia	Finland	100	100	100
Hakka Invest Oy	Nokia	Finland	100	100	100
OOO Hakka Invest	Vsevolozhsk	Russia	100	100	
Koy Nokian Nosturikatu 18	Nokia	Finland	100	100	100
Koy Nokian Rengaskatu 4	Nokia	Finland	100	100	100
Nokian Tyres Spain S.L.U.		Spain	100	100	100
Nokianvirran Energia Oy	Nokia	Finland	32.3	32.3	32.3
Vianor Holding Oy	Nokia	Finland	100	100	100
Vianor Oy	Lappeenranta	Finland	100	100	
Vianor Russia Holding Oy	Nokia	Finland	100	100	
Posiber Oy	Nokia	Finland	100	100	
Vianor AB		Sweden	100	100	
Nordicwheels AB		Sweden	100	100	
Vianor AS		Norway	100	100	
Dekkspesialisten AS		Norway	100	100	
Vianor Inc.		USA	100	100	
EAM NRE1V Holding Oy		Finland	0	100	
Associated companies					
Sammaliston Sauna Oy	Nokia	Finland	33	33	33

Nokianvirran Energia Oy is a joint operation with three parties that supplies production steam for the tyre plant in Nokia. The parties share control according to a specific Mankala-principle where the company is not intended to make profit while the parties have agreed to utilize the total output. The company is accounted for as a Group company.using the proportionate consolidation method on each row according to the 32.3% shareholding.

The Board of Directors decided in their meeting on July 12, 2017 to implement a share aquisition and administration arrangement of Nokian Tyres Plc (Nokian Tyres) shares with Evli Awards Management Oy (EAM) according to the stipulations of the Companies Act for financing the purchase of own shares (the Finnish Companies Act, Chapter 13, Section 10, Subsection 2) relating to incentive plans. As a part of this arrangement EAM founded EAM NRE1V Holding Oy (Holding company) which aquires the shares with Nokian Tyres's funding and according to the agreement. These shares will be delivered to the employees according to the Nokian Tyre's share plan terms and conditions. The Holding company is owned by the EAM in legal terms, but according to the agreement Nokian Tyres has control over the company and acts as the principal, whereas EAM is an agent through the Holding company. This control arising from contractual terms means that the Holding company is consolidated in to the group's IFRS financial statements as a structured entity.

The related parties of the Group consist of members of the Board of Directors, the President, other key management personnel, and close members of their families.

Transactions and outstanding balances with parties having significant influence

1,000 euros	2018	2017
Key management personnel		
Employee benefit expenses		
Short-term employee benefits	**5,119.4**	4,587.4
Post-employment benefits	**-**	91.1
Termination benefits	**-**	109.9
Share-based payments	**5,231.5**	8,141.4
Total	**10,350.9**	12,929.8
Remunerations		
Hille Korhonen, President	**883.2**	720.2
of which incentives for the reported period	**189.9**	308.7
Andrei Pantioukhov, President 1 January –31 May 2017	**-**	125.0
of which incentives for the reported period	**-**	-
Members of the Board of Directors		
Petteri Walldén	**102.0**	93.8
Heikki Allonen	**54.0**	53.8
Raimo Lind	**78.9**	74.4
Veronica Lindholm	**57.0**	52.0
Inka Mero	**54.0**	53.2
George Rietbergen	**53.4**	46.8
Kari Jordan	**75.9**	
Pekka Vauramo	**52.2**	
Prior members of the Board of Directors		
Hille Korhonen	**-**	3.0
Tapio Kuula	**-**	85.2
Total	**527.4**	462.2
No incentives were paid to the members of the Board of Directors.		
Other key management personnel	**3,708.8**	3,349.6
of which incentives for the reported period	**1,128.2**	1,162.6

No special pension commitments have been granted to the members of the Board of Directors and no statutory pension expense incurs. In 2018 the statutory pension expense for President Korhonen was EUR 288 thousand (in 2017 for President Korhonen EUR 126 thousand and President Pantioukhov EUR 22 thousand) and the expense for supplementary pension plan was EUR 132 thousand (in 2017 for President Korhonen EUR 77 thousand). The agreed plan retirement age is 65 years. The annual account deposits for the pension capital redemption contract have been pledged to guarantee the recognized pension plan commitment. The contract is a defined contribution plan.

No loans, guarantees or collaterals have been granted to the related parties.

Shares and share options granted to the President and other key management personnel.

The share option plan terms for the key management are equal to the share options directed at other personnel.

	2018	2017
Granted (pcs)		
Shares	**229,000**	301,000
Share options	**-**	-
Held (pcs)		
Shares	**195,309**	415,323
Share options	**19,000**	205,125
Exercisable	**19,000**	205,125

No performance shares nor share options have been granted to the members of the Board of Directors.

34. EVENTS AFTER THE REPORTING DATE

No events have occurred after the reporting date affecting the financial statements significantly.

PARENT COMPANY INCOME STATEMENT, FAS

EUR million 1.1. - 31.12.	Notes	2018	2017
Net sales	(1)	**707.8**	686.2
Cost of sales	(2)(3)	**–546.8**	–538.9
Gross profit		**160.9**	147.3
Selling and marketing expenses	(2)(3)	**–32.8**	–28.9
Administration expenses	(2)(3)(4)	**–34.5**	–29.2
Other operating expenses	(2)(3)	**–9.0**	–22.7
Other operating income		**0.2**	0.8
Operating profit		**84.9**	67.2
Financial income and expenses	(5)	**164.9**	253.4
Profit before appropriations and tax		**249.8**	320.6
Appropriations	(6)	**–16.2**	–0.2
Income tax	(7)	**–22.4**	–85.8
Profit for the period		**211.2**	234.7

PARENT COMPANY BALANCE SHEET, FAS

EUR million 31.12.	Note	2018	2017
ASSETS			
Fixed assets and other non-current assets			
Intangible assets	(8)	**15.5**	14.9
Tangible assets	(8)	**157.6**	138.8
Shares in Group companies	(9)	**254.5**	149.6
Investments in associates	(9)	**4.3**	4.3
Shares in other companies	(9)	**0.6**	0.6
Total non-current assets		**432.5**	308.1
Current assets			
Inventories	(10)	**106.0**	90.5
Non-current receivables	(11)	**255.1**	232.8
Current receivables	(15)	**357.7**	503.0
Cash and cash equivalents		**398.6**	307.8
Total current assets		**1,117.4**	1,134.1
		1,549.9	1,442.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	(13)	**25.4**	25.4
Share premium		**182.5**	182.5
Treasury shares		**–10.1**	–19.0
Paid up unrestricted equity fund		**222.6**	203.9
Retained earnings		**259.4**	238.4
Profit for the period		**211.2**	234.7
Total shareholders' equity		**891.0**	866.0
Untaxed reserves and provisions			
Accumulated depreciation in excess of plan	(8)	**38.2**	37.0
Liabilities			
Non-currenwt liabilities	(14)	**0.2**	102.5
Current liabilities	(15)	**620.5**	436.8
Total liabilities		**620.7**	539.3
		1,549.9	1,442.3

PARENT COMPANY STATEMENT OF CASH FLOWS, FAS

EUR million 1.1.–31.12.	2018	2017
Profit for the period	**211.2**	234.7
Adjustments for		
Depreciation, amortisation and impairment	**29.2**	26.3
Financial income and expenses	**−164.9**	−253.4
Gains and losses on sale of intangible assets, other changes	**0.0**	0.0
Income Taxes	**22.4**	85.8
Cash flow before changes in working capital	**97.9**	93.4
Changes in working capital		
Current receivables, non-interest-bearing, increase (-) / decrease (+)	**149.7**	−138.4
Inventories, increase (-) / decrease (+)	**−15.5**	1.0
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	**74.0**	−9.9
Changes in working capital	**208.2**	−147.2
Financial items and taxes		
Interest and other financial items, received	**15.6**	18.4
Interest and other financial items, paid	**−2.5**	−33.3
Dividens received	**160.8**	274.3
Income taxes paid	**−21.8**	−89.5
Financial items and taxes	**152.0**	169.9
Cash flow from operating activities (A)	**458.1**	116.0
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	**−49.7**	−34.5
Proceeds from sale of property, plant and equipment and intangible assets	**0.0**	0.0
Acquisitions of Group companies	**0.0**	0.0
Acquisitions of other investments	**−104.9**	−16.6
Cash flows from investing activities (B)	**−154.7**	−51.0

EUR million 1.1.–31.12.	2018	2017
Cash flow from financing activities:		
Proceeds from issue of share capital	**18.7**	35.0
Purchase of treasury shares	**0.0**	−17.8
Change in current financial receivables, increase (-) / decrease (+)	**−1.7**	4.8
Change in non-current financial receivables, increase (-) / decrease (+)	**−22.3**	41.3
Change in current financial borrowings, increase (+) / decrease (-)	**109.1**	−95.3
Change in non-current financial borrowings, increase (+) / decrease (-)	**−102.3**	−0.1
Group contributions paid	**0.0**	0.0
Dividends paid	**−214.2**	−208.0
Cash flow from financing activities (C)	**−212.7**	−240.0
Change in cash and cash equivalents, increase (+) / decrease (-) (A+B+C)	**90.8**	−175.1
Cash and cash equivalents at the beginning of the period	**307.8**	482.9
Cash and cash equivalents at the end of the period	**398.6**	307.8

Based on the annulled and later renewed tax reassessment decisions on years 2007–2013 of a group company the financial items and taxes contain paid tax increases and interest of EUR 18.5 million in 1–12/17. Changes in working capital include EUR 59.0 million based on the tax reassessment decision on year 2011 and EUR 89.2 million based on the tax reassessment decision on years 2007–2013.
Based on the tax reassessment decisions on years 2007–2013 the financial items and taxes contain paid tax increases and interest of EUR 77.5 million in 1–12/17.

ACCOUNTING POLICIES FOR THE PARENT COMPANY

General
The financial statements of Nokian Tyres plc, domiciled in the city of Nokia, have been prepared according to the Finnish Accounting Standards (FAS).

Inventory valuation
Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first in - first out (FIFO) basis. In addition to the direct costs, an appropriate proportion of production overheads is included in the value of finished goods.

Fixed assets and depreciation
Fixed assets are stated in the balance sheets at cost less depreciation according to plan. The accumulated difference between the total depreciation charged to the income statement and depreciation according to plan is shown as a separate item in untaxed reserves.

Depreciations according to plan are calculated on the basis of the estimated useful life of the assets using the straight line method.

The depreciation times are as follows:

Intangible assets	3–10 years
Buildings	20–40 years
Machinery and equipment	4–20 years
Other tangible assets	10–40 years

Land property, as well as investments in shares, are not regularly depreciated.

Research and development
Research and development costs are charged to the other operating expenses in the income statement in the year in which they are incurred. Certain significant development costs with useful life over three years are capitalised and are amortised on a systematic basis over their expected useful lives. The amortisation period is between three and five years.

Pensions and coverage of pension liabilities
Pension contributions are based on periodic actuarial calculations and are charged to the income statement.

In Finland the pension schemes are funded through payments to a pension insurance company.

Equity
The acquisition cost of treasury shares repurchased by the Group is recognised as a deduction in equity. The consideration received for the treasury shares when sold, net of transaction costs and tax, is included in equity.

Foreign currency items
Transactions in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. At the end of the accounting period unsettled balances on foreign currency transactions and forward exchange contracts are valued at the rates published by the European Central Bank as on the financial statement date.

All foreign currency exchange gains and losses are entered under financial income and expenses.

Direct taxes
The income statement includes direct taxes based on the taxable profit and the change in deferred tax arising from temporary differences. The untaxed reserves are shown in full in the balance sheet, and the deferred tax liability is not recorded.

The deferred tax liability and assets are recorded as separate items and are based on the prevailing corporate tax rate.

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. NET SALES BY SEGMENTS AND MARKET AREAS

EUR million	2018	2017
Passenger Car Tyres	**535.8**	514.6
Heavy Tyres	**172.0**	171.6
Other	**0.0**	0.0
Total	**707.8**	686.2
Finland	**133.4**	127.0
Other Nordic countries	**185.9**	191.1
Baltic countries and Russia	**48.9**	40.9
Other European countries	**186.6**	195.2
North America	**139.1**	120.4
Other countries	**13.9**	11.6
Total	**707.8**	686.2

2. WAGES, SALARIES AND SOCIAL EXPENSES

EUR million	2018	2017
Wages and salaries	**56.9**	49.8
Pension contributions	**9.0**	8.0
Other social expenses	**1.6**	2.2
Total	**67.5**	60.0
Remuneration of the members of the Board of the Directors and the President on accrual basis	**1.4**	1.3
of which incentives	**0.2**	0.3

No special pension commitments have been granted to the members of the Board. The agreed retirement age of the President is 65 years. See also Notes to Consolidated Financial Statements, note 33 Related party transactions.

Personnel, average during the year	2018	2017
Total	**842**	762

3. DEPRECIATION

EUR million	2018	2017
Depreciation according to plan by asset category		
Intangible assets	**5.1**	5.4
Buildings	**2.3**	2.2
Machinery and equipment	**21.6**	21.1
Other tangible assets	**0.2**	0.1
Total	**29.2**	28.7
Depreciation by function		
Production	**20.9**	20.5
Selling and marketing	**1.0**	0.5
Administration	**4.5**	5.5
Other operating depreciation	**2.8**	2.3
Total	**29.2**	28.7

4. AUDITORS' FEES

EUR million	2018	2017
Authorized public accountants KPMG Oy Ab		
Auditing	**0.1**	0.1
Tax consulting	**0.4**	0.4
Other services	**0.2**	0.3
Total	**0.7**	0.8

5. FINANCIAL INCOME AND EXPENSES

EUR million	2018	2017
Dividend income		
From the Group companies	**160.8**	274.3
From others	**0.0**	0.0
Total	**160.8**	274.3
Interest income, non-current		
From the Group companies	**10.8**	14.5
From others	**0.0**	0.0
Total	**10.8**	14.5
Other interest and financial income		
From the Group companies	**4.4**	3.5
From others	**0.4**	0.4
Total	**4.8**	3.9
Exchange rate differences (net)	**−4.4**	−6.9
Interest and other financial expenses		
To the Group companies	**−4.9**	−10.3
To others	**−1.6**	−21.7
Other financial expenses	**−0.5**	−0.5
Total	**−7.0**	−32.4
Total financial income and expenses	**164.9**	253.4

6. APPROPRIATIONS

EUR million	2018	2017
Change in accumulated depreciation in excess of plan		
Intangible assets	**0.5**	-0.5
Buildings	**-0.6**	-0.4
Machinery and equipment	**1.2**	1.0
Other tangible assets	**0.0**	0.1
Total	**1.2**	0.2
Other appropriations		
Group contributions	**15.0**	-
Total	**15.0**	-
Total appropriations	**16.2**	0.2

7. INCOME TAX

EUR million	2018	2017
Direct tax for the year	**-22.4**	-26.6
Direct tax from previous years	**0.0**	-59.2
Change in deferred tax	**-**	-
Total	**-22.4**	-85.8

8. FIXED ASSETS

	Intangible assets		Tangible assets				
EUR million	Intangible rights	Other intangible rights	Land property	Buildings	Machinery and equipment	Other tangible assets	Advances and fixed assets under construction
Accumulated cost, 1 Jan 2018	**54.5**	**3.6**	**0.7**	**72.7**	**438.0**	**5.1**	**17.1**
Increase	**0.6**		**0.2**	**0.8**	**27.1**		**35.5**
Decrease	**-0.1**				**-16.7**		
Transfer between items	**5.1**			**1.6**	**14.6**	**0.2**	**-21.5**
Accumulated cost, 31 Dec 2018	**60.1**	**3.6**	**0.9**	**75.1**	**463.0**	**5.3**	**31.1**
Accum. depr. acc. to plan 1 Jan 2018	**-40.1**	**-3.1**		**-35.7**	**-355.5**	**-3.7**	
Accum. depr. on disposals	**0.1**	**0.0**			**1.2**	**0.0**	
Depreciations for the period	**-4.9**	**-0.1**		**-2.3**	**-21.6**	**-0.2**	
Accum. depr. acc.to plan, 31 Dec 2018	**-45.0**	**-3.2**		**-38.0**	**-375.9**	**-3.9**	
Carrying amount, 31 Dec 2018	**15.1**	**0.4**	**0.9**	**37.1**	**87.1**	**1.5**	**31.1**
Carrying amount, 31 Dec 2017	14.4	0.5	0.7	37.0	82.5	1.5	17.1
Accum. depreciation in excess of plan, 31 Dec 2018	**2.9**	**0.1**	**-**	**12.3**	**19.1**	**-0.3**	
Accum. depreciation in excess of plan, 31 Dec 2017	2.3	0.1	-	12.6	17.9	-0.3	

9. INVESTMENTS

EUR million	Shares in Group companies	Investments in associates	Shares in other companies
Accumulated cost, 1 Jan 2018	**149.6**	**4.3**	**0.6**
Decrease	**-**	**-**	**-**
Increase	**104.9**	**-**	**-**
Accumulated cost, 31 Dec 2018	**254.5**	**4.3**	**0.6**
Carrying amount, 31 Dec 2018	**254.5**	**4.3**	**0.6**
Carrying amount, 31 Dec 2017	149.6	4.3	0.6

10. INVENTORIES

EUR million	2018	2017
Raw materials and supplies	**73.1**	56.3
Work in progress	**2.7**	2.7
Finished goods	**30.3**	31.4
Total	**106.0**	90.5

11. NON-CURRENT RECEIVABLES

EUR million	2018	2017
Loan receivables from the Group companies	**254.7**	232.7
Loan receivables from others	**0.4**	0.2
Total long-term receivables	**255.1**	232.8

The members of the Board of Directors and the President have not been granted loans.

12. CURRENT RECEIVABLES

EUR million	2018	2017
Receivables from the Group companies		
Trade receivables	**138.4**	138.8
Loan receivables	**131.5**	276.7
Accrued revenues and deferred expenses	**23.6**	16.6
Total	**293.5**	432.2
Trade receivables	**31.6**	37.2
Other receivables	**4.3**	5.1
Accrued revenues and deferred expenses	**28.3**	28.6
Total	**64.2**	70.8
Total short-term receivables	**357.7**	503.0
Significant items under accrued revenues and deferred expenses		
Financial items	**28.4**	23.5
Social payments	**0.6**	1.6
Capital expenditure in factories	**1.3**	0.3
Goods and services rendered and not invoiced, subsidiary	**18.8**	11.7
Other items	**2.9**	8.2
Total	**51.9**	45.2

13. SHAREHOLDERS' EQUITY

EUR million	2018	2017
Restricted shareholders' equity		
Share capital, 1 January	**25.4**	25.4
Emissions	**-**	-
Share capital, 31 December	**25.4**	25.4
Share issue premium, 1 January	**182.5**	182.5
Emission gains	**-**	-
Share issue premium, 31 December	**182.5**	182.5
Total restricted shareholders' equity	**207.9**	207.9
Non-restricted shareholders' equity		
Paid-up unrestricted equity reserve, 1 January	**203.9**	169.0
Emission gains	**18.7**	35.0
Paid-up unrestricted equity reserve, 31 December	**222.6**	203.9
Retained earnings, 1 January	**473.1**	445.0
Dividends to shareholders	**−213.7**	−206.5
Retained earnings, 31 December	**259.4**	238.4
Treasury shares	**−10.1**	−19.0
Profit for the period	**211.2**	234.7
Total non-restricted shareholders' equity	**683.0**	658.0
Total shareholders' equity	**891.0**	866.0
Specification of the distributable funds, 31 December		
Retained earnings	**259.4**	238.4
Treasury shares	**−10.1**	−19.0
Paid-up unrestricted equity reserve	**222.6**	203.9
Profit for the period	**211.2**	234.7
Distributable funds, 31 December	**683.0**	658.0

The Group or the Parent company themselves do not directly hold any treasury shares.

Nokian Tyres has an agreement from 2017 with a third-party service provider concerning the share-based incentive program for key personnel. The third party owns Nokian Tyres shares related to the incentive program until the shares are given to the participants of the program. In accordance with IFRS, these repurchased shares, 480,000 in 2017, have been reported as treasury shares in the Consolidated Statement of Financial Position. On December 31, 2018, the number of these shares was 278,083. This number of shares corresponded to 0.2% of the total shares and voting rights in the company.

14. NON-CURRENT LIABILITIES

EUR million	2018	2017
Interest-bearing		
Loans from financial institutions	**0.0**	102.4
Total	**0.0**	102.4
Non-interest-bearing		
Accrued expenses and deferred revenues	**0.2**	0.1
Total	**0.2**	0.1
Total non-current liabilities	**0.2**	102.5

15. CURRENT LIABILITIES

EUR million	2018	2017
Interest-bearing		
Liabilities to the Group companies		
Finance loans	**224.1**	324.0
Total	**224.1**	324.0
Non-interest-bearing		
Liabilities to the Group companies		
Trade payables	**48.8**	50.3
Accrued expenses and deferred revenues	**17.5**	2.4
Total	**66.2**	52.8
Trade payables	**38.4**	26.3
Liabilities to the others	**104.4**	2.1
Accrued expenses and deferred revenues	**187.4**	31.7
Total	**330.1**	60.0
Total non-interest-bearing liabilities	**396.4**	112.8
Total current liabilities	**620.5**	436.8
Significant items under accrued expenses and deferred revenues		
Wages, salaries and social security contributions	**12.5**	11.9
Annual discounts, sales	**5.8**	5.7
Taxes	**149.6**	0.7
Financial items	**12.5**	5.2
Commissions	**5.2**	5.2
Goods received and not invoiced	**1.2**	1.5
Warranty commitments	**0.8**	0.9
Group contributions	**15.0**	-
Other items	**2.3**	2.9
Total	**204.8**	34.1

16. CONTINGENT LIABILITIES

EUR million	2018	2017
On behalf of Group companies and investments in associates		
Guarantees	**80.4**	55.4
The amount of debts and commitments mortgaged for total EUR 72.7 million (2017: EUR 51.8 million).		
On behalf of other companies		
Guarantees	**0.2**	0.1
Other own commitments		
Guarantees	**43.5**	30.7
Leasing and rent commitments		
Payments due in 2019/2018	**2.0**	2.5
Payments due in subsequent years	**5.7**	2.7

17. DERIVATIVE FINANCIAL INSTRUMENTS

EUR million	2018	2017
Interest rate derivatives		
Interest rate swaps		
Notional amount	**200.0**	100.0
Fair value	**-1.6**	-1.3
Foreign currency derivatives		
Currency forwards		
Notional amount	**450.8**	413.0
Fair value	**-4.3**	8.3
Currency options, purchased		
Notional amount	**27.5**	15.2
Fair value	**0.3**	0.1
Currency options, written		
Notional amount	**37.6**	30.5
Fair value	**-0.2**	-0.2
Interest rate and currency swaps		
Notional amount	**86.0**	67.5
Fair value	**18.1**	10.8
Electricity derivatives		
Electricity forwards		
Notional amount	**4.8**	5.6
Fair value	**2.9**	0.0

Unrealised fair value changes of interest rate and electricity derivatives are not recognised in profit and loss. The interest rate swap hedges the future interest payments of a loan from a financial institution and the electricity forwards hedge the future electricity purchase prices in Finland. The contractual terms of these derivatives and the hedged items are congruent. The cash flows of the interest rate swaps will occur during the next six years and the cash flows of the electricity forwards during the next four years.

The fair value of forward exchange contracts is measured using the forward rates on the reporting date. The fair value of currency options is calculated using an option valuation model.

The fair value of interest rate derivatives is determined as the present value of the future cash flows based on market interest rates on the reporting date.

The fair value of electricity derivatives is based on quoted market prices in active markets on the reporting date.

18. ENVIRONMENTAL COMMITMENTS AND EXPENSES

Expenses relating to environment are included to production costs. The company has duly attended to environmental commitments and has no information on material environmental liabilities. In addition to the environmental aspects presented in the Annual Report, Nokian Tyres issued a Corporate Social Responsibility Report in spring 2018.

CONSOLIDATED KEY FINANCIAL INDICATORS

Figures in EUR million unless otherwise indicated	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net sales	**1,595.6**	1,572.5	1,391.2	1,360.1	1,389.1	1,521.0	1,612.4	1,456.8	1,058.1	798.5
growth, %	**1.5%**	13.0%	2.3%	−2.1%	−8.7%	−5.7%	10.7%	37.7%	32.5%	−26.1%
Operating margin (EBITDA)	**465.8**	463.7	395.2	378.6	398.5	479.0	496.9	451.7	291.5	164.0
Depreciation and amortisation	**93.4**	98.3	84.7	82.6	89.8	93.5	81.9	71.6	69.4	61.9
Operating profit (EBIT)	**372.4**	365.4	310.5	296.0	308.7	385.5	415.0	380.1	222.2	102.0
% of net sales	**23.3%**	23.2%	22.3%	21.8%	22.2%	25.3%	25.7%	26.1%	21.0%	12.8%
Profit before tax	**361.7**	332.4	298.7	274.2	261.2	312.8	387.7	359.2	208.8	73.5
% of net sales	**22.7%**	21.1%	21.5%	20.2%	18.8%	20.6%	24.0%	24.7%	19.7%	9.2%
Return on equity, %	**20.0%**	15.1%	18.7%	19.6%	16.0%	13.0%	25.2%	29.1%	20.0%	7.6%
Return on capital employed, %	**23.3%**	22.4%	19.9%	20.3%	19.2%	21.8%	24.3%	27.4%	19.9%	9.4%
Total assets	**2,092.9**	1,877.4	1,975.7	1,754.8	1,797.0	2,062.9	2,019.6	1,875.9	1,371.6	1,221.9
Interest-bearing net debt	**−315.2**	−208.3	−287.4	−209.7	−164.6	−56.4	−65.2	−3.6	0.7	263.7
Equity ratio, %	**71.0%**	78.2%	73.8%	70.8%	67.5%	67.6%	71.2%	63.2%	68.4%	62.0%
Gearing, %	**−21.2%**	−14.2%	−19.7%	−16.9%	−13.6%	−4.1%	−4.5%	−0.3%	0.1%	34.8%
Net cash from operating activities	**536.9**	234.6	364.4	283.4	323.4	317.6	388.7	232.9	327.2	194.2
Capital expenditure	**226.5**	134.9	105.6	101.7	80.6	125.6	209.2	161.7	50.5	86.5
% of net sales	**14.2%**	8.6%	7.6%	7.5%	5.8%	8.3%	13.0%	11.1%	4.8%	10.8%
R&D expenditure	**20.8**	21.8	20.3	18.7	16.6	16.1	16.9	15.1	12.7	12.0
% of net sales	**1.3%**	1.4%	1.5%	1.4%	1.2%	1.1%	1.0%	1.0%	1.2%	1.5%
Dividends (proposal)	**218.1**	214.2	208.0	202.0	193.5	193.3	191.9	156.6	83.8	50.7
Personnel, average during the year	**4,790**	4,630	4,433	4,421	4,272	4,194	4,083	3,866	3,338	3,503

PER SHARE DATA

Figures in EUR million unless otherwise indicated	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Earnings per share, EUR	**2.15**	1.63	1.87	1.80	1.56	1.39	2.52	2.39	1.34	0.47
growth, %	**32.4%**	−13.0%	3.6%	15.1%	12.9%	−45.0%	5.4%	78.7%	186.9%	−58.4%
Earnings per share (diluted), EUR	**2.14**	1.61	1.86	1.80	1.56	1.39	2.46	2.32	1.32	0.49
growth, %	**32.5%**	−13.2%	3.2%	15.0%	12.9%	−43.5%	5.8%	75.8%	168.2%	−55.4%
Cash flow per share, EUR	**3.91**	1.72	2.70	2.12	2.43	2.39	2.96	1.80	2.58	1.56
growth, %	**127.2%**	−36.3%	27.4%	−12.7%	1.4%	−19.2%	64.2%	−30.1%	66.0%	953.2%
Dividend per share, EUR (proposal)	**1.58**	1.56	1.53	1.50	1.45	1.45	1.45	1.20	0.65	0.40
Dividend pay out ratio, % (proposal)	**73.9%**	96.7%	82.6%	83.9%	92.9%	105.2%	58.0%	50.7%	49.4%	87.0%
Equity per share, EUR	**10.79**	10.74	10.75	9.24	9.07	10.45	10.89	9.15	7.34	6.07
P/E ratio	**12.5**	23.3	19.0	18.4	13.0	25.2	11.9	10.4	20.5	36.4
Dividend yield, % (proposal)	**5.9%**	4.1%	4.3%	4.5%	7.1%	4.2%	4.8%	4.8%	2.4%	2.4%
Market capitalisation 31 December	**3,702.9**	5,188.7	4,814.0	4,458.3	2,708.1	4,647.7	3,971.9	3,224.7	3,505.4	2,122.5
Adjusted number of shares during the year, average, million units	**137.26**	136.25	134.86	133.63	133.16	132.65	131.24	129.12	126.75	124.85
diluted, million units	**138.14**	137.28	135.56	133.74	135.10	137.62	137.39	135.70	132.96	129.76
Number of shares 31 December, million units	**137.79**	136.75	135.68	134.39	133.17	133.29	131.96	129.61	127.70	124.85
Number of shares entitled to a dividend, million units	**138.07**	137.28	135.93	134.69	133.47	133.34	132.32	130.50	128.85	126.69

CONSOLIDATED KEY FINANCIAL INDICATORS

Definitions

Return on equity, % = $\frac{\text{Profit for the period}}{\text{Total equity (average)}} \times 100$

Return on capital employed, % = $\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Total assets – non-interest-bearing debt (average)}} \times 100$

Equity ratio, % = $\frac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$

Gearing, % = $\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$

Earnings per share, EUR = $\frac{\text{Profit for the period attributable to the equity holders of the parent}}{\text{Average adjusted number of shares}^{1}\text{ during the year}}$

Earnings per share (diluted[2]), EUR = $\frac{\text{Profit for the period attributable to the equity holders of the parent}}{\text{Average adjusted and diluted}^{2}\text{ number}^{1}\text{ of shares during the year}}$

Cash flow per share, EUR = $\frac{\text{Cash flow from operations}}{\text{Average adjusted number of shares}^{1}\text{ during the year}}$

Dividend per share, EUR = $\frac{\text{Dividend for the year}}{\text{Number of shares entitled to a dividend}}$

Dividend pay-out ratio, % = $\frac{\text{Dividend for the year}}{\text{Net profit}} \times 100$

Equity per share, EUR = $\frac{\text{Equity attributable to equity holders of the parent}}{\text{Adjusted number of shares}^{1}\text{ on the balance sheet date}}$

P/E ratio = $\frac{\text{Share price, 31 December}}{\text{Earnings per share}}$

Dividend yield, % = $\frac{\text{Dividend per share}}{\text{Share price, 31 December}}$

[1] without treasury shares
[2] the share options affect the dilution as the average share market price for the financial year exceeds the defined subscription price

INFORMATION ON NOKIAN TYRES' SHARE

Share data

Market	Nasdaq Helsinki
Listing date	June 1, 1995
Currency	euro
ISIN	FI0009005318
Symbol	NRE1V
Reuters symbol	NRE1V.HE
Bloomberg symbol	NRE1V:FH
Industry	OMXH Large Caps
Sector	Consumer goods
Industry	Automobiles and parts
Number of shares, December 31, 2018	138,065,719

Share capital and shares

The company has one class of shares, each share entitling the shareholder to one vote and carrying equal rights to a dividend. On December 31, 2018, the number of shares was 138,065,719.

Read more: www.nokiantyres.com/company/investors/share/share-information/

Dividend policy

Nokian Tyres' dividend policy for 2016–2018 was to distribute a dividend of at least 50% of net earnings.

In November 2018, Nokian Tyres' Board of Directors decided on a new dividend policy for 2019–2021. Nokian Tyres' dividend policy is to distribute a dividend above 50% of net earnings.

Stock options 2013 directed at personnel

The Annual General Meeting held on April 11, 2013 decided to issue stock options to the personnel of the Nokian Tyres Group and the wholly owned subsidiary of Nokian Tyres plc. A deviation was made from the shareholders' pre-emptive subscription right because the stock options were designed to be part of the Group's incentive and commitment program.

The stock option 2013 program has been defined as follows: The purpose of the stock options is to encourage the personnel to work on a long-term basis to increase shareholder value. The maximum total number of stock options issued will be 3,450,000 and they will be issued gratuitously. Of the stock options, 1,150,000 are marked with the symbol 2013A, 1,150,000 are marked with the symbol 2013B, and 1,150,000 are marked with the symbol 2013C. The stock options entitle their owners to subscribe for a maximum total of 3,450,000 shares in the Company or existing shares held by the Company. The stock options issued can be exchanged for shares constituting a maximum total of 2.5% of all of the Company's shares and votes of the shares, after the potential share subscription, if new shares are issued in the share subscription.

The share subscription price for stock option 2013A is the trade volume weighted average quotation of the Company's share on Nasdaq Helsinki between January 1 and April 30, 2013, i.e. EUR 32.26, for stock option 2013B, the trade volume weighted average quotation of the share on Nasdaq Helsinki between January 1 and April 30, 2014, i.e. EUR 29.54, and for stock option 2013C, the trade volume weighted average quotation of the share on Nasdaq Helsinki between January 1 and April 30, 2015, i.e. EUR 24.42. The share subscription price will be credited to the reserve for invested unrestricted equity.

If the company distributes dividends or similar assets from the reserves of unrestricted equity, the amount of the dividend or distributable unrestricted equity shall be deducted from the share's subscription price of the stock options and decided after the beginning of the period for the determination of the share subscription price but before share subscription, as per the dividend record date or the record date of the repayment of equity.

The share subscription period:
May 1, 2015–May 31, 2017 for stock options 2013A
May 1, 2016–May 31, 2018 for stock options 2013B
May 1, 2017–May 31, 2019 for stock options 2013C.

As a result of the subscriptions with the 2013 stock options, the number of shares in Nokian Tyres plc may increase by a maximum of 3,450,000 new shares. The share subscription price shall be credited to the paid-up unrestricted equity reserve. A share ownership plan is incorporated into the 2013 stock options, obliging the Group's senior management to acquire the Company's shares with a proportion of the income gained from the stock options.

Read more: www.nokiantyres.com/company/investors/share/stock-options/

Stock options listed on the main list of Nasdaq Helsinki Oy

The share subscription period for stock options 2013B ended in May 2018. The total number of stock options 2013B was 1,150,000. Each stock option 2013B entitled its holder to subscribe to one share in Nokian Tyres plc. The shares with the stock options 2013B were subscribed during the period of May 1, 2016 to May 31, 2018.

The total number of stock options 2013C is 1,150,000. Each stock option 2013C entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013C during the period of May 1, 2017 to May 31, 2019. At the end of 2018, the share subscription price with stock options 2013C was EUR 19.83/share. The dividends paid are deducted from the share subscription price.

Number of shareholders on December 31, 2018

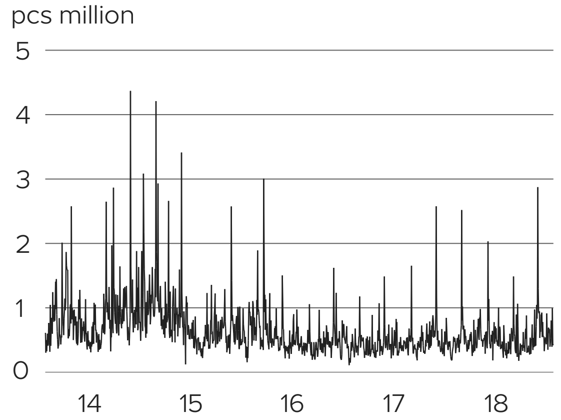
Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	22,500	47.9	1,125,062	0.8
101–500	16,720	35.6	4,296,072	3.1
501–1,000	4,015	8.5	3,093,877	2.2
1,001–5,000	3,152	6.7	6,558,829	4.8
5,001–10,000	333	0.7	2,397,826	1.7
10,001–50,000	214	0.5	4,556,090	3.3
50,001–100,000	32	0.1	2,210,667	1.6
100,001–500,000	29	0.1	7,344,069	5.3
500,001–	12	0.0	106,483,227	77.1
Total	**47,007**	**100**	**138,065,719**	**100**

Shareholder structure on December 31, 2018

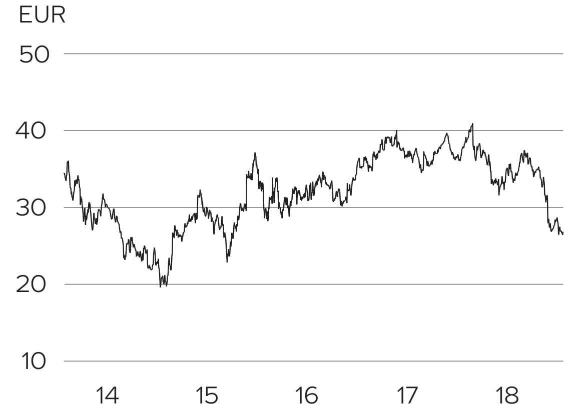
	Number of shares	% of share capital
Nominee registered and non-Finnish holders	98,484,587	71.3
Households	16,768,270	12.1
General Government	8,774,873	6.4
Financial and insurance corporations	6,288,886	4.6
Non-profit institutions	4,557,923	3.3
Corporations	3,191,180	2.3
Total	**138,065,719**	**100**

Read more: www.nokiantyres.com/company/investors/share/major-shareholders/

Share trading volumes on Nasdaq Helsinki Jan 1, 2014–Dec 31, 2018

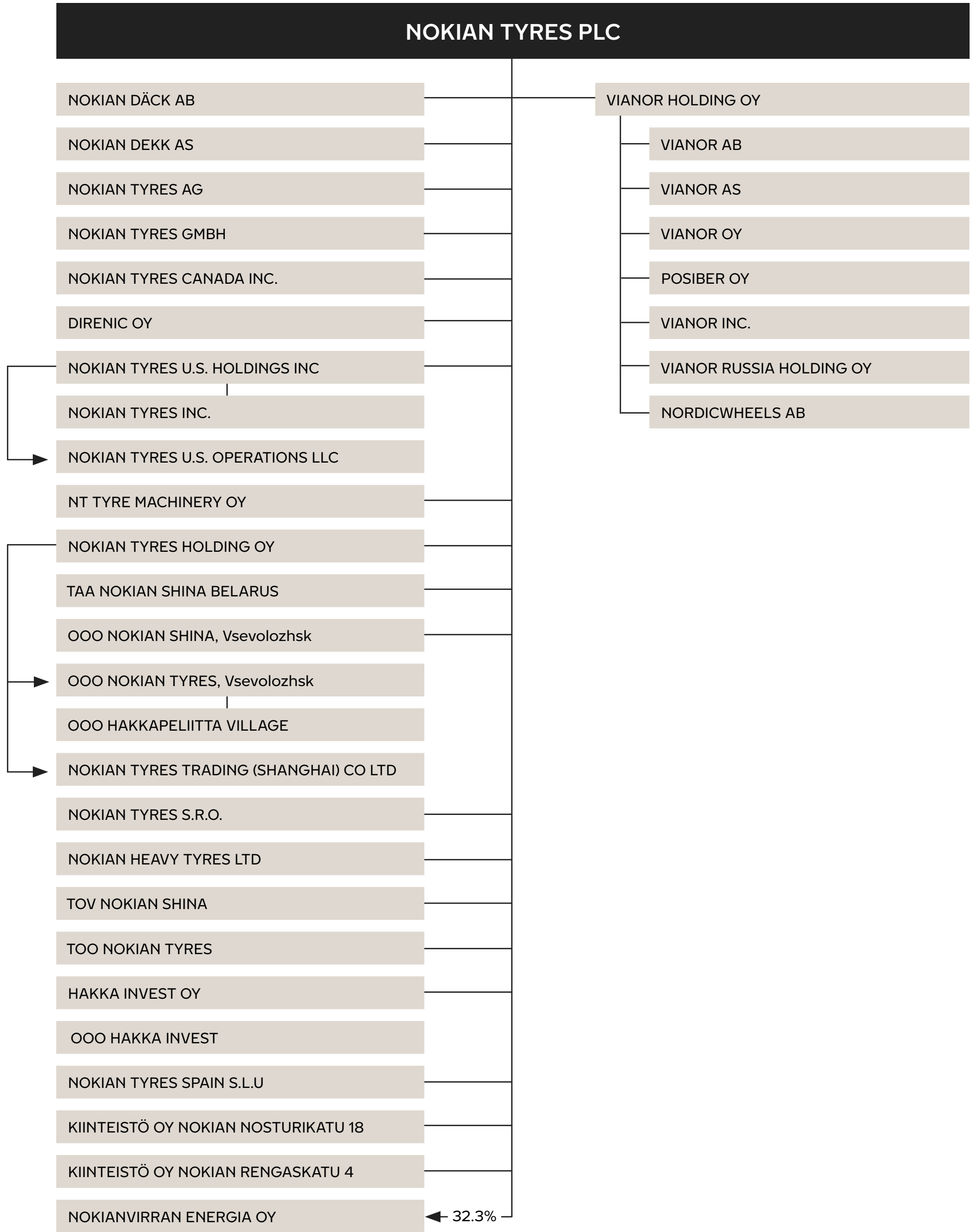


Share price development on Nasdaq Helsinki Jan 1, 2014–Dec 31, 2018



Read more: www.nokiantyres.com/company/investors/share/share-performance/

NOKIAN TYRES GROUP STRUCTURE



SIGNATURES FOR THE FINANCIAL STATEMENTS AND THE REPORT BY THE BOARD OF DIRECTORS

Nokia, 5 February 2019

Petteri Walldén

Veronica Lindholm

Heikki Allonen

Inka Mero

Raimo Lind

George Rietbergen

Kari Jordan

Pekka Vauramo

Hille Korhonen
CEO

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Annual General Meeting of Nokian Tyres Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nokian Tyres Plc (business identity code 0680006-8) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in the notes to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Revenue recognition and impairment of trade receivables
(Refer to Accounting policies for the consolidated financial statements, notes 19 and 27)

The key audit matter	How the matter was addressed in the audit
• The trade receivables amounted to EUR 409.5 million in the consolidated statement of financial position as at 31 December 2018. • The industry is marked by seasonal sales and long credit periods granted to clients.	Our audit procedures included, among others: • We assessed and tested internal controls over recording sales transactions and recognising related revenues, maintaining customer data as well as over the approval practices related to price changes, among others. • We assessed the Group's credit control process and considered the related instructions and other documentation, both on Group level and in Group companies. • We evaluated credit risk and the level of credit losses recorded based on the information on Group's trade receivables and customers.

Foreign currency risks
(Refer to Accounting policies for the consolidated financial statements notes 9, 27 and 29)

The key audit matter	How the matter was addressed in the audit
• A significant part of the Group's operations are derived from Russia, and the exchange rate between Euro and Rouble may fluctuate significantly. • The Group has invested heavily in Russia by building a production plant. In the Russian subsidiaries there is a significant amount of equity and the euro-denominated value of the equity may fluctuate substantially following the development of Rouble exchange rate.	Our audit procedures included, among others: • We obtained an understanding of the centralised Group Treasury and the methods and policies used by financial management to manage exchange rate risks. • We evaluated the appropriateness of measurement of items denominated in foreign currencies in the financial statements.

Income tax issues
(Refer to Accounting policies for the consolidated financial statements, notes 10, 17 and 32)

The key audit matter	How the matter was addressed in the audit
• The parent company has been subject to a tax audit concerning the tax years 2007-2011. As a result the parent company was obliged to pay significant additional taxes and interest regarding transfer pricing in the intra-group sales between Finland and Russia. • Based on the appeal Nokian Tyres made, the Finnish Tax Administration returned the previously paid additional taxes and interest to the company in June 2018. • The Tax Recipient Services Unit applied for permission to appeal in July 2018. The tax rectification process is still ongoing. • The Group´s effective tax rate is low mainly due to tax incentives received in Russia.	Our audit procedures included, among others: • Together with KPMG tax specialists we obtained an understanding of the decisions made by the Finnish Tax Administration and the related claims submitted by the company. We also evaluated the appropriateness of the related accounting principles the accuracy and adequacy of the disclosures given in the financial statements. • We gained an understanding of the agreements entered into with the Russian tax authority related to tax incentives in Russia. We also evaluated the appropriateness of the accounting principles applied in respect tax incentives as well as assessed the calculations made in connection with the year-end financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

Nokian Tyres Plc has become a PIE entity in June 1995. KPMG Oy Ab has been auditor during all the years the company has been a PIE entity.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable funds shown in the Financial Statements is in compliance with the Limited Liability Companies Act. We support that the Members of Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 18 February 2019

KPMG OY AB

LASSE HOLOPAINEN
Authorised Public Accountant, KHT

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.

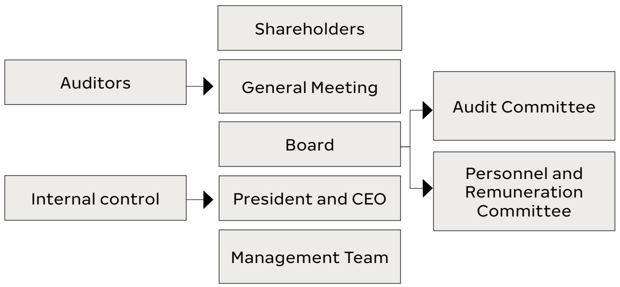
The Company publishes its Corporate Governance Statement as a separate document and as part of the annual report. The statement also includes a Report of the Salaries and Remuneration. The statement is available on the Company's website at www.nokiantyres.com under Investors – Corporate Governance.

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 Councel 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 deliver 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 wil 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	3,601,862	32,381
Other members of the management team	2,580,611	753,063	31,915	0	6,714,353	10,079,941	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

BOARD OF DIRECTORS DECEMBER 31, 2018 | See the details for the Board of Directors at www.nokiantyres.com/board-of-directors

PETTERI WALLDÉN
- b. 1948
- Master of Science (Technology)
- CEO, Wapiti Oy
- Member of the Board since 2005, Chairman of the Board
- Member of the Personnel and Remuneration Committee
- Independent of the company
- Shares: 20,865

KARI JORDAN
- b. 1956
- Master of Science (Economics), Vuorineuvos (Finnish honorary title)
- Chairman of the Board, Outokumpu Oyj
- Member of the Board since 2018, Deputy Chairman of the Board
- Chairman of the Personnel and Remuneration Committee
- Independent of the company
- Shares: 1,011

HEIKKI ALLONEN
- b. 1954
- Master of Science (Technology)
- President and CEO, Hemmings Oy Ab
- Member of the Board since 2016
- Member of the Audit Committee
- Independent of the company
- Shares: 1,867

RAIMO LIND
- b. 1953
- Master of Science (Economics)
- Professional board member
- Member of the Board since 2014
- Chairman of the Audit Committee
- Independent of the company
- Shares: 3,862

VERONICA LINDHOLM
- b. 1970
- Master of Science (Economics)
- CEO, Finnkino Oy
- Member of the Board since 2016
- Member of the Personnel and Remuneration Committee
- Independent of the company
- Shares: 1,867

INKA MERO
- b. 1976
- Master of Science (Economics)
- Chairwoman and Partner, Industryhack Oy
- Member of the Board since 2014
- Member of the Audit Committee
- Independent of the company
- Shares: 3,260

• GEORGE RIETBERGEN
- b. 1964
- Master of Business Administration
- 5Square Committed Capital, Partner
- Member of the Board since 2017
- Independent of the company
- Shares: 1,204

PEKKA VAURAMO
- b. 1957
- Master of Science (Technology)
- President and CEO, Metso Corporation
- Member of the Board since 2018
- Member of the Audit Committee
- Independent of the company
- Shares: 674

MANAGEMENT TEAM DECEMBER 31, 2018 | Look at details of Management at: www.nokiantyres.com/management

HILLE KORHONEN

- b. 1961
- President and CEO
- Licentiate of Science (Technology)
- Member of the Board 2006–2017, member of management team and President and CEO since 2017

ANDREI PANTIOUKHOV

- b. 1972
- Executive Vice President, Nokian Tyres plc and General Manager, Russia and Asia business area
- Master of Business Administration
- With the company since 2004 and a member of management team since 2009

PÄIVI ANTOLA

- b. 1971
- Investor Relations & Corporate Communications
- Master of Arts, CEFA
- With the company and a member of management team since 2018

TYTTI BERGMAN

- b. 1969
- People & Culture
- Master of Science (Economics and Business Administration)
- With the company and a member of management team since 2018

MARK EARL

- b. 1960
- Americas Business Area
- Bachelor of Sciences in Business Administration, Computer Science
- With the company and a member of management team since 2018

ESA ERONEN

- b. 1957
- Supply Chain and Sustainability
- Technology Engineer
- With the company since 1988 and a member of management team since 2001

ANNA HYVÖNEN

- b. 1968
- Nordics Business Area and Vianor Business Unit
- Licentiate of Science (Technology)
- With the company and a member of management team since 2016

TEEMU KANGAS-KÄRKI

- b. 1966
- Finance
- Master of Science (Economics and Business Administration)
- With the company and a member of management team since 2018

JUKKA KASI
- b. 1966
- Products & Technologies
- Master of Science (Technology)
- With the company and a member of management team since 2018

MANU SALMI
- b. 1975
- Nokian Heavy Tyres Business Unit
- Master of Military Sciences, Master of Science (Economics and Business Administration), Master of Business Administration
- With the company since 2001 and a member of management team since 2008

TIMO TERVOLIN
- b. 1977
- Strategy and M&A
- Master of Science (Technology), Master of Science (Economics and Business Administration)
- With the company and a member of management team since 2016

SUSANNA TUSA
- b. 1972
- Legal and Compliance
- Master of Laws and Master of International Business
- With the company since 2007 and a member of management team since 2018

ANTTI-JUSSI TÄHTINEN
- b. 1965
- Marketing
- Master of Arts
- With the company since 2005 and a member of management team since 2009

FRANS WESTERLUND
- b. 1966
- IT and Processes
- Master of Science (Economics and Business Administration)
- With the company and a member of management team since 2017

TARJA KAIPIO, VP, Human Resources was a member of the Management Team until April 2018

TOMMI HEINONEN acted as VP, Americas Business Area until May 2018

ANNE LESKELÄ acted as CFO until July 2018

PONTUS STENBERG acted as SVP, Business Area Europe until December 2018

INVESTOR INFORMATION AND INVESTOR RELATIONS

Annual General Meeting 2019

The Annual General Meeting of Nokian Tyres plc will be held at Tampere-talo in Tampere, Finland, street address Yliopistonkatu 55, on April 9, 2019, at 4 p.m. Registration of attendants, the distribution of ballots and a coffee service will begin at 2:30 p.m.

More information is available at www.nokiantyres.com/annualgeneralmeeting2019

Dividend payment

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.58 per share for the financial year 2018, representing a payout ratio of 73.9%.

Stock exchange releases

Stock exchange releases are available in Finnish and English at www.nokiantyres.com/investors immediately after publication. Stock exchange releases can be subscribed at www.nokiantyres.com/company/publications/order-releases/

Financial reports in 2019

- January–March: May 8, 2019
- January–June: August 6, 2019
- January–September: October 30, 2019

Silent period

Nokian Tyres observes a silent period before issuing financial statements, interim and half-year reports.

- Start of the silent period: January 1, April 1, July 1, and October 1.
- End of the silent period: The results of the respective quarter are made public.

During the silent period, the company's top management and Investor Relations do not meet representatives of capital markets or financial media, nor comment on issues related to the company's financial situation or general outlook. If an event occurring during the silent period requires immediate disclosure, Nokian Tyres will disclose the information without delay in compliance with disclosure rules and may also comment on the event concerned.

Investor relations pages on the web

Nokian Tyres' investor relations pages at www.nokiantyres.com/investors contain a share monitor, information about Nokian Tyres' largest shareholders registered in Finland, presentations and reports, among others.

Change of address

Shareholders are advised to inform any changes in their contact information to the book entry register in which they have a book entry securities account.

Flagging notifications

Under the provisions of the Securities Markets Act, changes in holdings must be disclosed when the holding reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 50 or 90 per cent or two thirds of the voting rights or the numbers of shares of the company.

Notifications of changes in holdings or voting rights must be made without undue delay.

Shareholders are advised to send the flagging notifications to flaggings@nokiantyres.com

Contact information

Regarding inquiries and meeting requests, you can send an email to ir@nokiantyres.com

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Jutta Meriläinen, Manager, Investor Relations & Business Development
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