



nokian[®]
TYRES

Annual Report | 2016

Drive safely!

Our unique expertise creates the safest premium products and services for the everyday life. As a pioneer in the tyre industry, we want to be the best in everything we do!

The specialist in demanding conditions

Nokian Tyres is the world's northernmost tyre manufacturer. It promotes and facilitates safe driving in demanding conditions. Whether driving through a winter storm or heavy summer rain, our tyres offer reliability, performance, and peace of mind. We are the only tyre manufacturer to focus on products for demanding conditions and customer requirements.

Innovative tyres for passenger cars, trucks, and heavy machinery are mainly marketed in areas with snow, forests and challenging driving conditions caused by varying seasons. We develop our products with the goals of sustainable safety and environmental friendliness throughout the product's entire life cycle.

Nokian Hakkapeliitta has been the leading brand of winter tyres for more than 80 years. In the Nordic countries and Russia, market and

price leadership derive from Nokian Tyres' key sources of competitive advantage: an image of quality based on innovations, state-of-the-art technology, decades of customer experience, a strong distributor network and logistical expertise.

Central Europe and North America are also important market areas in which we are seeking profitable growth. We mainly sell our products in the aftermarket. Nokian Tyres group includes the Vianor tyre retail chain with wholesale and retail business in Nokian Tyres' primary markets. Nokian Tyres has factories in Finland and Russia. In 2005–2016, we invested more than EUR 1 billion in our factories, whose productivity and product quality are top-notch in the industry.

In 2016, the company's Net sales were approximately EUR 1,4 billion, and it employed 4,400 people at the end of year. Nokian Tyres' stock is listed on the Nasdaq Helsinki.



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This report is a translation.

The original, which is in Finnish, is the authoritative version.





Key figures IFRS

EUR million	2016	2015	change%
Net sales	1,391.2	1,360.1	2.3
Operating profit	310.5	296.0	4.9
% of net sales	22.3	21.8	
Profit before tax	298.7	274.2	8.9
% of net sales	21.5	20.2	
Return on capital employed (ROI), %	19.9	20.3	
Return on equity (ROE), %	18.7	19.6	
Interest bearing net debt	-287.4	-209.7	-37.1
% of net sales	-20.7	-15.4	
Gross investments	105.6	101.7	3.8
% of net sales	7.6	7.5	
Net cash flow from operating activities	364.4	283.4	28.6
Earnings per share (EPS), EUR	1.87	1.80	3.6
Cash flow per share (CFPS), EUR	2.70	2.12	27.4
Shareholders equity per share, EUR	10.75	9.24	16.4
Equity ratio, %	73.8	70.8	
Personnel, average during the year	4,433	4,421	

Year 2016 in brief

Sales of forestry tyres were strong.

3,102 stores in Vianor, NAD and N-Tyre network.

SnapScan
new 3D tyre scanning technology.

Nokian tyres were sold in
63 countries.

Winter tyre share of sales

67%.

Our company donated

EUR 500,000

to the personnel fund as thanks for the flexibility and efforts of the personnel.

Our flagship Hakkapeliitta

80 years.

More than **20,000** winter tyres are tested during the winter season.

The Nokian Hakkapeliitta R2 winter tyre won the **Tire Technology of the Year 2016** award.

New side wheelie world record

186.269 km/h
(115.742 mph).

Strong performance in challenging market environment.





President and CEO until December 31, 2016.

We delivered on our promise to grow faster than the market

DEAR READER,

Once again, our organization showed its strength in implementing our chosen strategy in 2016. Our profitability developed in an excellent manner. In Russia, we still had to make some bad debt provisions for a few clients, and their total value slightly exceeded the exceptionally high provisions in 2015. However, we were able to compensate for the bad debt provisions with a competitive product portfolio and excellent work from the sales organization, which also enabled a higher price position. In addition, productivity improvements combined with cost-effective production increased our profitability in a manner that allowed us to clearly retain our position as the most profitable company in the industry. Net sales growth for the full year was 2.3%, operating profit was up by 4.9% compared to the previous year, and the operating margin was excellent at 22.3%. At the same time, cash flow was even better than last year, which further strengthened our already very good balance sheet.

THE YEAR 2016

During the summer, the Russian market started showing weak positive signals that grew stronger toward the end of the year. Our clients were able to clear their large winter tyre inventories, in particular due to a winter season that started very well. We strengthened our market share especially in Russia and Central Europe and retained our market leadership in the Nordic countries. In Central Europe, we worked very

systematically in order to improve our brand awareness and the quality of our operations. Sales in North America were overshadowed by winter tyre inventories left over from the previous season. However, we were able to compensate for a large part of this by attracting new customers.

The year 2016 got off to a mixed start. In January, we reached a rare milestone at our Nokia location: a common agreement with the employee representatives and personnel in order to improve flexibility. In February, we explained how we corrected the mistakes made in our practices related to magazine testing. Exceptionally, I already reported on both of these matters in the President & CEO's report for last year.

Our performance on the market remained very good throughout the year. Our customer satisfaction rose to record levels during the year and we increased our global market share while, at the same time, also improving our price position. We also demonstrated increasing competitiveness in the summer and all season segments and, in particular, the tyre product families designed for North America and Central Europe. The share of summer tyres grew to 24% of our net sales. All in all, this must be considered a good performance. All of these achievements are also good examples of how we implemented our Must-Win roadmap in 2016. The world's best tyres are clearly backed by excellent teams in all our markets. This performance is also rewarding to our shareholders. In addition to the dividends made possible by our profitability

and good cash flow, the development of our share price has also clearly been among the best in the industry.

POSITIVE DEVELOPMENTS CONTINUED

Our distribution network continued to grow. During the year, 26 new Vianor outlets and 260 new NAD/N-Tyre outlets joined our distribution family. We already have presence in a total of 27 countries. The reduction of our network in Russia due to the poor economic situation somewhat slowed down the growth of the network. Our Vianor unit increased its net sales slightly in 2016 compared to the previous year. However, Vianor's profitability was reduced by price competition and write-offs from old ICT investment projects. We started closely monitoring Vianor's profitability already in 2016, and I am confident that we will manage to improve profitability in the nearest years.

Heavy Tyres had a mixed year. Growth in sales was affected by a price reduction resulting from lower raw material costs and weak demand in several important market segments. The forestry segment continued to grow, however. We were able to clearly improve profitability, and the sales of new products in particular developed well. Net sales and operating profit were practically equal to the previous year. In 2016, we focused on marketing, product development, logistics, and good customer service in this unit. I believe that these actions enable us to continue profitable growth even in this business area in 2017.

The agreement on working time flexibility and overall good performance allowed us to avoid new cost reductions and temporary lay-offs in 2016. However, the agreement is also demanding on our personnel: in addition to shift work, they will need to work additional days during some parts of the year. This decision improved the competitiveness of the Nokia factory, which was further supported by the local

competitiveness pact in December 2016. The company is planning to increase the production of passenger car tyres and heavy tyres in Nokia in 2017, and to increase the number of personnel working in Nokia on product development, among other things.

Nokian Tyres is a growth company and a high-value company. In 2016, our investments in marketing, sales, product development and customer service, and the general development of operations, among other things, clearly exceeded those in 2015. We did not achieve our results by cutting costs; rather, our growth was the result of continuous efforts and excellent work. We were able to keep the promise that we made in November 2015: that we would out-grow the market without compromising on an operating profit level of 22%.

WISHING YOU CONTINUED SUCCESS

I wish to thank all stakeholders for our successful work together. I am passing on a company that is passionate about safety and quality in everything that it does. I am proud of what we achieved together. Nokian Tyres is in great shape, and its success will continue in the future. I remain an enthusiastic Hakkapeliitta driver and a shareholder in the company. I would like to thank our loyal consumers, strong customers, and, of course, the real heroes of the 80-year Hakkapeliitta story: the personnel at Nokian Tyres.

Ari Lehtoranta

Andrei Pantioukhov

MBA Andrei Pantioukhov currently serves as the interim President and CEO of Nokian Tyres starting 1 January 2017. He continues also in his role as Nokian Tyres' General Manager, Russian operations. Mr. Andrei Pantioukhov has been in the Company since 2004, a member of the management since 2009 and Executive Vice President since the beginning of 2016.



Hakkapeliitta Way – Road to success

Our purpose is to provide our customers with the safest, highest-quality and most eco-friendly tyres as well as the best service in the industry. We want to be a tyre industry pioneer: the expert in safe tyres for demanding conditions, leader in key markets, most profitable tyre company in the world, top choice for our interest groups and a work community with a unique company culture.

Our strategic focus

We have revised our strategy in 2015 to better support our goals on the way forward. The strategy guides the choices that we make. Based on our values and strategy, we have determined a set of business goals and Must-Wins – the development targets that we must overcome in the near future in order to advance on the path to profitable growth.

Demanding conditions

As the northernmost tyre manufacturer in the world and an expert in challenging conditions, we promote and facilitate safe transport. In freezing blizzards or heavy summer rain, our tyres offer reliability, performance and peace of mind. We are the only tyre manufacturer that focuses on products and customer needs for demanding conditions.

Innovative core competence

We are focusing our core competence on a narrow product line, the replacement markets and three business areas: 1) passenger car, SUV and van tyres; 2) heavy special tyres and 3) tyre and car servicing. We develop and manufacture premium tyres whose unique innovations provide added value in different applications from forestry work to safe driving on highways.

1 2
3 4

The most satisfied customers

We want the users of our products and services, as well as our dealers, to be the most satisfied customers in the tyre industry. A committed and extensive distribution network and effective logistics help us ensure the good availability of our products throughout the peak season. The Vianor chain spearheads our distribution channels and its direct contact with consumers provides us with valuable information about the needs and wishes of the end customers.

Select markets

We are focusing on regions where the driving conditions are demanding due to the changing seasons. Our core markets are the Nordic countries and Russia, where we are the market leader in premium tyres. Central Europe and North America are other key markets for us in terms of profitable growth. We sell most of our tyres in the replacement markets.

Key strategic objectives

The focused strategy establishes clear goals that we work towards with determination.

Market leadership and the best processes in the industry

- We are the market leader in premium tyres in the Nordic countries and Russia.
- We have a strong market position in North America and Central Europe with our core products and with our special products internationally.
- We are the undisputed pioneer in winter tyre technology as well as the manufacturer of the best premium summer tyres and special tyres in the world.
- Our key processes and business networks are efficient and the best in the industry.

Profitable growth faster than the market

- Our annual growth exceeds that of the market.
- We continue to be the world's most profitable tyre company. Our operating profit will remain the best in the industry, at 22% at a minimum.
- We have an efficient organisation with sales growing faster than our fixed costs.

Satisfied stakeholders

- We offer the industry's best products and services that help people drive more safely and comfortably.
- We know our customers and their wants and needs.
- For shareholders, we offer stable dividends and a consistent dividend policy, as well as increased share value through profitable growth.
- We are a valued and desired employer.
- Our personnel are skilled and highly engaged people who want to further improve their personal competence as well as our company as a whole.

Must-Wins

– Key challenges to overcome

The group-level Must-Wins that support our goals are the key challenges that we must overcome in order to advance on the path to profitable growth.

Examples of year 2016 Must-Win activities

WE MUST:

1

FIRST CHOICE FOR CONSUMERS

Increasing consumer loyalty and satisfaction as well as our company and product awareness especially in growth areas.

- Remained clear #1 in consumer preference for winter tyres in Nordic countries and Russia. Improved preference in CE.
- Investments in visibility and consumer service in key markets
- Created several new online sites & social media channels and signed new sponsorship contracts
- The number of Nokian Tyres' social media followers doubled, and website visits grew by 20%

2

PREFERRED PARTNER FOR CUSTOMERS

Investing in long-term partnerships with customers based on mutual benefit. Improving the quality of all services.

- Significant investments in systems and processes to serve partners better and more consistently across channels
- Satisfaction surveys confirm Nokian Tyres enjoys very high Net Promoter Scores among partners
- Next generation B2B dealer online services concept defined and build initiated
- Pricing capabilities taken to next level to support growth globally

3

WORLD'S BEST TYRES & INCREASING NUMBER OF SERVICES

Solid flow of innovations and world's safest tyres. Growing portfolio of new services for sales support, distribution partners and consumers.

- Several strategically important products launched
 - Nokian zLine A/S, a premium UHP All-Season tyre for the North American market
 - Nokian Rockproof, a special tyre for professional applications globally
 - Nokian Hakka Blue 2, a premium high performance summer tyre for Nordic and Russia
- Announced a tyre test center project in Spain
- SnapSkani, a groundbreaking tyre scanning service launched in parking garages in Helsinki, Finland

4

STRONG GROWTH IN CENTRAL EUROPE & NORTH AMERICA

Clear improvement in our brand recognition and market share. Gradual growth of our price position in Central Europe.

- North America
 - Completed Montreal warehouse investment
 - Added nationwide key accounts
- Central Europe
 - Successful product launches, and investments in sales and marketing

Values guide and support our strategy

Our company culture is called "Hakkapeliitta Spirit" which includes the following values:

ENTREPRENEURSHIP

We are quick and brave. We set ambitious objectives and perform our work with persistence and perseverance. We are dynamic and punctual, and we always make customer satisfaction our first priority.

INVENTIVENESS

We have the skill to survive and excel, even in the most challenging circumstances. Our competence is based on creativity and inquisitiveness, and the nerve to question the status quo, we have the desire to learn, develop and create new.

TEAM SPIRIT

We work in an atmosphere of action and genuine joy. We work as a team. We support and rely on each other and offer constructive feedback when needed. We embrace our differences and encourage our team members to individually pursue winning performances.

Global demand drivers

The annual value of tyres sales world-wide is approximately USD 160 billion. In recent years, the strongest growth has been in the markets for high-speed summer tyres and SUV tyres. Demand is growing most rapidly in Asia, and Asian manufacturers are claiming an increasing share of the global tyre market. Sales of car tyres to consumers are affected by sales of new cars, purchasing power trends, and overall consumer confidence. For winter tyres, weather conditions also play a role: in more wintry, slippery conditions, there is greater need for new winter tyres. Demand for heavy-duty tyres and truck tyres is cyclical, following trends in machinery manufacturing and the willingness of companies to invest.



Tyres differ – as do their prices

The passenger car tyres on the market are divided into two or three segments by their price depending on the market. The manufacturers of premium or segment A tyres emphasize the improved road safety, comfort, environmental aspects and overall economy of choosing higher-quality products. B and C segment tyres are manufactured for consumers who are

only looking for the lowest purchase price. Distributors typically offer their customers alternatives from all the price ranges.

The regional market leader in tyre brands is usually also the price leader. The reputation of the products, based on dozens of years of customer experiences, and the fluency and reliability of distribution increase pricing power.

The season tests the functionality of the logistics

One special characteristic of Nokian Tyres' core market is that the sales of passenger car tyres are strongly built around two seasons. We sell most of our summer tyres to consumers a few weeks before and after Easter. Consumer sales of winter tyres peak between September and November depending on the weather conditions: some 30% of the winter tyres are sold in the first 10 days after the first snowfall. Predicting sales and production several

months in advance is a demanding task, as tyre manufacturers typically offer at least one thousand different combinations of tyre models and sizes. Our extensive distribution network and effective logistics and information systems play a key role during the busy peak seasons. In practice, the seasonal nature of the operations also forces manufacturers to offer long payment terms for their distribution network.

Profitability is based on capacity utilization and the cost structure of operations

Due to logistics and commercial reasons, tyre manufacturers often establish local factories in their most significant markets. Payroll and energy costs vary by country but raw material costs are generally on the same level globally. Our most important raw materials include natural rubber, synthetic rubber, filler substances (such as carbon black), cord plies and cables, and

various chemicals.

As tyre manufacturers have high fixed costs, profitability requires optimal utilization of the full production capacity while minimizing interruptions. For tyre manufacturers, continuous improvement of profitability through investments and process developments is a prerequisite for success.

Digitalization is revolutionizing services and distribution

The increase in the share of hybrids and electric vehicles creates demand for even lighter and more fuel-efficient tyres. Digitalization makes cars smarter and more integrated with data networks; tyres and their related services must also be able to utilize these new opportunities.

Consumers are making more and more purchase decisions online. The share of

online sales is increasing, but physical sales outlets have retained their position due to the changing service required for the products. Pricing will become more transparent and distributors will maintain even smaller stocks. The structural change at the distribution will result in fewer middle-men.

Sales distribution heading toward a regional balance

NORDIC COUNTRIES

Number one in the home market

Every year, approximately 10 million car and van tyres are sold in Finland, Sweden, and Norway. Approximately 6 million of these are winter tyres. Legislation in these countries mandates the use of winter tyres during the winter months. The Nordic countries

accounted for approximately 43% of Nokian Tyres' sales in 2016. The company is the market and price leader in the area. Nokian Tyres is the only local manufacturer and it has an extensive distribution network, including its own chain of 348 Vianor tyre outlets.

CENTRAL EUROPE

Growth through additional investments

On European markets, excluding the Nordic countries, approximately 260 million car and van tyres were sold in 2016. Central Europe is the world's largest market area for winter tyres – 11 times the size of the Nordic market. Approximately 71 million winter tyres were sold in 2016.

As tyre markets are expanding and winter tyre legislation is becoming more widespread, Central Europe has become one of Nokian Tyres' most important growth areas. Nokian Tyres tailors its tyres to address the needs of consumers in different market areas. The non-studded winter tyres designed for the winter conditions of Central and Eastern Europe and the summer tyres that are sold in

the area differ clearly from the products sold by the company in its core markets. The company sells tyres in more than 30 European countries in addition to the Nordic countries, Russia, and the C.I.S. Central Europe accounted for approximately 29% of Nokian Tyres' sales in 2016.

The company has logistics and service centers in the area to serve the main markets at any time of the day. Growth in the retail channel was led by Vianor, which had a network of 382 outlets in the area at the end of 2016. The Nokian Tyres Authorized Dealer (NAD) network encompassed 1,481 stores in 19 European countries and in China.



RUSSIA

We grew our market share significantly in Russia in 2016

An estimated 1.4 million new cars and 32 million car and van tyres were sold in replacement market in Russia in 2016. Tyre demand in Russia is affected, among other things, by GDP development, which follows the price of oil, buying power and consumer trust. Russia was the largest contributor to sales growth toward the end of 2016. The Russian economy and consumer market continued to slowly stabilize.

The winter tyre season started early and continued strongly in Russia, as well as in Central Europe, and also the Nordic countries. We grew our market share in our target areas, especially in Russia and Central Europe. In Russia, consumer trust and buying power continued to slowly improve, but still remained at low

levels. The sales of new cars in Russia continued to decline in 2016: the entire year was down by 11% compared with the previous year. In 2017, new car sales are expected to grow by 5–10% compared to 2016. Deliveries to the after-sales market in Russia declined by approximately 5% in 2016.

Nokian Tyres is the market leader and largest manufacturer of segment A and B tyres in Russia. Nokian Tyres has an extensive distribution network in Russia, and the location of our factory behind Russian tariff borders, the strength of our brands, and the distribution network provide the Company with a substantial competitive advantage.

NORTH AMERICA

All-Season tyres have large potential

In North America, Nokian Tyres' strongest areas are Canada and the US snowbelt region. Approximately 13 million winter tyres are sold each year in these regions. A total of nearly 260 million tyres are sold annually in the US and Canada.

Nokian Tyres is a traditionally strong winter tyre

brand in the northern parts of the continent. The company is building its distribution with strategically selected partners. Furthermore, the Vianor chain has 81 tyre outlets in New England. Nokian Tyres aims to expand its product offerings further and to continue to grow its sales in North America.



Nokian tyres were sold in

63

countries

Russia, Finland, Germany, Sweden and Norway made up

68%

of sales

Vianor

1,501

stores in 27 countries

Sales and distribution

Target markets

In 2016, Nokian tyres were sold in 63 countries. Russia, Finland, Germany, Sweden, and Norway made up 68% of our product sales.

Nokian Tyres Authorized Dealers

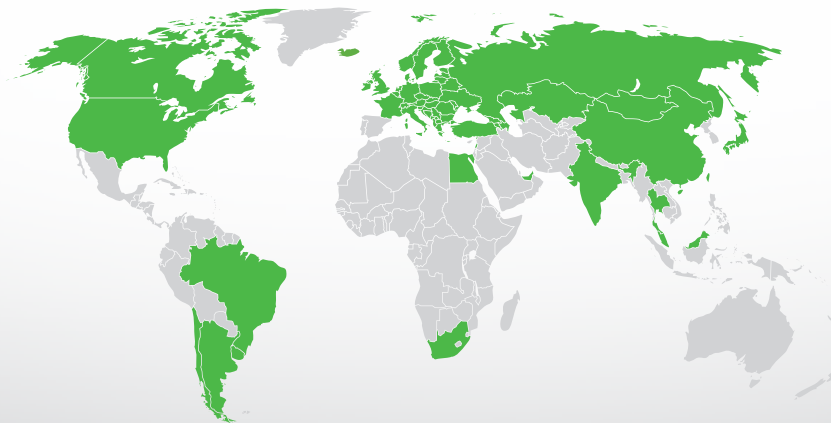
Our Nokian Tyres Authorized Dealer (NAD) partner network grew by 242 contracts and now totals 1,481 locations in 19 Central European countries and China.

Vianor

A total of 1,501 outlets in 27 countries (212 own outlets and 1,289 franchising and partner outlets). 383 outlets in the Nordic and Baltic countries, 655 in Russia and the CIS countries, 382 in Central and Eastern Europe, and 81 in the United States.

Russia

The Hakka Guarantee retailers and other retail partners who work closely with Nokian Tyres in Russia form a wide network including tyre retailers, Vianor outlets, car dealerships, and online stores. Furthermore, our N-Tyre partner network comprises 120 outlets in Russia and CIS countries.



Vianor



Trouble-free and safe driving



Vianor is a chain that is specialized in car maintenance and tyre services that has a network of 1,501 locations in 27 countries. Our strength is our expertise in challenging driving conditions which stems from our Nordic roots. Most of our locations are in the Nordic countries, Russia, and Eastern Europe. We also have locations in Central Europe and the East Coast of the United States.

Our retail store chain and online stores serve both retail and corporate customers. For corporate customers, Vianor has also developed digital services for fleet and tyre management which allow customers to boost their business.

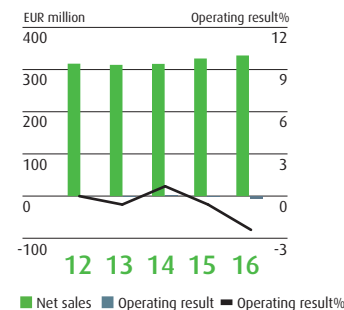
The tyre product selection covers all sorts of tyres for passenger cars, vans, and trucks as well as heavy specialist machinery. In addition to Nokian Tyres'

products, Vianor also represents and sells many other tyre brands. In addition to tyres and tyre-related services, Vianor offers car maintenance services to all of its customer groups; these form an increasingly important part of Vianor's services. Customers find it practical that all of the services related to driving are all available under the same roof.

Vianor is a growing services company that differentiates itself from competitors by offering a comprehensive selection of products and services for consumers and companies as well as continuously developing digital services and a comprehensive service network. Vianor aims to be a partner that enables all of its customers to drive effortlessly and safely – and enjoy the friendliest service.

VIANOR

Net sales, Operating result and Operating result%



	2012	2013	2014	2015	2016
Net sales	315.3	312.5	314.8	327.6	334.8
Operating result	0.0	-1.8	2.1	-1.9	-8.1*
Operating result%	0.0	-0.6	0.7	-0.6	-2.4*

* Excluding non-recurring items: Operating profit EUR -4.5 million, operating profit percentage -1.3%.

Services as part of a high-quality customer experience

The sales of premium tyres with state-of-the-art technology are supported by services that benefit the consumers. Nokian Tyres' service development ensures that the company stands out from and moves ahead of its competition by offering a wide range of added value services. Functional services

support sales and offer genuine added value to the consumers. Good service can exceed expectations even when a driver has had a bad day. For over 10 years, Hakka Guarantee has been offering peace of mind and valuable benefits in case of sudden tyre problems on Nokian Tyres' core markets.



Heidi found safe tyres and emergency assistance from Nokian Tyres

Heidi Saari had no previous experience with Nokian Tyres' products before the spring of 2016. She chose summer tyres from the Nokian Hakka range on the basis of an online comparison test.

When Heidi purchased the tyres, activating the Hakka Guarantee was recommended to her.

An immediately useful Hakka Guarantee

– Activating the Hakka Guarantee was easy! The tyre shop sent me an activation link and then I activated the service and saved the number on my phone. Naturally, the Hakka Guarantee felt very good – in addition to the tyres, I got a feeling of security, Heidi says.

Heidi even got to test the service soon after its activation. She was in a hurry to get home from work in order to take the dogs out before a parents' evening at school, when the tyre pressure indicator lit up while driving.

– I called the Hakka Guarantee hotline and they looked up

the address of the nearest tyre shop. They offered to tow the car, but the tyre was not completely flat so I could drive to the nearest Vianor. The shop was closing, but Hakka Guarantee had notified them that I was coming. I left the car there and took a taxi to pick up a rental car.

– The service worked well. It was free of charge and they will even refund the taxi cost to me as soon as I remember to send in the receipt. I was only an hour late from my own schedule – a small delay in a case like this, Heidi says.

"I absolutely recommend this!"

With the Hakka Guarantee, Heidi now feels safe when driving around Finland or even in Sweden, where the Hakka Guarantee also works.

– When I feel that I have received good service, I will always tell my friends and acquaintances. If one of my friends were looking for new tyres, I would surely mention Hakka Guarantee.

Services boost sales in Central Europe

Central European consumers who purchase their tyres through the Nokian Tyres Authorized Dealers network can benefit from the additional services offered through the network. Aramid Guarantee is a warranty for SUV tyres with reinforced sidewalls that replaces a broken tyre with a new one free of charge. The Satisfaction Promise service is used to support authorized dealers in growth markets where Nokian Tyres continuously focuses on increasing brand awareness and demand. The Satisfaction Promise allows consumers to try a new tyre brand and to return and replace the tyres with no installation costs.



Better brand awareness, reputation, and sales

Nokian Tyres' marketing aims to develop the sales and profitable growth of the company's products. The quality of marketing for a premium brand must be as high as the quality of the products. Furthermore, the aim is to nurture and grow our reputation as the developer of the world's safest tyres, a pioneer in the industry and its most sustainable actor. In all of our actions, we want to engage our stakeholders which are the most important drivers of profitable growth: customers, personnel, and investors.

In 2016, marketing set out to implement the strategic changes that had been defined during the previous year. During the next three years, the focus of marketing will be to support the main strategic goals: reinforcing market leadership in premium tyres in the Nordic

countries and Russia, building a strong market position in new growth areas in North America and Central Europe, seeking to grow faster than the market, and aiming toward a deeper understanding of the customer's needs and wishes.



Top consumer choice

In order to achieve a strong market position in Central Europe and North America, Nokian Tyres needs to strongly increase the awareness of the company and its tyre brands among local car owners. Brand awareness was increased by means of additional marketing, especially in the digital channels. The number of new followers in the social media services grew significantly during the year.

Our effective PR partnership network, which expanded during the year, allowed for a wider distribution of press releases and articles, which in turn resulted in more people seeing them. For example, the world record for the fastest side wheelie created an enormous amount of earned media coverage, that is, visibility without any paid advertising.

In the long term, brand value and desirability will be increased by focusing on consumer research and improving the customer experience across all points of contact. This also supports Nokian Tyres' goal of developing into a company with the highest customer satisfaction and loyalty in the industry.

Number one partner for customer companies

The sale of Nokian Tyres branded tyres must be important for our distributor customers' business in order to make them willing and well prepared to support and build the Nokian Tyres brand. Continuously developing sales support materials, unique launch events, new digital services and product and sales training ensure, for their part, that Nokian Tyres' products and services are also attractive for retailers. Nokian Tyres also supports its key customers' business by implementing common promotions and marketing campaigns.

80th anniversary of the Nokian Hakkapeliitta

Nokian Tyres' best-known and most valued product brand, the Nokian Hakkapeliitta winter tyre, celebrated its 80th birthday in 2016. To celebrate the anniversary, 80 new tyre sets were raffled among customers in the Nordic countries. The raffle was a visible part of the fall advertising campaign, and a large number of drivers entered to win the prizes. In Russia, the tallest building in St. Petersburg was turned into a spectacular billboard for the anniversary. The walls of the building came to life with projected video images that delighted the residents for three weeks. The world's largest tyre – a tyre-shaped hot air balloon – was also purchased in honor of the anniversary. The tyre balloon was first introduced to the public and media in Nokia, the home of the Hakkapeliitta, and it quickly became a hit among the spectators. The hot air balloon tyre will be used as a giant outdoor advertisement all around the world during 2017.





Good HR management supports well-being and improves our results

Good management and supervisor work promote the competence development, well-being, and equal treatment of our motivated and professional staff. The management that aims at top results is based on our strong Hakkapeliitta culture, which is built around entrepreneurship, working together and innovativeness.

The goal of HR management is to create an effective and functional work community. In 2016, we developed our procedures in several areas of HR management and safety.

In our company, the need to develop the everyday leadership processes and practices always arises from a business perspective. Our key focus areas at the moment are building a safety culture, developing management and promoting employee well-being.

Safety – go home healthy every day

We are carrying out long-term work in order to further develop our safety culture. In 2016, we achieved good results in occupational safety and took positive leaps forward in many areas of safety. For example, the number of accidents fell by 26% and the reporting of near misses and safety observations improved. The use of personal protective

equipment was also emphasized further, and special attention was paid to the safety of production equipment. We are continuing our work toward improving a holistic safety culture by increasing training, communication, and the development of working practices. In the long term, we are aiming at zero accidents.

Management – good supervisor work is key

In 2016, we introduced the principles of leadership to supervisors in all our units with the Hakkapeliitta Leader game we developed. Developing the company's leadership culture on the basis of our strong Hakkapeliitta culture guides our personnel development and

training as well as performance management and recruiting. We also applied the leadership principles in the 360 survey. Our aim is an internationally unified leadership culture that supports the objectives of profitable growth and improves personnel well-being.

Employee well-being – an individual and shared experience

We listen to our personnel and identify areas for improvement in employee well-being as well as other aspects with the annual Drive! personnel survey, whose main goal is to improve the commitment of our personnel. The survey concept is built around engagement, which indicates the employees' attitude toward our organization and the values it represents. It also incorporates our leadership principles because supervisor work and the way we lead people have a significant role in improving well-being at work.

With a nearly 90% response rate in 2016, our

Drive! personnel survey gives a comprehensive overview of the positive things and development needs in our individual units as well as the group as a whole. In our group-level action plan, one common denominator was internationalization – enabling truly consistent operations in various aspects. In addition, each unit prepares its own action plan that aims at comprehensively improving operations.

We want to improve employee well-being at our different units and support personnel development by using internal job rotation, on-the-job learning and training solutions.



The internal entrepreneurship, collaborative understanding, and activity among our personnel all serve to support competence development, profitable growth, and strategic implementation. In our company, everyone has an opportunity for further growth and personal development.

Read more about personnel development and well-being in our sustainability report for 2016.

www.nokiantyres.com/sustainability-report-2016

Nokian Passenger Car Tyres

Safe driving regardless of conditions

Passenger Car Tyres unit develops, manufactures and markets summer and winter tyres for cars, distribution vehicles, and SUVs. The main products are studded and non-studded winter tyres and SUV tyres, which represent the fastest-growing, most expensive product segment. The company's most important brands are Nokian Hakkapeliitta, Nokian Hakka, Nokian

Nordman, and Nokian WR. Tyre products are developed primarily in Finland. Tyres are manufactured at the company's own plants in Nokia, Finland, and Vsevolozhsk, Russia, to be sold in the aftermarket. Nokian Tyres is the market and price leader in the Nordic countries, Russia, and the CIS, and it is growing in the premium markets in Central Europe and North America.



Good performance especially in Europe and Russia

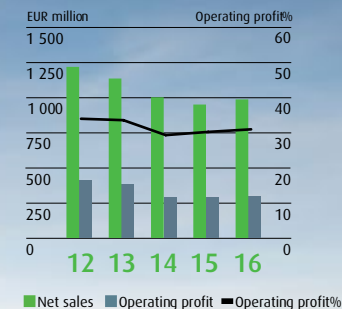
Nokian Passenger Car Tyres net sales and operating profit increased slightly during 2016, mainly due to the increased sales in Other Europe. The winter season was good, especially in Other Europe, the Nordic countries and Russia. Nokian Tyres succeeded in the winter tyre tests once again. Nokian Hakkapeliitta R2 winter tyre won The Tire Technology of the Year 2016 award. A flow of product launches with new innovations – improving safety, comfort and eco-friendly driving – continued.

For example, the Nokian Hakka Blue 2 summer tyre, Nokian Rockproof – a strong special tyre, and Nokian zLine all season were introduced.

Using shift arrangements, the annual production capacity of the factories in Finland and Russia was more than 20 million tyres. In 2016, the capacity was up compared earlier year and the production volume (pcs) increased by 5%. Productivity (kg/mh) improved by 3% in comparison with the previous year. In 2016, 86% (81%) of Nokian’s passenger car tyres (pcs) were manufactured at the plant in Russia.

NOKIAN PASSENGER CAR TYRES

Net sales, Operating profit and Operating profit%



	2012	2013	2014	2015	2016
Net sales	1,220.1	1,137.0	1,003.2	951.5	981.1
Operating profit	410.8	378.5	292.2	285.5	305.8
Operating profit%	33.7	33.3	29.1	30.0	31.2

The Nokian Hakkapeliitta is a pioneer in tyre technology and safety

The Nokian Hakkapeliitta's 80-year journey for better winter tyre technology has included hundreds of innovations and incredible world records. Nokian Tyres is the world's northernmost winter tyre manufacturer, whose winter tyres bring safety to challenging winter conditions everywhere. Its mission still remains the same: more safety, more peace of mind.

The history of Nokian Tyres started over one hundred years ago, when Suomen Gummitehdas Osakeyhtiö was founded in Helsinki in 1898.

The world's first winter tyre, the Kelirengas, was invented in Finland in 1934, and the grooved tread helped trucks take on the winter conditions.

The revolutionary invention eliminated the need for snow chains for keeping the vehicle on the road. The winter tyre proved to be such a great invention that Suomen Gummitehdas, the company known today as Nokian Tyres, also developed the first winter tyre for passenger cars in 1936.

The new tyre was called the "Lumi-Hakkapeliitta" (Snow Hakkapeliitta), and it paved the way for the future of the Nokian Hakkapeliitta winter tyres. The tyre was named after the legendary Finnish cavalrymen, the Hakkapeliittas.

The Nokian Hakkapeliitta product family includes studded and non-studded winter tyres for passenger cars, vans and SUVs, which is the fastest growing product segment in the tyre market. The company has also developed specialised products for trucks, wheel loaders and tractors.

After the Second World War, the production volume of the Nokian Hakkapeliitta tyres was 20,000 units per year but, today, we estimate that more than 700 million winter tyres help drivers reach their destination safely under winter conditions.



Nokian Hakkapeliitta print ad from 1940's.

**NOKIAN
"KELIRENGAS"**



linja- ja kuorma-autoille

„Kelirengas“ on uusi kotimainen talvirengas. Se vetää pehmeässäkin lumessa, sillä sen urien ei lumi tartu. Kulutuspiirissä olevat renkät ovat kiinnittävät renkaat myös kovaa ja liukkaaseen ahistaan, estäen luistoa. Jarrutus tulee tehokkaaksi – komeet ja köyhänsäiset omistavat ilman sivuhaittaa.

Henkilöautojen vastaava rengas kutsutaan Nokian „Hakkapeliitaksi“.

**Lumiteillä –
kotimaiset talvirenkaat**

NOKIA



Trucks in front of the Nokian-factory in 1950's.

1932

Car tyre production starts.

1934

"Kelirengas", the first winter tyre in the world.





Treading in 1946.
Pekka Vilma operating the machine.



New company Volvos at speed on the Nokia test track in the beginning of the 1970s.

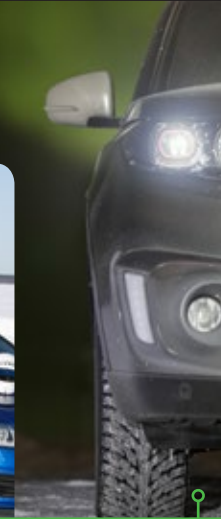


1995 Nokian Eco Stud System non-studded choice.



2013 Fastest on ice. World record for the fastest car on ice, 335.713 km/h (208.602 mph) and Nokian Hakkapeliitta 8.

2014 The world's first non-studded winter tyre with studs. Nokian Hakkapeliitta concept tyre.



2016 Nokian Hakkapeliitta R2. The most energy efficient winter tyre model in the automotive industry. Tire Technology of the Year 2016 price. 80th anniversary of the Nokian Hakkapeliitta. Born, raised and tested in the north.



2017 New generation studded winter tyres Nokian Hakkapeliitta 9 and Hakkapeliitta 9 SUV.

1936 *80* 2016
Hakkapeliitta

HAKA-HAKKAPELIITTA AND THE AGE OF THE AUTOMOBILE
1950's

TRIUMPH OF THE RADIAL TYRE
1960's and 1970's

SUCCESS IN TESTS
1970's

SPECIALISATION AND GREEN CHOICES
1980's

CHAMPION OF DEMANDING WINTER WEATHER
1990's

SAFETY PIONEER
2000's

Nokian Heavy Tyres

The world's only manufacturer specialized in tyres for Northern conditions successfully rose to the challenges of 2016.

Forestry as the driving force for the year

Nokian Heavy Tyres, which focuses on special tyres for the heavy industry, concentrated its efforts on the forestry market in 2016. The new Nokian Logger King, designed for forestry machines, increased its sales within the product group due to a successful launch tour, among other things. At the same time, Nokian Heavy Tyres was able to rise to the challenges of the market in truck tyres and agricultural tyres.

Hail to the King

The year's most important new product was the Nokian Logger King forestry tyre, especially designed for large machines and harsh conditions. The launch tour for the tyre started in Australia in the spring, continued in Europe during the summer and ended in North America in the fall. The unique Nokian Logger King stirred up interest with its durable structure and practical characteristics, and the tour increased its sales by over 25%.

The second product introduction of the year was the Nokian Hakkapeliitta Loader, designed for use on wheel loaders. This tyre is suitable for all-year use, and it offers excellent grip especially on snow and ice.

Considered responses

For truck tyres, the past year was challenging due to the difficult market situation. Nokian Heavy Tyres reacted to the market challenge by means of a marketing renewal where a purposeful marketing concept with a fresh point of view was created across the entire truck tyre range.

For agricultural tyres, the challenges were even more formidable in 2016, since the whole agricultural market suffered decreasing demand and the pricing environment was really challenging.

Nokian Heavy Tyres continued investing in product development. In January 2017, four new CT tyres were introduced. Nokian CT tyres are specifically designed for heavy agricultural and earth-moving work.

Agricultural tyres from Nokian Heavy Tyres are among the highest-quality and most appreciated tyres in the market.

New areas

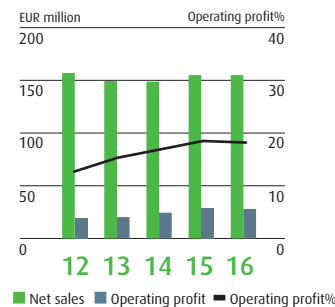
Distribution network development continued in 2016 with high focus on Central European areas, especially Germany and France. Europe is area of high sales potential, and it is also seeing major changes. Operational changes were also made in the Iberian peninsula and Balkan countries. One highlight of the year was Nokian Heavy Tyres' new distributor in Australia that boosted sales significantly in the area.

In the Nordic countries, sales have remained stable except for the challenges on the truck tyres side. In North America, however, the development has been excellent, and this market in particular has been very successful in the forestry products.



NOKIAN HEAVY TYRES

Net sales, Operating profit and Operating profit%



	2012	2013	2014	2015	2016
Net sales	157.3	149.7	149.1	155.3	155.3
Operating profit	19.9	20.4	24.6	28.7	28.2
Operating profit%	12.7	13.6	16.5	18.5	18.2

Northern know-how

The relentless product development and versatile competence in testing create patented solutions that improve safety, driving comfort, and eco-friendliness.

Advanced R&D

The unique product development of the world's northernmost tyre manufacturer is based on know-how accumulated during over 80 years in the business and a constant search for better solutions. The quality, durability, and eco-friendliness of our products are based on careful research, structural development, and testing. The high-quality product development processes utilize the latest technologies and innovative materials in the industry, which can be seen and felt in the everyday lives of drivers and contractors as improved safety and efficiency.

The consumer experience is key

The development efforts carefully address the requests and needs of the consumers. The world's safest products are based on several years of development and testing under genuine and varying operating environments, allowing drivers to move from place to place in a reliable, comfortable, and fuel-efficient manner. The development of an entirely new passenger car tyre typically lasts from 2 to 4 years; the same is true for heavy special tyres.

Long-term development work towards improving the products will also continue when the tyre is already on the market. The tyre is being developed during the entire life cycle of the product on the basis of user feedback as well as in-house testing.

Sustainable safety

The relentless development is guided by the principle of sustainable safety: the characteristics of a tyre need to remain virtually unchanged throughout the life cycle of the product. Sustainable safety also includes developing eco-friendly products and production technologies.

State-of-the-art laboratory equipment and testing machines allow for an effective comparison of the characteristics of rubber compounds, tread patterns, and tyre structures. A high-quality tyre consists of several different structural solutions, technical innovations, and rubber compounds, all of which have a specific task.

An example of this is the Performance Functional Siping technology, which ensures safe handling on winter roads by assigning a separate, computer-optimized role to each area, tread block, and sipe of the tread pattern.

The Aramid fiber used in the sidewall compound for SUV tyres reinforces the tyre sidewall in order to better withstand impacts and cuts.

More than 80% of a tyre's carbon footprint is generated during its use. Using natural materials and developing eco-friendly products that reduce fuel consumption, noise, and harmful emissions are important aspects of our R&D operations now and especially in the future. If we look at driving 20 years from now, we will see revolutionary, smart traffic technology, self-driving electric cars, and tyres made from bio-based materials. We are already using renewable raw materials, including canola oil and pine oil, because canola oil, for instance, improves the rubber compound's durability and grip on ice.

Combining safety with driving comfort while also cutting fuel costs is a challenging task. In an optimal situation, premium tyres can save up to 0.6 liters of fuel per 100 km or increase an electric car's range by dozens of kilometers.

Tailored with precision

Nokian Tyres offers a comprehensive selection of safe tyres that are successful in tests all over the world as well as additional services that make life easier for the consumers. The high-quality products are carefully developed for different markets and different demanding locations.

Close cooperation with car manufacturers ensures that the products utilize the latest technology in an optimal manner. More than 20 quality brands have selected Nokian Tyres' products in their winter tyre program. Testing collaboration with contractors plays a key role in the development of special tyres. Product development carefully follows the movements and changes of consumer needs and tries to anticipate the users' wishes. We also renew our comprehensive product range quickly: new products make up at least 25% of our annual net sales. New products help the company to strengthen its position and maintain the desired pricing and profit margins in a highly competitive market. We spend more than half of our R&D resources on testing our products.



TYRES OF THE FUTURE

Smart technology and bio-based materials

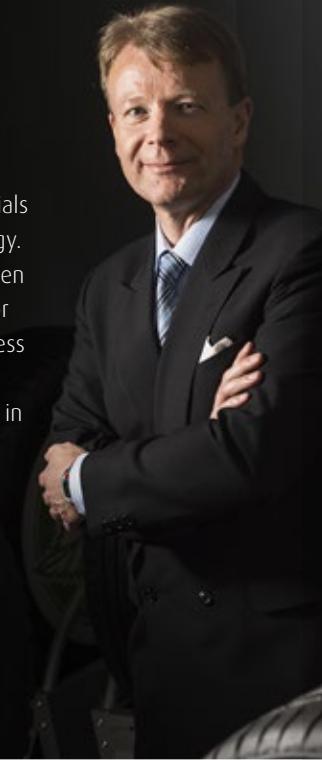
In the future, cars will be connected to a larger traffic system around them. The development of the Internet of Things can be seen in the interaction between cars and different systems.

Sensor technology in the tyres will allow the driver to anticipate changes in the road surface and weather conditions 15–20 kilometers ahead. In practice, the cars' computer systems could analyze this data faster and more comprehensively than the driver.

2036 will mark the 100th anniversary of the first winter tyre for passenger cars, the Nokian Hakkapeliitta. What kinds of tyres will we be using in the future?

“In the future, we could have eco-friendly tyres that are made with completely bio-based materials and equipped with sensor technology. They could collect data that could then be used in networked, self-driving or robot assisted cars. By 2036, relentless product development will also have given rise to substantial innovations in the field of rolling resistance.”

– Juha Pirhonen,
Vice President of Research
and Development





The Nokian Hakkapeliitta R2 winter tyre receives

The Tire Technology of the Year 2016 award

Successful product development was recognized internationally when the new Nokian Hakkapeliitta R2 winter tyre won the esteemed Tire Technology of the Year 2016 award. The new Nokian Hakkapeliitta R2 is a genuine winter tyre designed for BMW's i3 electric car, and it combines extremely low rolling resistance, first-class grip, and exceptional driving comfort.

The new tyre model's size is 155/70R19 88Q XL. This modern introduction to the Nokian Hakkapeliitta family is intended for electric cars and hybrids, and it represents future technology. It is the world's first winter tyre with an A energy rating, the best in the EU tyre label. Tests indicate that the Nokian Hakkapeliitta R2 offers electric car drivers up to 30% lower rolling resistance.



Aramid Sidewall technology and new side wheelie world record 186,269 km/h (115.742 mph)



“The Aramid fiber added to the sidewall rubber compound strengthens the sidewall and gives it substantially better tear strength. We need to try new things and test our limits. Only this will allow us to develop safer, more durable tyres in the future.”

– Matti Morri, Technical Customer Service Manager for Nokian Tyres



The new extreme world record was set when Nokian Tyres’ product development, Vianor’s professional pit crew, and stunt driver Vesa Kivimäki combined their strengths. The tyres on the record-breaking car had been reinforced with Aramid Sidewall technology. The secret behind Aramid Sidewall technology is the extremely strong aramid fiber that is also used in the aviation and defense industries. The technology is utilized in all of Nokian Tyres’ latest SUV tyres.



Testing at the extremes, around the world



In addition to laboratory conditions, all of the company's high-quality products are tested under authentic conditions around the world. Starting from the early stages of development, tyres are tested in authentic environments in order to ensure flawless performance under difficult, demanding, and varying conditions.

Each year, test drivers cover hundreds of thousands of kilometers while feeling, sensing, and evaluating. Testing requires extreme professional competence, precision, and thousands of repetitions.

In order to achieve comprehensive results, comparison tests are run in the company's own test centers in Ivalo and Nokia, as well as on other test tracks. The Ivalo Testing Center "White Hell" is used to develop winter tyres that consumers around the world can rely on. In addition to versatile opportunities

for testing tyres on dry and wet surfaces, the Nokia testing center offers flexible and unique conditions for utilizing high-speed photography, for example.

The results are used to guide further R&D efforts until only the best performing tyre remains, tailored for specific conditions. In addition to our own tests, taxi businesses from the Nordic countries and Central Europe also take part in durability testing and the development of new tyre models.

The company is boosting its year-round product development by opening a versatile testing center for summer and winter tyres in Spain. In the future, the modern technology center will be used for testing summer tyres with a high speed rating, but it will also be used for testing the characteristics of winter tyres.

Continuous renewal

Continuous investments in new products, versatile testing, and advanced instruments enable the company to develop test-winning products with unique innovations year after year. New equipment investments towards developing the fuel efficiency and durability of tyres have expedited the introduction of new products.

Intensive laboratory and field testing as well as a thorough understanding of the seasons and all the elements and characteristics of our products all work to serve the ultimate goal of product development – road safety.

One significant decision that will simplify the tyre choice for Nordic consumers is the ice grip label that is currently being standardized. Nokian Tyres has also participated in the development of the ice grip test that the label is based on.

New testing and technology center in Spain strengthens summer tyre expertise

Nokian Tyres plans to open a new, versatile testing and technology center for summer and winter tyres in Santa Cruz de la Zarza, Spain. The testing center in Spain allows for year-round product development and testing on challenging and varying tracks. This modern technology center will be located south of Madrid and it will span approximately 300 hectares. In the future, it will be used for testing summer tyres with high speed ratings as well as the characteristics of winter tyres.

The technology center utilizes state-of-the-art technology and will include, for

example, a 5-kilometer oval track that circles the area. This oval track with banked curves enables us to test our summer and winter tyres with high speed ratings at speeds of up to 300 km/h (186 mph). There is a demand for tyres with a high speed rating especially in Central Europe and North America, areas where the company is seeking strong growth.

Other test tracks will also be constructed in the center of the oval track. They can be used to study and test the behavior of the tyres in terms of aquaplaning, wet braking, and handling.

“White Hell”

– The home of winter safety

Nokian Tyres tests its winter tyres around the world, but the winter tyres’ true home can be found in Ivalo, Finland, north of the Arctic Circle. The world’s northernmost tyre manufacturer set up its “White Hell” testing center in Ivalo already in 1986. Covering more than 700 hectares, the testing center has really earned its tough reputation as the world’s largest and most diverse winter testing environment that has been built under extreme conditions. The testing center, which expands each year, simulates the extremes of winter driving and defies the grip limits from November to May, day and night.

The tyres are tested as consistently as possible on various ice and snow tracks. In practice, this means that a track will always have the same snow thickness and the ice is roughened and brushed clean as needed, for example.

In varied testing, it is essential to simulate the winter driving

extremes. Currently, the testing center has over thirty different test tracks. They are used to analyze the performance of tyres during acceleration and braking or driving in turns and on hills and the grip on different surfaces on ice, snow, and slush. State-of-the-art technology is utilized in the testing.

Experienced testers are important, but technology is also utilized for some test drives. Robotic cars, for example, are very useful when you need many precise repetitions. Compared to the test drivers, however, they only have a supporting role.

Test drivers report the test drive results and identify the tyres’ good properties and areas for improvement. The end result of testing comprises subjective opinions and objective test data. This information is then used for further development in order to create the most important safety feature of a car – the best possible tyre.

“WHITE HELL” TESTING CENTER

- The world’s largest winter tyre testing center. The area could easily accommodate 1,129 soccer pitches or 700 baseball fields.
- Tyres are tested around the clock in the unique conditions of Finnish Lapland on more than 30 test tracks.
- The more than 200 days with temperatures below zero in Ivalo each year make for rough conditions for the tested tyres.
- More than 20,000 winter tyres are tested during the winter season.
- The tyres being tested are driven for more than 40,000 kilometers.
- Our drivers test tyres in Ivalo under all weather conditions for more than 180 days each year.
- The nearly 700 meter long ice hall enables consistent testing under any conditions.



Reliable mobility, efficiency at work

Safety for snowstorms and pouring rain as well as fuel savings for the family's second car. A driver's tyre choice is based on the tyre's suitability for their usage scenario and way of driving. Contractors look for tailored efficiency improvements and a longer working life. Nokian Tyres' global product policy offers versatile solutions for different markets and demanding locations that require special products, tailored innovations, and new additional services.

Unique stud technology

Studded flagship products, Nokian Hakkapeliitta 9 and Nokian Hakkapeliitta 9 SUV

The comprehensive product range for the new generation of the champions of demanding winter weather will be available to consumers in the Nordic countries, Russia, and North America in the fall of 2017.

The Nokian Hakkapeliitta 9 and Hakkapeliitta 9 SUV adapt to all forms of winter in a skillful and balanced manner. The patented, unique stud concept is at the heart of the new products. New Hakkapeliittas use two different types of stud. Operating with natural efficiency, the dedicated studs ensure easy and comfortable driving even on the worst of winter days.

In addition to excellent longitudinal grip, the world's first functional stud solution offers drivers supreme lateral grip on icy and snowy driving surfaces. Nokian Tyres' state-of-the-art technology also offers stable bare-road handling. The Hakkapeliitta 9 behaves in a controlled and logical manner under

extreme conditions at the grip limits, and it rolls lighter than the previous studded Hakkapeliitta generation, which results in fuel savings. The comfortably silent rolling noise supplements the green nature of these winter road champions.

In addition to the new generation of Nokian Hakkapeliitta winter tyres, the winter tyre technology pioneer is also introducing the new studded Nokian Nordman 7 and Nokian Nordman 7 SUV winter tyres. The Nokian Nordman product family offers an alternative to the premium products in terms of the price to quality ratio, and supplements Nokian Tyres' product range for different consumer groups.

The sporty Nokian WR A4 winter tyre for varying Central European winter weather

The new Nokian WR A4 complements the modern and extensive premium winter tyre selection. Central European drivers were already able to enjoy the Nokian WR D4 with its class A winter grip rating and the Nokian Weatherproof All-Weather tyre for year-round use.



The sporty Nokian WR A4 winter tyre from the world's northernmost tyre manufacturer optimally combines high-performance handling and reliable winter grip. The versatile size selection of this premium winter tyre designed for sporty and high-performance vehicles also includes sizes for modern electric cars.

Functional Performance Siping is a new technical innovation that masters all the elements of the Central European winter and rapid temperature changes. It ensures absolutely balanced driving in snowstorms, slush, pouring rain, or sun-scorched asphalt that welcomes faster driving. The center rib's Centipede Siping, inspired by nature, increases winter grip. The jagged 3D sipes, which resemble a centipede, grip the surface, thereby maximizing snow grip and stable handling.



The new Nokian zLine A/S
– State-of-the-art All-Season product

for the growing North American market

The Nokian zLine A/S, designed for passenger cars and sport utility vehicles with high top speeds, supplements Nokian Tyres' ever more versatile selection of premium products in North America.

The high-performance Nokian zLine A/S is developed for high-speed driving; it works safely and precisely under varying road and weather conditions all year long. It offers advanced performance, fuel efficiency that all consumers value, and excellent durability. This new high-quality product belongs in the UHP (Ultra High Performance) category, the crème de la crème of passenger car tyres. The size selection also includes SUV sizes that are tailored for use on sport utility vehicles.

The new Nokian zLine A/S immediately

responds to steering, which is an essential requirement for safe operation at the extreme limits. The stiff outside shoulder stabilizes the handling of the rigid tread pattern. The contoured groove corners provide additional support during cornering and lane changes, which allows the Nokian zLine A/S to maintain balanced and logical road contact at all times. The Dynamic Traction Boost Tread Compound was specially tailored for demanding use at higher speeds.

The Nokian Hakka Blue 2 expands the Hakka summer tyre family for Northern conditions



The Nokian Hakka summer tyres have been developed to perform safely under the weather and road conditions of the Northern summer.

The new Nokian Hakka Blue 2 summer tyre retains control on slippery roads. It stops firmly, and effortlessly prevents aquaplaning thanks to the Dry Touch concept. Drivers are sure to appreciate the precise and calm driving feel that makes driving easy, logical, and enjoyable even on frost-damaged roads with deep ruts.

The Nokian Hakka Blue 2 offers safe and sustainable driving from the first moments of spring until the cooler fall weather. This is particularly supported by the rubber compound which is tailored for the Northern conditions. The wet grip class according to the EU tyre label is A, the best possible rating, for most sizes. The comprehensive size selection is designed for high-powered mid-size passenger cars and sporty family cars. Nokian Hakka tyres also come with the Hakka Guarantee for protection in case of a flat.



Nokian Rockproof – a strong special tyre for demanding professionals

Extreme durability for professional driving and off-road enthusiasts. This special tyre that is aimed at the global market seamlessly combines the special durability of heavy machine tyres with the comfort of passenger car tyres.

The sturdy new product is a fearless performer in quarries, forests, and mining areas. The robust Rockproof is a tireless workhorse, and its cut-resistant Nokian Rockproof Hybrid tread compound and aggressive tread pattern provide the tyre with excellent resistance even under rough off-road conditions.

The Nokian Rockproof was designed for light trucks, SUVs and off-road use. It was developed in cooperation with Nokian Heavy Tyres and tested at mines and quarries in Europe and North America.

First in the world

In the future, the SnapScan service will promote traffic safety for millions of people

The SnapScan service informs the driver of the tread depth on their tyres and the correct time for tyre replacement. SnapScan is based on state-of-the-art 3D scanning technology. It works quickly and serves drivers on daily routes. The world's first measurement point was opened in a parking garage in Finland in December 2016. This ground-breaking digital tyre service will become global in the near future.

Nokian Tyres aims at developing safe, comfortable and eco-friendly tyres as well as creating new tyre-related services. For SnapScan, the vision is to promote safe driving for millions of people all over the world in an effortless and quick way.

Premium tyres and, in particular, the tread depth of tyres substantially impact braking distance and aquaplaning prevention. A driver can maximize their own safety as well as that of other road users by using good tyres, which leaves everyone more room to maneuver. The new SnapScan technology makes monitoring tyre safety easy and quick, since the owner of the vehicle receives the information in digital

format. This ensures that the vehicle owners know when they should react to the condition of their tyres.

SnapScan is made possible by 3D scanning technology, and it is a new way to measure the tread depth and safety of tyres in a quick and efficient manner. The car is driven across an automatic scanner that scans the tyres while a camera identifies the car's license plate. After scanning, the driver can receive a free, personal tyre report by SMS or email, regardless of the manufacturer of the tyres on the car. No special equipment is required on the car. This free service gives car owners one less thing to worry about.





Products for professionals in extreme conditions

Nokian Heavy Tyres will not only serve people on the road, but also the heavy machinery drivers. The ultimate in grip and durability, as well as their suitability for use in all seasons and in all weather conditions are the result of a long product development and listening to our clients.



A proper tyre for winter work

Nokian Heavy Tyres has expanded its comprehensive winter tyre selection to cover wheel loaders. The Nokian Hakkapeliitta Loader tyre, designed for winter conditions, raises grip on snow and ice to an entirely new level. At the same time, it is a very durable and functional tyre solution for year-round use.

Nokian Hakkapeliitta Loader is suited for airports, ports, and factories as well as snow plowing and winter maintenance for roads and streets. The open tread pattern provides excellent cleaning properties. The tread pattern with intelligent sipes is also aggressive and asymmetrical in order to ensure the best possible grip in the lateral direction as well as the driving direction.

The new rubber compound and the thicker rubber layer added to the tread are behind the long service life and supreme durability. The new carcass construction also improves the tyre's service life in addition to its stability. The Nokian Hakkapeliitta Loader is available in three different sizes.

The new king of the workhorses

Nokian Logger King LS-2 is Nokian Heavy Tyres' new product for full-tree forestry machines. The tyre combines an extremely sturdy structure with smart features. This tyre is available in five sizes, and it also has an Extreme model for the toughest conditions and heaviest machines.

The Nokian Logger King is intended for full-tree method machines, and it has been tested for over three years under the world's most demanding conditions, from New Zealand to the United States. Since the machines are often working in difficult terrain and across long distances, the tyres must be reliable, durable, and have exceptional traction.

The tyre's revolutionary characteristics are based on the new rubber compound and the open, aggressive

tread pattern. The high tread depth combined with the wide and sharp design of the shoulder rib provides excellent lateral grip and protects the tyre when using chains.

Traction and balance have been improved by shaping a straighter tread pattern, which widens the contact area. The new tyre also has straighter sides. The unique design in the bead area prevents wood from penetrating between the rim and tyre.

The Extreme version has an even stronger body structure that improves load capacity and additional steel belts under the tread pattern to improve puncture protection. All Nokian Logger King models are also easy and safe to fit.



Optimal safety and driving comfort

A modern car tyre is a state-of-the-art product that includes over 100 different components and raw materials. Technical innovations promote safety, handling and durability in products intended for different uses.



Effective aquaplaning prevention

Dry Touch 2 sipes

The sipes remove the water from between the tyre and the driving surface and guide it into the wide main grooves through the rib's centre groove. The sipe's contour ensures that the high-performance tyre has excellent wet grip, even when worn. The unique sipe is larger at the bottom, which ensures higher groove volume even for a worn tyre.

Nokian Hakka Blue 2 summer tyre

Safe and precise handling

Functional Performance Siping

Each tread block and sipe in the Nokian WR A4 winter has its own precise shape and role, which can be felt in the excellent grip and handling characteristics. The stiff outer shoulder, the zone-optimized siping on the inner shoulder and the center region's Centipede Siping with its jagged, centipede-like 3D sipes grip the driving surface, maximizing grip on snow and stable handling in variable winter weather.

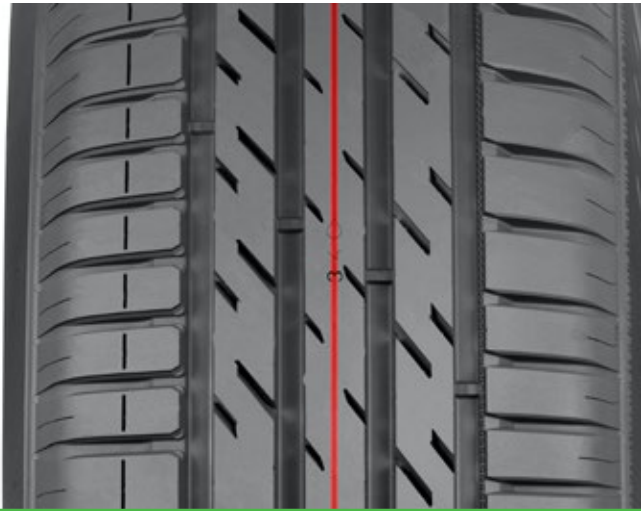
Nokian WR A4 winter tyre

More durability, excellent handling

Cooling Edge

The diagonal sipes on the shoulder area tread blocks boost handling and cool the hottest part of the tyre. This technology, used in the new Nokian zLine A/S, which is a high speed rating tyre developed for the North American market, improves handling in varying weather and offers better durability.

Nokian zLine A/S All-Season tyre



Extreme cut resistance – more working hours

Nokian Rockproof Hybrid rubber compound.

The new Nokian Rockproof Hybrid compound is tailored for challenging off-road use. The tyre's extreme cut resistance comes into its own during professional use in mines and quarries as well as in off-road driving.

Nokian Rockproof special tyre

Safety and comfort of use

Next-generation Driving Safety Indicator (DSI)

The Driving Safety Indicator (DSI) on the tyre's center rib indicates the tread depth. The numbers on the tread surface allow you to check the remaining tread in millimeters. The numbers and water drop symbol indicating an aquaplaning hazard will disappear as the tyre wears down. When the tread depth falls below 4 mm, the water drop symbol disappears and a red line appears around the circumference of the tyre. The red line indicates that it is time to purchase new summer tyres in order to ensure driving safety.

Nokian eLine 2 | Nokian Hakka Green 2 (AA classified sizes)

Better durability

Nokian Tyres Aramid Sidewall Technology

Nokian Tyres Aramid Sidewall Technology is utilized in the sidewall compound of the premium SUV tyres. The sidewall compound contains the extremely strong aramid staple fiber and provides exceptional protection against wear and cuts.

The same material is utilized by the aerospace and defense industries. The aramid fiber reinforces the tyre sidewall for better protection against impacts and cuts that could easily damage the tyre, thereby interrupting your trip.

Nokian Hakkapeliitta LT2 | Nokian Rockproof | Nokian Rotiiva AT Plus & Nokian Rotiiva AT | Nokian Rotiiva HT + Newest SUV-products

Capacity for growth

Nokian Tyres' production plants are located in Finland and Russia. At the headquarters in Nokia, Finland, centralized product development is carried out and prototypes and test runs are completed. The Nokia factory manufactures car tyres, heavy-duty tyres, and retreading materials for truck tyres.

In 2016, the capacity utilization increased year-over-year, and the production output (pcs) increased by 5%. Production output (metric tons) increased vs. 2015, and continuous investments into production technology improved productivity.

In January 2016, an agreement was reached regarding flexible working time for personnel in forthcoming years. The agreement will enable production to become more flexible and the company's competitiveness to improve. The agreement supports the plant in Nokia, enabling it to continue to play

a significant role in producing tyres and in developing new products and production methods.

Tyres are delivered from Vsevolozhsk to over 35 countries and Nokian Tyres is Russia's largest exporter of consumer goods. Using shift arrangements, the annual capacity of the factories in Finland and Russia can be more than 20 million tyres. Manufacturing in Russia represents a competitive advantage for Nokian Tyres. Tyre production costs are considerably lower in Russia than in Finland and other western countries.

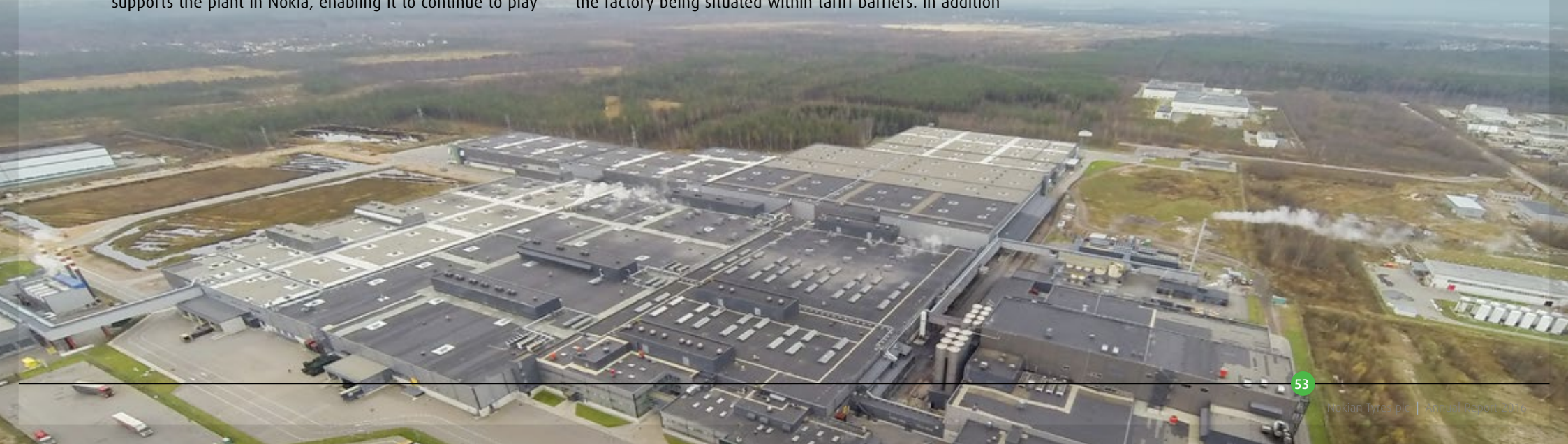
Approximately 70% of the production in Russia is exported, and the margin between eurodenominated export income and production costs paid in rubles has increased along with the depreciation of the ruble. If demand begins to increase, the company's production capacity in Russia enables production to be quickly ramped up to address the demand without requiring major investments. In 2016, approximately 86% of the company's passenger car tyres were manufactured in Russia.

The operations in Russia have also been supported by tax agreements based on investment volumes, as well as the factory being situated within tariff barriers. In addition

to having its own production plants, the company has contract manufacturers with factories that are able to meet Nokian Tyres' strict quality requirements. In 2016, contract manufacturing for Nokian Heavy tyres accounted for approximately 3% of the company's tyre sales.

over 20 mill.

The combined production capacity in Nokia and Vsevolozhsk is more than 20 mill. tyres





Sustainability guides our decisions

The cornerstones for our actions are the high quality, safety, and eco-friendliness of our products as well as the responsible development of our company in all areas of business. For us, sustainability means safe and eco-friendly products, state-of-the-art processes, profitable growth for the company, taking interest groups into consideration, and personnel well-being and safety. Sustainability is an essential part of our business.

Sustainability is an important part of our management and action plans, and it is reflected in our everyday work and decision making. Together with our professional personnel, we are systematically developing Nokian Tyres in different areas. We are working hard and want to set an example for better practices across the tyre industry. Our aim is to be at the frontlines of sustainability in the tyre business.

High quality all year long

We use managed, effective, and carefully monitored development, procurement, and production processes for ensuring the high quality of our products. A demanding attitude towards quality is part of our company culture, and every staff member does their part in ensuring high-quality products and services. In 2016, we continued our efforts to improve the quality of our products and operations even further. We want to provide every customer with an excellent customer and user experience in terms of every aspect.

A year in sustainability in our company

In 2016, we developed our activities across many different areas and continued the systematic development of sustainability that was started the previous year. The allocation of work took account of our materiality analysis, which investigated the expectations of our stakeholders, and the requirements of the UN Global Compact initiative. In the near future, our aim is to combine the key areas of sustainability within our company into key business benchmarks and activities in a seamless manner.

In the annual Dow Jones Sustainability Index assessment, we once again improved our total score and exceeded the industry average in 17 out of 18 assessment criteria. We completed 23 tasks from our sustainability development plan for 2015–2018 that contains a total of over 50 separate work packages.

In order to ensure the supply of eco-friendly and cost-effective energy, we joined the biomass power plant project in Nokia as an investor. With the new biomass power plant, the share of renewable energy sources at the Nokia factory increased to approximately 40% and is expected to increase further in 2017. In addition to updating the environmental risk and assessing water risks, we were also able to improve our production by increasing

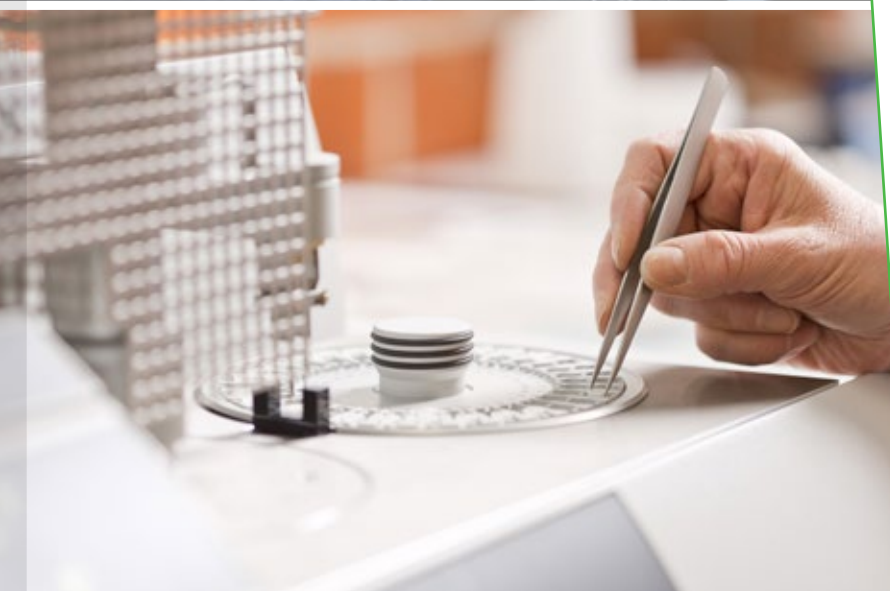
productivity and reducing waste. All of this will affect the reduction of our carbon footprint in the future.

With our new products, we once again took a step toward eco-friendlier and safer mobility. The excellent safety characteristics of the Nokian Hakka Blue 2 summer tyre family, launched last fall, are complemented by a lower rolling resistance than in the previous model, which in turn reduces fuel consumption and exhaust gas emissions. Nearly all of the 22 sizes of the new Hakka Blue 2 have a better EU rolling resistance rating than the previous product.

Positive results were also attained in occupational safety: the number of accidents was down by 26% across the group, the reporting rate of safety observations improved and a new type of safety culture was established together with the personnel. These are also good starting points for building a safer working environment in the future.

Our unique agreement on working time flexibility allowed us to avoid temporary and permanent layoffs at the Nokia factory for the entire financial period. At the end of the year, the personnel in Finland signed a competitiveness pact, and the company donated EUR 500,000 to the personnel fund as thanks for the flexibility and efforts of the personnel.





The sustainability goals guide our actions

Enabling people to drive safely and economically has been and will always be one of our essential goals. In the near future, we will also especially focus on reducing greenhouse gases through better energy-efficiency in production and the lower rolling resistance of our tyres. Developments in rolling resistance continue to offer millions of kilograms of annual savings in CO₂ and other exhaust emissions.

Resource efficiency has been a key goal for years, and we have already been able to cut our material waste by one third during the past three years. Our unit in Nokia is already a zero landfill factory, which means that all waste generated in its production is utilized. The Vsevolozhsk factory has the same goal.

In order to improve the sustainability of the purchasing chain and the coverage of our supplier assessments, we started partnering with an external auditor. We aim for more detailed supplier assessments especially in the natural rubber purchasing chain. Moreover, all of our raw material suppliers must conduct a

sustainability self-assessment in 2017. The above examples and our other sustainability goals aim at improving our results in the various business categories and the transparency of our operations in the future.

We are also focusing on the development of our personnel and company culture by emphasizing an even more sustainable way of thinking, since each Nokian Tyres employee will ensure ethical activities and high-quality results with their own work. One concrete example of our efforts to increase awareness of sustainability is our online training course, which we published for our personnel in several languages in late 2016.

Our sustainability goals and activities aim at improving the different areas of our business and increasing the transparency of our operations. We are also committed to external initiatives, which will give us an opportunity to reach an even better and more sustainable future.

Read more about the topic on our website and from our externally assured GRI G4 sustainability report for 2016!: www.nokiantyres.com/sustainability-report-2016

Board of Directors

31 December 2016



Petteri Walldén

Master of Science (Engineering).
Member of the Board since 2005. Chairman of the Board.
Member of the Personnel and Remuneration Committee.
Independent of the company.
Shares: 18,456 pcs.



Heikki Allonen

Master of Science.
Member of the Board since 2016.
Member of the Audit Committee.
Independent of the company.
Shares: 663 pcs.



Hille Korhonen

Licentiate of Science (Technology).
President and CEO, Alko Inc.
Member of the Board since 2006.
Member of the Personnel and Remuneration Committee.
Independent of the company.
Shares: 7,927 pcs.



Tapio Kuula

M.Sc. (Econ), M.Sc. (Electrical Engineering), B.Sc. (Econ).
Member of the Board since 2015.
Chairman of the Personnel and Remuneration Committee.
Independent of the company.
Shares: 6,359 pcs.



Raimo Lind

Master of Science (Economics).
Member of the Board since 2014.
Chairman of the Audit Committee.
Independent of the company.
Shares: 2,056 pcs.



Veronica Lindholm

Master of Economics.
CEO, Finnkino Oy.
Member of the Board since 2016.
Independent of the company.
Shares: 663 pcs.



Inka Mero

Master of Economics.
Co-Founder and Chairman, Pivot5.
Member of the Board since 2014.
Member of the Audit Committee.
Independent of the company.
Shares: 2,056 pcs.

Management

31 December 2016



Ari Lehtoranta

Alexej von Bagh

Esa Eronen

Teppo Huovila

Anna Hyvönen

Tarja Kaipio



Anne Leskelä

Andrei Pantioukhov

Juha Pirhonen

Manu Salmi

Pontus Stenberg

Timo Tervolin

Antti-Jussi Tähtinen

Ari Lehtoranta

Born 1963
President and CEO until 31.12.2016
M.Sc. Telecommunications.
With the company since 2014

Alexej von Bagh

Born 1968
Vice President, Processes
Master of Science (Eng.).
With the company since 1995.

Esa Eronen

Born 1957
Vice President, Supply Operations.
Technology Engineer.
With the company from 1988.

Teppo Huovila

Born 1963
Vice President, Quality, Sustainability and ICT.
Master of Science, MBA.
With the company from 1989.

Anna Hyvönen

Born 1968
Managing Director, Vianor and Partner
Distribution.
Licentiate of Science (Technology).
With the company from 2016.

Tarja Kaipio

Born 1962
Vice President, Human Resources.
Master of Psychology.
With the company from 2016.

Anne Leskelä

Born 1962
Vice President, Finance & IR.
Master of Economic Sciences.
With the company from 1997.

Andrei Pantioukhov

Born 1972
Interim President and CEO since 1.1.2017
Nokian Tyres plc and General Manager,
Nokian Tyres Russia.
MBA.
With the company from 2004.

Juha Pirhonen

Born 1963
Vice President, Research and Development.
Master of Science.
With the company from 1991.

Manu Salmi

Born 1975
Vice President, Nokian Heavy Tyres.
Master of Military Sciences, M.Sc.Economics.
With the company from 2001.

Pontus Stenberg

Born 1966
Vice President, Sales.
M.Sc. (Econ.).
With the company from 2010.

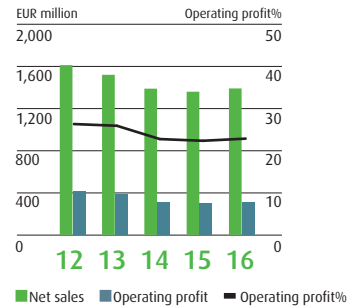
Timo Tervolin

Born 1977
Vice President, Strategy and Corporate
Development.
M.Sc. (Economics), M.Sc. (Engineering).
With the company from 2016.

Antti-Jussi Tähtinen

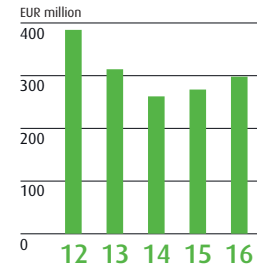
Born 1965
Vice President, Marketing and
Communications.
Master of Arts.
With the company from 2005.

Net sales, Operating profit and Operating profit%



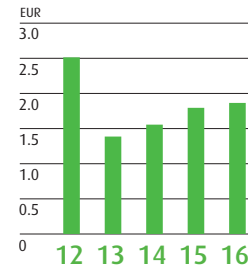
	2012	2013	2014	2015	2016
Net sales	1,612.4	1,521.0	1,389.1	1,360.1	1,391.2
Operating profit	415.0	385.5	308.7	296.0	310.5
Operating profit%	25.7	25.3	22.2	21.8	22.3

Profit before tax



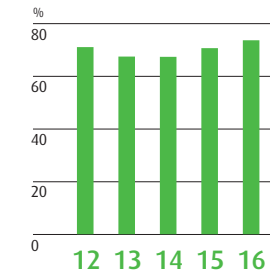
	2012	2013	2014	2015	2016
EUR million	387.7	312.8	261.2	274.2	298.7

Earnings per share



	2012	2013	2014	2015	2016
EUR	2.52	1.39	1.56	1.80	1.87

Equity ratio



	2012	2013	2014	2015	2016
%	71.2	67.6	67.5	70.8	73.8

Net sales by market area

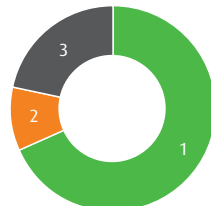
Share of Group's sales, %



	2015	2016
1. Finland	16%	16%
2. Sweden	15%	14%
3. Norway	13%	13%
4. Russia and CIS	17%	16%
5. Other Europe	26%	29%
6. North America	12%	11%

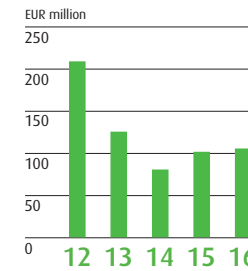
Net sales by business unit

Share of Group's sales, %



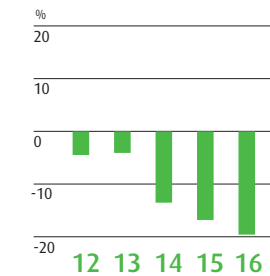
	2015	2016
1. Passenger Car Tyres	66%	67%
2. Heavy Tyres	11%	10%
3. Vianor	23%	23%

Gross investments



	2012	2013	2014	2015	2016
EUR million	209.2	125.6	80.6	101.7	105.6

Gearing



	2012	2013	2014	2015	2016
%	-4.5	-4.1	-13.6	-16.9	-19.7

EUR million 1.1.–31.12.	Notes	2016	2015
Net sales	(1)	1,391.2	1,360.1
Cost of sales	(3)(6)(7)	-724.2	-733.7
Gross profit		667.0	626.4
Other operating income	(4)	3.9	3.7
Selling and marketing expenses	(6)(7)	-267.6	-256.2
Administration expenses	(6)(7)	-49.4	-35.3
Other operating expenses	(5)(6)(7)	-43.4	-42.6
Operating profit		310.5	296.0
Financial income	(8)	140.1	200.9
Financial expenses ⁽¹⁾	(9)	-151.8	-222.7
Profit before tax		298.7	274.2
Tax expense ⁽²⁾⁽³⁾	(10)	-46.9	-33.5
Profit for the period		251.8	240.7
Attributable to:			
Equity holders of the parent		251.8	240.7
Non-controlling interest		-	-
Earnings per share (EPS) for the profit attributable to the equity holders of the parent:	(11)		
Basic, euros		1.87	1.80
Diluted, euros		1.86	1.80

EUR million 1.1.–31.12.	Notes	2016	2015
CONSOLIDATED OTHER COMPREHENSIVE INCOME			
Result for the period		251.8	240.7
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)	-0.3	-0.3
Translation differences on foreign operations ⁽⁴⁾		121.8	-55.2
Total other comprehensive income for the period, net of tax		121.6	-55.5
Total comprehensive income for the period		373.4	185.2
Total comprehensive income attributable to:			
Equity holders of the parent		373.4	185.2
Non-controlling interest		-	-

¹⁾ Financial expenses in 2015 have been adjusted with EUR 20.2 million reversal of interests on back taxes as the tax reassessment decisions on years 2007–2010 were annulled and returned to the Tax Administration for reprocessing. Additionally financial expenses in 2015 contain EUR 19.2 million expensed punitive interest for reprocessed tax reassessment decisions on years 2007–2010. These decrease financial expenses in 2015 with EUR 1.0 million net.

²⁾ Tax expense in 2016 has been adjusted with EUR 4.9 million according to the decision of the Board of Adjustment. Previously in 2015 tax expense has been adjusted with EUR 80.1 million as the tax reassessment decisions on years 2007–2010 were annulled and returned to the Tax Administration for reprocessing. Additionally tax expense in 2015 contains EUR 74.9 million expensed additional taxes with punitive tax increases for reprocessed tax reassessment decisions on years 2007–2010. These decrease tax expense in 2015 with EUR 5.2 million net.

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 has internal loans that are recognised as net investments in foreign operations in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". The impact in 2016 is EUR -1.3 million and 2015 EUR -13.7 million.

EUR million 31.12.	Notes	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	(12)(13)	542.3	485.0
Goodwill	(2)(14)	86.5	79.2
Other intangible assets	(14)	37.1	19.4
Investments in associates	(16)	0.1	0.1
Available-for-sale financial assets	(16)	0.7	0.3
Other receivables	(15)(17)	10.4	8.8
Deferred tax assets	(18)	12.4	7.5
		689.5	600.2
Current assets			
Inventories	(19)	304.3	271.3
Trade and other receivables	(20)(29)	452.6	441.1
Current tax assets		16.1	13.0
Cash and cash equivalents	(21)	513.2	429.3
		1,286.2	1,154.6
Total assets	(1)	1,975.7	1,754.8

EUR million 31.12.	Notes	2016	2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
	(22)(23)		
Share capital		25.4	25.4
Share premium		181.4	181.4
Treasury shares		-6.7	-8.6
Translation reserve		-264.1	-385.9
Fair value and hedging reserves		-3.1	-2.9
Paid-up unrestricted equity reserve		168.9	133.0
Retained earnings		1,356.6	1,299.2
		1,458.4	1,241.6
Non-controlling interest			
		-	-
Total equity		1,458.4	1,241.6
Liabilities			
Non-current liabilities			
	(24)		
Deferred tax liabilities	(18)	50.6	25.7
Provisions	(25)	0.1	0.5
Interest-bearing financial liabilities	(26)(27)(29)	137.0	199.7
Other liabilities		1.0	2.1
		188.8	228.0
Current liabilities			
Trade and other payables	(28)	219.4	242.4
Current tax liabilities		16.8	20.0
Provisions	(25)	3.5	2.8
Interest-bearing financial liabilities	(26)(27)(29)	88.8	19.9
		328.5	285.1
Total liabilities	(1)	517.2	513.2
Total equity and liabilities		1,975.7	1,754.8

Changes in net working capital arising from operative business are partly covered by EUR 350 million domestic commercial paper programme.

EUR million 1.1.–31.12.	2016	2015
Profit for the period	251.8	240.7
Adjustments for		
Depreciation, amortisation and impairment	100.5	100.4
Financial income and expenses	11.8	21.8
Gains and losses on sale of intangible assets, other changes	-7.9	-10.5
Income Taxes	46.9	33.5
Cash flow before changes in working capital	403.2	385.8
Changes in working capital		
Current receivables, non-interest-bearing, increase (-) / decrease (+)	46.3	-27.6
Inventories, increase (-) / decrease (+)	-9.8	8.2
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	6.5	4.0
Changes in working capital	43.0	-15.4
Financial items and taxes		
Interest and other financial items, received	15.5	2.9
Interest and other financial items, paid	-27.8	-49.8
Dividends received	0.0	0.0
Income taxes paid	-69.4	-40.0
Financial items and taxes	-81.7	-87.0
Cash flow from operating activities (A)	364.4	283.4
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	-101.5	-100.0
Proceeds from sale of property, plant and equipment and intangible assets	0.6	1.4
Acquisitions of Group companies	-11.7	-6.7
Change in non-controlling interest	-	-
Acquisitions of other investments	-0.4	0.0
Cash flows from investing activities (B)	-113.0	-105.3

EUR million 1.1.–31.12.	2016	2015
Cash flow from financing activities		
Proceeds from issue of share capital	35.9	33.3
Purchase of treasury shares	-	-
Change in current financial receivables, increase (-) / decrease (+)	28.6	-6.0
Change in non-current financial receivables, increase (-) / decrease (+)	5.1	0.4
Change in current financial borrowings, increase (+) / decrease (-)	48.9	48.5
Change in non-current financial borrowings, increase (+) / decrease (-)	-85.1	-73.4
Dividends received	0.5	0.4
Dividends paid	-202.0	-193.5
Cash flow from financing activities (C)	-168.1	-190.2
Change in cash and cash equivalents, increase (+) / decrease (-) (A+B+C)	83.2	-12.2
Cash and cash equivalents at the beginning of the period	429.3	439.9
Effect of exchange rate fluctuations on cash held	0.8	1.6
Cash and cash equivalents at the end of the period	513.2	429.3

Based on the annulled and later renewed tax reassessment decisions on years 2007–2010 the financial items and taxes contain paid tax increases of EUR 51.0 million in 2016 and EUR 6.1 million in 2015. Additionally in 2016 the Tax Administration refunded EUR 4.9 million tax increases according to the latest decision of the Board of Adjustment.

Annual General Meeting

The Annual General Meeting of Nokian Tyres plc will be held at Tampere-talo, in Tampere, Finland, street address Yliopistonkatu 55, on Monday April 10, 2017, starting at 4 p.m. Registration of attendants, the distribution of ballots and a coffee service will begin at 2 p.m.

Shareholders registered no later than March 29, 2017 in the company's shareholder register, which is maintained by Euroclear Oy, are entitled to attend the Annual General Meeting.

The 2016 Annual Report, Financial Review, Corporate Governance Statement, and Remuneration Statement for 2016 will be available in electronic form at the Company's website. The Annual Report includes the Financial Review as well as the Report by the Board of Directors and the Auditors' Report.

Read more at

www.nokiantyres.com/annualgeneralmeeting2017/
www.nokiantyres.com/company/investors/.

Dividend payment

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.53 per share be paid for the financial year 2016. The record date for the dividend payment will be April 12, 2017 and the dividend payment date April 27, 2017, provided that the Board's proposal is approved.

Share register

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

Financial reports

Nokian Tyres will publish financial information in Finnish and in English as follows:

- Interim Report for three months on May 3, 2017
- Half year Report for six months on August 8, 2017
- Interim Report for nine months on November 1, 2017

Nokian Tyres publishes its Financial Reports and Annual Report on the internet at

www.nokiantyres.com/company/investors/

Principles of investor relations

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 used to determine the share value. The operations are based on equality, openness, accuracy, and good service.

The Management of Nokian Tyres is strongly committed to serving the capital markets. The company's President & CEO and CFO are the main parties dealing with and answering questions from analysts and investors. Nokian Tyres adopts at least a three-week period of silence before the publication of financial information and at least a six week period of silence before the publication of the Financial Statements Bulletin.

Analyst and investor meetings are mainly held both in Finland and abroad in conjunction with the publication of the company's financial results. At other times analysts and investors are mainly answered by phone or email.

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Share price development on Nasdaq Helsinki Jan 1, 2012–Dec 31, 2016



Annual Report and Financial Review 2016

The 2016 Annual Report, Financial Review, Corporate Governance Statement, and Remuneration Statement for 2016 will be available in electronic form at the Company's website. The Annual Report includes the Financial Review as well as the Report by the Board of Directors and the Auditors' Report.

Read more at www.nokiantyres.com/company/investors/.



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TYRES

Financial Review | 2016

Financial Review 2016

Financial Statements 2016

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This report is a translation.

The original, which is in Finnish, is the authoritative version.

Consolidated key
financial indicators

Figures in EUR million unless otherwise indicated	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net sales	1,391.2	1,360.1	1,389.1	1,521.0	1,612.4	1,456.8	1,058.1	798.5	1,080.9	1,025.0
growth, %	2.3%	-2.1%	-8.7%	-5.7%	10.7%	37.7%	32.5%	-26.1%	5.5%	22.6%
Operating margin (EBITDA)	395.2	378.6	398.5	479.0	496.9	451.7	291.5	164.0	303.1	281.1
Depreciation and amortisation	84.7	82.6	89.8	93.5	81.9	71.6	69.4	61.9	56.2	47.1
Operating profit (EBIT)	310.5	296.0	308.7	385.5	415.0	380.1	222.2	102.0	247.0	234.0
% of net sales	22.3%	21.8%	22.2%	25.3%	25.7%	26.1%	21.0%	12.8%	22.8%	22.8%
Profit before tax	298.7	274.2	261.2	312.8	387.7	359.2	208.8	73.5	173.8	213.8
% of net sales	21.5%	20.2%	18.8%	20.6%	24.0%	24.7%	19.7%	9.2%	16.1%	20.9%
Return on equity, %	18.7%	19.6%	16.0%	13.0%	25.2%	29.1%	20.0%	7.6%	18.8%	26.6%
Return on capital employed, %	19.9%	20.3%	19.2%	21.8%	24.3%	27.4%	19.9%	9.4%	22.9%	27.8%
Total assets	1,975.7	1,754.8	1,797.0	2,062.9	2,019.6	1,875.9	1,371.6	1,221.9	1,420.4	1,155.4
Interest-bearing net debt	-287.4	-209.7	-164.6	-56.4	-65.2	-3.6	0.7	263.7	319.0	102.0
Equity ratio, %	73.8%	70.8%	67.5%	67.6%	71.2%	63.2%	68.4%	62.0%	54.8%	61.8%
Gearing, %	-19.7%	-16.9%	-13.6%	-4.1%	-4.5%	-0.3%	0.1%	34.8%	41.0%	14.3%
Net cash from operating activities	364.4	283.4	323.4	317.6	388.7	232.9	327.2	194.2	18.4	169.9
Capital expenditure	105.6	101.7	80.6	125.6	209.2	161.7	50.5	86.5	181.2	117.1
% of net sales	7.6%	7.5%	5.8%	8.3%	13.0%	11.1%	4.8%	10.8%	16.8%	11.4%
R&D expenditure	20.3	18.7	16.6	16.1	16.9	15.1	12.7	12.0	12.5	11.5
% of net sales	1.5%	1.4%	1.2%	1.1%	1.0%	1.0%	1.2%	1.5%	1.2%	1.1%
Dividends (proposal)	208.0	202.0	193.5	193.3	191.9	156.6	83.8	50.7	49.9	62.3
Personnel, average during the year	4,433	4,421	4,272	4,194	4,083	3,866	3,338	3,503	3,812	3,462

Per share data

Figures in EUR million unless otherwise indicated	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Earnings per share, EUR	1.87	1.80	1.56	1.39	2.52	2.39	1.34	0.47	1.12	1.37
growth, %	3.6%	15.1%	12.9%	-45.0%	5.4%	78.7%	186.9%	-58.4%	-18.3%	55.7%
Earnings per share (diluted), EUR	1.86	1.80	1.56	1.39	2.46	2.32	1.32	0.49	1.10	1.31
growth, %	3.2%	15.0%	12.9%	-43.5%	5.8%	75.8%	168.2%	-55.4%	-15.6%	52.6%
Cash flow per share, EUR	2.70	2.12	2.43	2.39	2.96	1.80	2.58	1.56	0.15	1.38
growth, %	27.4%	-12.7%	1.4%	-19.2%	64.2%	-30.1%	66.0%	953.2%	-89.3%	57.7%
Dividend per share, EUR (proposal)	1.53	1.50	1.45	1.45	1.45	1.20	0.65	0.40	0.40	0.50
Dividend pay out ratio, % (proposal)	82.6%	83.9%	92.9%	105.2%	58.0%	50.7%	49.4%	87.0%	35.7%	36.9%
Equity per share, EUR	10.75	9.24	9.07	10.45	10.89	9.15	7.34	6.07	6.20	5.76
P/E ratio	19.0	18.4	13.0	25.2	11.9	10.4	20.5	36.4	7.0	17.5
Dividend yield, % (proposal)	4.3%	4.5%	7.1%	4.2%	4.8%	4.8%	2.4%	2.4%	5.1%	2.1%
Market capitalisation 31 December	4,805.7	4,448.3	2,702.0	4,647.7	3,971.9	3,224.7	3,505.4	2,122.5	987.5	2,974.9
Adjusted number of shares during the year average, million units	134.86	133.63	133.16	132.65	131.24	129.12	126.75	124.85	124.61	122.95
diluted, million units	135.56	133.74	135.10	137.62	137.39	135.70	132.96	129.76	131.47	129.09
Number of shares 31 December, million units	135.68	134.39	133.17	133.29	131.96	129.61	127.70	124.85	124.85	123.70
Number of shares entitled to a dividend, million units	135.93	134.69	133.47	133.34	132.32	130.50	128.85	126.69	124.85	124.63

Consolidated key financial indicators

Definitions

Return on equity, % =	$\frac{\text{Profit for the period} \times 100}{\text{Total equity (average)}}$
Return on capital employed, % =	$\frac{\text{Profit before tax} + \text{interest and other financial expenses} \times 100}{\text{Total assets} - \text{non-interest-bearing debt (average)}}$
Equity ratio, % =	$\frac{\text{Total equity} \times 100}{\text{Total assets} - \text{advances received}}$
Gearing, % =	$\frac{\text{Interest-bearing net debt} \times 100}{\text{Total equity}}$
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, % =	$\frac{\text{Dividend for the year} \times 100}{\text{Net profit}}$
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

Report by the Board of Directors 2016

Nokian Tyres' net sales increased by 2.3% to EUR 1,391.2 million (1,360.1 in 2015). Currency exchange rate changes affected net sales negatively by EUR 29.9 million compared with the rates in 2015.

Operating profit increased by 4.9% to EUR 310.5 million (296.0). Operating profit percentage was 22.3% (21.8%).

The profit for the period increased by 4.6% to EUR 251.8 million (240.7). The net effect of the Finnish Tax Authorities' tax decisions related to the 2007–2010 tax dispute was positive by EUR 4.9 million for the full financial year 2016. The tax dispute for 2007–2010 is thoroughly described in the section "Tax rate".

Earnings per share were EUR 1.87 (1.80).

Cash flow from operating activities was EUR 364.4 million (283.4), which was affected by the payment of EUR 51.0 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010. The company paid the amount in January 2016.

The Board of Directors proposes a dividend of EUR 1.53 (1.50) per share.

Andrei Pantioukhov, Interim President and CEO:

"In 2016, Nokian Tyres demonstrated strong performance in all its main market areas despite quite challenging market environment. Our net sales and profitability improved, along with the market shares.

The fourth quarter exceeded our expectations. Sales in all our main markets increased compared to the same period in the previous year. Russia was the biggest contributor to the growth in sales in Q4 – for the first time in a few years. The first encouraging signals that we reported in connection with the Q3 results continued to come from Russia. Russia's economy and consumer markets continue to gradually stabilize, but we expect the growth in 2017 to be moderate.

The winter season started early and continued strongly, especially in CE, the Nordic countries and Russia. We have succeeded in improving our market share in our target areas despite all the challenges, especially in Russia and Central Europe. Our overall performance in the fourth quarter was excellent, and led to a strong full-year result.

Our production volumes were higher than last year, and productivity continued to develop positively. Raw material costs started to increase, as forecasted. We estimate that the raw material costs will increase by approximately 15–20% for the full year 2017 vs. 2016. This development will definitely lead to price increases in the whole industry. We have already started to implement the necessary

price increases in order to maintain our profitability.

The cash flow from operating activities was EUR 81 million better than last year. Investments in 2016 amounted to EUR 105.6 million. Profitability was weakened by bad debt provisions of EUR 18.6 million, most of which related to customer bankruptcies originated in year 2015 in Russia (EUR 16.9 million). However, the collection rate of 2016 current receivables in Russia was 100%.

The fourth quarter net sales in Passenger car tyres went up from last year, and so did the operating profit. ASP decreased only slightly this quarter, mainly due to currency effects. In Heavy Tyres, we continued making the necessary investments for the future. Net sales and operating profit were practically flat year-over-year.

Vianor's net sales increased slightly, but profitability was below the targeted level driven by operational challenges and non-recurrent items (ICT development project write-offs). In order for Vianor to achieve a positive result, a comprehensive profit improvement program will be launched in 2017. The growth of our distribution network was positive, despite large-scale tyre shop closures in Russia caused by difficult economic situation in Russia. The number of Vianor, NAD, and N-Tyre outlets in our network grew by 286 in 2016. Currently, the network includes 3,102 stores in total.

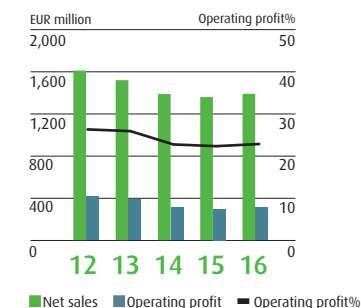
We launched top quality products during 2016, and our products continued to perform very well in magazine tests. The new flagship products for our winter tyre range, the Nokian Hakkapeliitta 9 and Nokian Hakkapeliitta 9 SUV, along with new value-for-money products Nokian Nordman 7 and Nokian Nordman 7 SUV, will make our product portfolio even stronger.

Nokian Tyres is in great shape, and I am proud to be the interim President & CEO to lead the company forward. High customer satisfaction, an engaged organization, and the upcoming flow of new world's safest tyres create an excellent ground for future growth. In 2017, we expect net sales and operating profit to grow by at least 5% compared to 2016."

Market situation

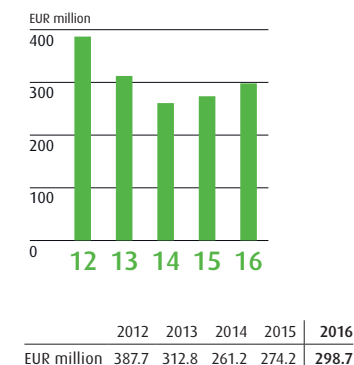
The global recovery continues. As we enter 2017, all regions are showing positive development. In 2017 and 2018, the rate of growth is estimated to be slightly higher than in previous years. It is estimated that the global GDP will grow by 3.3% in 2017 (3.1% in 2016). The GDP growth estimates for the Nordic countries are from +1.0% to +2.3%, for Europe (including the Nordics) +1.3%, and for the US +2.1%. In Russia, the GDP is estimated to grow by approximately 1%.

Net sales, operating profit and operating profit%



	2012	2013	2014	2015	2016
Net sales	1,612.4	1,521.0	1,389.1	1,360.1	1,391.2
Operating profit	415.0	385.5	308.7	296.0	310.5
Operating profit%	25.7	25.3	22.2	21.8	22.3

Profit before tax



In Europe, the sales of new cars increased in 2016 by 7% year-over-year. Car tyre sell-in to distributors was up 2% year-over-year, with winter tyre demand increasing by 3%. Overall, tyre demand is estimated to grow slightly year-over-year in Central Europe in 2017. Rapidly growing raw materials costs will force the global tyre industry to increase prices in 2017.

In the Nordic countries, new car sales increased in 2016 by 7% year-over-year. The market volume of car tyres was flat year-over-year. For the full year of 2017, car tyre demand is estimated to remain at the same level year-over-year.

In the US, the estimated new car sales were up by 0.6% in 2016 vs. 2015. The market volume of car tyres was up by 1.4% year-over-year. However, demand for winter tyres decreased. For the full year of 2017, car tyre demand is estimated to increase slightly year-over-year.

Russia's economic decline has slowed down but has not turned into growth yet. The economy continued to stabilize. The Russian consumers' confidence and purchasing power continued to gradually improve, but still remain at a low level. The sales of new cars in 2016 continued to decrease: the whole year showed a decline of 11% and December was down by 1% vs. the same period last year. In 2017, the new car market is expected to return to growth. For the whole year 2017, the new car sales is expected to grow in the range of 5-10% vs. 2016. The total replacement tyre market sell-in in Russia declined in 2016 by approximately 5%. In 2017, the tyre market is expected to grow by 5-10% vs. 2016.

The global demand for special heavy tyres continued to vary strongly between products and market areas in 2016. OE forestry tyre demand remained strong. The increased use of wood and the good profitability of pulp manufacturers will also support forestry machine and tyre demand during the following quarters.

In 2016, the sell-in of premium truck tyres was up by 3% in Europe, while in the Nordic countries demand was down by 3%. In Russia, the demand for premium truck tyres increased by 33% compared to 2015. Truck tyre demand in 2017 is estimated to show some increase or to remain at the same level as in the previous year in all of Nokian Tyres' western markets; in Russia, demand is showing some positive signals.

In 2016, the global GDP is estimated to have grown by 3.1%. The GDP growth estimates for Nordic countries were 0.8 - 3.2%, and for Europe (including Nordics) the estimate was 1.6%. The GDP in USA grew by 1.6%. In Russia, the GDP declined by 0.6% in 2016.

Raw materials

Nokian Tyres' raw material costs (EUR/kg) were down by 5.3% in 2016 year-over-year. The raw material costs are estimated to increase by approximately 15-20% in the full year of 2017, providing a headwind of approximately EUR 40-55 million versus 2016.

Review January-December 2016

Nokian Tyres Group recorded net sales of EUR 1,391.2 million (2015: 1,360.1; 2014: 1,389.1), with an increase of 2.3% compared with 2015. Currency exchange rates affected net sales negatively by EUR 29.9 million. In the Nordic countries, sales increased by 1.8% and represented 43.1% (43.5%) of the Group's total sales. In Russia and CIS, consolidated sales were down by 3.6% and formed 16.0% (17.1%) of the Group's total sales. In Other Europe, sales increased by 13.5% and represented 29.3% (26.5%) of the Group's total sales. In North America, sales decreased by 8.3% and were 10.8% (12.1%) of the Group's total sales.

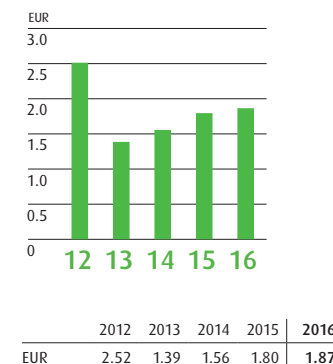
Sales of Passenger Car Tyres were up by 3.1%, representing 66.7% (66.3%) of the Group's total sales. Heavy Tyres' sales remained at the same level year-over-year and were 10.6% (10.8%) of the Group's total sales. Vianor's sales increased by 2.2%, forming 22.8% (22.8%) of the Group's total sales.

The raw material costs (EUR/kg) in manufacturing decreased by 5.3% year-over-year. Fixed costs amounted to EUR 431.0 million (403.8), thereby accounting for 31.0% (29.7%) of net sales. Total salaries and wages were EUR 197.6 million (2015: 197.1; 2014: 195.4).

Nokian Tyres Group's operating profit amounted to EUR 310.5 million (2015: 296.0; 2014: 308.7), with an increase of 4.9% compared with 2015. The operating profit was negatively affected by the IFRS 2-compliant accrual for share option and performance share plans of EUR 15.0 million (9.1) and expensed credit losses and provisions of EUR 18.6 million (17.7), most of which related to customer bankruptcies in year 2015 in Russia (EUR 16.9 million). Operating profit percentage was 22.3% (2015: 21.8%; 2014: 22.2%).

Net financial expenses were EUR 11.8 million (21.8). Net interest expenses were EUR 8.0 million (10.7). In Q3/2015, financial expenses included a EUR 2.7 million premium related to Nokian Tyres' voluntary buy-back of a company bond maturing in 2017 amounting to EUR 62.3 million. In Q1/2015, the financial expenses were adjusted with a EUR 20.2 million reversal of interest on back tax as the reassessment decisions on the years 2007-2010 were annulled and returned to

Earnings per share



the Tax Administration for reprocessing. In Q4/2015, net interest expenses included EUR 19.2 million in penalty interest based on the renewed reassessment decisions from the Tax Administration received in December 2015 and January 2016. The net effect of the above described tax decisions was EUR 1.0 million positive for the full financial year 2015. Net financial expenses include EUR 3.8 million loss (11.1 loss) in exchange rate differences.

Profit before tax was EUR 298.7 million (274.2). The profit for the period amounted to EUR 251.8 million (240.7), and the EPS were EUR 1.87 (1.80). In Q1/2015, the tax expense was adjusted by EUR 80.1 million as the tax reassessment decisions for the years 2007–2010 were annulled and returned to the Tax Administration for reprocessing. In Q4/2015, the tax expense was again adjusted by EUR 74.9 million based on the renewed reassessment decisions received in December 2015 and January 2016. In total in Q1/2015, based on the annulment decision made by the Board of Adjustment of Finnish Tax Administration, the company returned total additional taxes and punitive interest of EUR 100.3 million to the financial result, and in Q4/2015, based on the renewed reassessment decisions, the company recorded total additional taxes and punitive interest of EUR 94.1 million to the financial result. The net effect of the above described tax decisions was EUR 6.2 million positive for the full financial year 2015. In Q4/2016, taxes were again decreased by EUR 4.9 million according to the decision of the Board of Adjustment in November 2016. Tax disputes are thoroughly described in the section “Tax rate”. Excluding the tax decisions, the profit for the period increased by 5.3% compared to 2015.

Return on equity was 18.7% (2015: 19.6%; 2014: 16.0%). Cash flow from operating activities, EUR 364.4 million (283.4), was affected by the payment of EUR 51.0 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010. The company paid the amount in January 2016. The company received the reassessment decisions of EUR 94.1 million in December 2015 and in January 2016. Previously, the Tax Administration had already set off EUR 43.1 million of the amount despite the stay of execution. In Q4/2016, the Tax Administration in turn returned EUR 4.9 million according to the decision of the Board of Adjustment in November 2016.

In 2016 the Group employed, on average, 4,433 (2015: 4,421; 2014: 4,272) people, and 4,392 (2015: 4,389; 2014: 4,204) at the end of the review period. In Finland, the Group employed 1,616 (2015: 1,732; 2014: 1,657) people at the end of the review period, and 1,368 (2015: 1,327; 2014: 1,326) people in Russia. The equity-

owned Vianor tyre retail chain employed 1,742 (2015: 1,681; 2014: 1,508) people at the end of the review period.

Research & Development

The goal of Nokian Tyres is for new products to account for at least 25% of annual net sales. The development of a brand-new passenger car tyre takes 2 to 4 years. Approximately one half of R&D investments are allocated to product testing. Nokian Tyres’ R&D costs in 2016 totalled approximately EUR 20.3 million (2015: 18.7; 2014: 16.6), which is 1.5% (2015: 1.4%; 2014: 1.2%) of the Group’s net sales.

Investments

Investments in the review period amounted to EUR 105.6 million (101.7). This comprises production investments in the Russian and Finnish factories, moulds for new products, ICT and process development projects and the Vianor expansion projects.

Financial position on December 31, 2016

The gearing ratio was -19.7% (-16.9%). Interest-bearing net debt amounted to EUR -287.4 million (-209.7). Equity ratio was 73.8% (2015: 70.8%; 2014: 67.5%).

The Group’s interest-bearing liabilities totaled EUR 225.8 million (219.6), of which the current interest-bearing liabilities amounted to EUR 88.8 million (19.9). The average interest rate for interest-bearing liabilities was 3.1% (3.2%). Cash and cash equivalents amounted to EUR 513.2 million (429.3).

At the end of the review period, the company had unused credit limits amounting to EUR 508.7 million (508.7), of which EUR 155.7 million (155.7) were committed. 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.

The Group’s total comprehensive income was positively affected by translation differences for foreign operations by EUR 121.8 million (-55.2). The total comprehensive income for the period amounted to EUR 373.4 million (185.2).

Tax rate

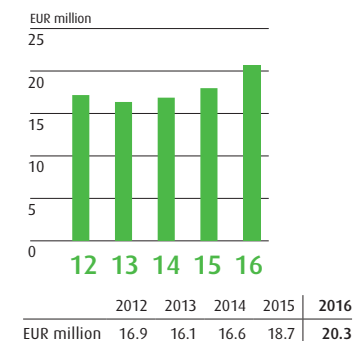
Dispute concerning 2007–2010

In April 2015, the Board of Adjustment of the Finnish Tax Administration annulled the reassessment decision from the Tax

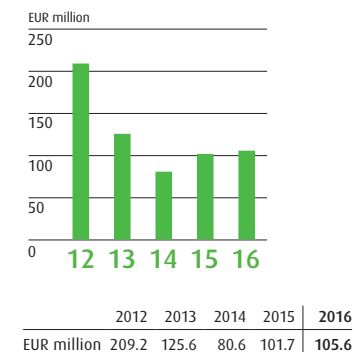
Average number of personnel



R&D expenses



Gross investments



Administration, according to which the Company was obliged to pay EUR 100.3 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010, and returned the matter to the Tax Administration for reprocessing. According to the Board of Adjustment, the Tax Administration neglected the obligation to hear the taxpayer. Because of the procedural fault by the Tax Administration, the Board of Adjustment annulled the decision without considering the actual substance of the matter.

The Company returned the 2007–2010 total additional taxes of EUR 100.3 million in full to the financial statement and result for the first quarter of 2015. The Company had recorded the same amounts as expenses in full in the financial statement and result for 2013.

In December 2015 and January 2016, the Company received renewed reassessment decisions from the Tax Administration, according to which the Company was obliged to pay EUR 94.1 million in additional taxes with punitive tax increases and interest concerning the tax years 2007–2010. The company paid the amount in January 2016. The total sum demanded by the tax authorities was EUR 94.1 million, of which EUR 62.8 million were additional taxes and EUR 31.3 million were punitive tax increases and interest. The Company considers the decision unfounded and appealed against it by filing a claim with the Board of Adjustment.

Based on the renewed reassessment decisions, the Company has recorded the total additional taxes of EUR 94.1 million as expenses in full in the financial statement and result for 2015.

In November 2016, the Company announced that The Board of Adjustment of the Finnish Tax Administration held in force the reassessment decision from the Tax Administration related to additional taxes of EUR 62.8 million, but decreased the amount of punitive tax increases and interests from EUR 31.3 million to EUR 26.4 million concerning the tax years 2007–2010. The Company considers the decision unfounded and appealed against it by filing a claim with the Administrative Court.

The reassessment decision regarding the year 2011 has not been received yet, and the later years have not been tax audited by the Finnish Tax Administration.

Dispute concerning the US subsidiary 2008–2012

Nokian Tyres U.S. Finance Oy, a subsidiary of Nokian Tyres plc (ownership: 100% of the shares), received a reassessment decision from the Finnish Tax Administration, according to which the company is obliged to pay EUR 11.0 million in additional taxes with punitive

tax increases and interest concerning the tax years 2008 to 2012. EUR 7.9 million of this are additional taxes and EUR 3.1 million are punitive tax increases and interest. The company recorded them in full in the financial statement and result for Q1/2014.

The Large Taxpayers’ Office carried out a tax audit concerning the Finnish Business Tax Act, where the Tax Administration raised an issue about the restructuring of the sales company and acquisitions by 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. If necessary, the company will continue the appeal process in the Administrative Court.

Tax rate outcome and estimate

The Group’s tax rate was 15.7% in the review period; and 17.4% excluding the decrease of the punitive tax increases and interests in 2016. In 2015, the tax rate was 12.2%, and 14.2% excluding the additional taxes in 2015. The tax rate is positively affected by tax incentives in Russia for current investments and further future investments. The latest agreed tax benefits and incentives for the factory came into force at the beginning of 2013 and, for the sales company, these were renewed in August 2016. The agreements will extend the benefits and incentives until approximately 2020. Due to the renewed agreement and changes in Russia’s legislation, the estimate for the Group’s tax rate is expected to be 19% for 2017–2019.

The tax rate in the coming years will depend on the timetable and final outcome of the ongoing back tax disputes with the Finnish Tax Administration. The Group’s corporate annual tax rate may rise as a result of these cases.

BUSINESS UNIT REVIEWS

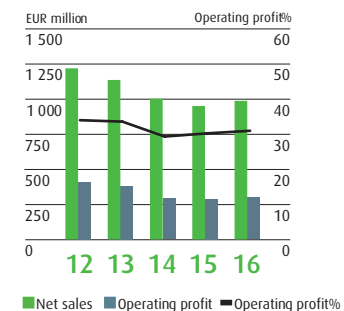
Passenger Car Tyres

Net sales of Nokian Passenger Car Tyres totaled EUR 981.1 million (951.5) in 2016, up by 3.1% year-over-year. Operating profit was EUR 305.8 million (285.5). Operating profit percentage was 31.2% (30.0%).

Net sales increased slightly during the review period, mainly due to the increased sales in Other Europe. In 2016, net sales in Russia and North America declined and in the Nordic countries

NOKIAN PASSENGER CAR TYRES

Net sales, Operating profit and Operating profit%



	2012	2013	2014	2015	2016
Net sales	1,220.1	1,137.0	1,003.2	951.5	981.1
Operating profit	410.8	378.5	292.2	285.5	305.8
Operating profit%	33.7	33.3	29.1	30.0	31.2

remained at the same level year-over-year. In Q4, sales increased especially in Russia. The winter season was good, especially in Other Europe, the Nordic countries and Russia. In most countries, the volumes were up. In Europe, the trend of sales shifting towards the consumer season has continued. Nokian Tyres' summer tyre sales continued to increase in all key markets.

In 2016, the Average Selling Price in euros decreased slightly mainly due to currency impacts. The share of winter tyres in the sales mix was 67% (71%), the share of summer tyres was 24% (21%) and the share of All-Season tyres was 9% (8%). Some price reductions have taken place in a few countries, which reflects the tight competitive situation and reductions in material costs partly passing through to tyre prices. Pricing environment during 2016 was tight, but shifted towards more neutral towards the end of the year due to increasing raw material prices.

Raw material costs (€/kg) were down by 5.3% year-over-year, which, together with improved productivity, supported the margins.

Nokian Tyres succeeded in the winter tyre tests once again, with several car magazine test victories all over the world. The summer tyre range also won several car magazine tests. Read more: 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 Nokian Hakka Blue 2 summer tyre for Nordic countries and Russia, Nokian Rockproof – a strong special tyre, Nokian zLine all season for North American markets as well as Nokian iLine and Nokian eLine 2 for CE were introduced during the review period.

In the review period, the capacity utilization increased year-over-year, and the production output (pcs) increased by 5%. Productivity (kg/mh) improved by 3% year-over-year. In 2016, 86% (81%) of Nokian passenger car tyres (pcs) were manufactured at the Russian factory.

Heavy Tyres

Net sales of Nokian Heavy Tyres totaled EUR 155.3 million (155.3) in 2016, remaining at the same level year-over-year. Operating profit was EUR 28.2 million (28.7). Operating profit percentage was 18.2% (18.5%).

In the Western markets, demand was moderate in most of Nokian Heavy Tyres' core product groups. Sales of forestry tyres were strong. Sales remained at a good level in the Nordic countries and increased in Russia. In Other Europe, sales declined due to decreased

Agri sales. In North America sales decreased slightly. Especially new product sales developed well. The operating profit decreased slightly year-over-year due to the decreased average selling prices and higher level of marketing activities. The raw material cost savings in the beginning of the year supported full year profitability.

In 2016, the Average Selling Price decreased year-over-year due to a challenging pricing environment, a bigger share of OE sales, and the product mix. During the review period, sales volumes of the company's own production increased year-over-year. Productivity increased.

Production output (metric tons) increased vs. 2015, and continuous investments into production technology improved productivity.

Vianor

Equity-owned operations

Net sales totaled EUR 334.8 million (327.6) in 2016, up by 2.2% year-over-year. Operating profit was EUR -8.1 million (-1.9). Operating profit percentage was -2.4% (-0.6%). Excluding non-recurring items: Operating profit EUR -4.5 million, operating profit percentage -1.3%. Non-recurring items amounting to EUR 3.6 million include the write-off of ICT development projects.

In 2016, Net sales increased in the Nordic countries year-over-year. Service sales increased by 4.1%. Retail sales accounted for 51% of Vianor's total sales. In Q4/2016, the retail business environment was very challenging. In order for Vianor to achieve a positive result, a comprehensive profit improvement program will be launched in 2017 focusing on service sales development, pricing management, retail structure optimization, and cost reduction.

Vianor outlets are being developed towards one-stop shops, where the customer can get tyres, tyre services and car services. At the end of the review period, Vianor had 212 (198) equity-owned stores in Finland, Sweden, Norway, USA, Switzerland, and Russia.

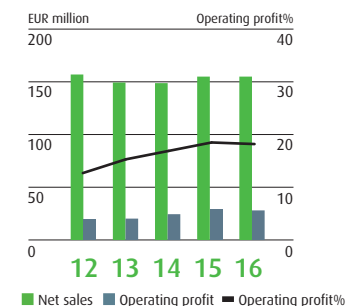
Retail network operations

Nokian Tyres' retail network includes Vianor's equity-owned chain, Vianor's partner chains, Nokian Tyres Authorized Dealers (NAD), and N-Tyre.

In Nokian Tyres' key markets, the total number of Vianor outlets increased by 26 stores during 2016 (equity +14, partner +12). At the end of the review period, the Vianor network comprised 1,501

NOKIAN HEAVY TYRES

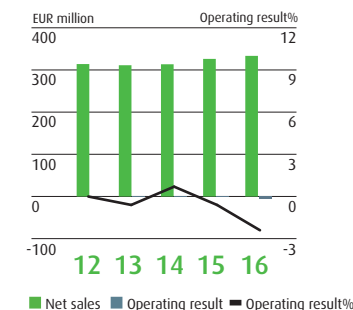
Net sales, Operating profit and Operating profit%



	2012	2013	2014	2015	2016
Net sales	157.3	149.7	149.1	155.3	155.3
Operating profit	19.9	20.4	24.6	28.7	28.2
Operating profit%	12.7	13.6	16.5	18.5	18.2

VIANOR

Net sales, Operating result and Operating result%



	2012	2013	2014	2015	2016
Net sales	315.3	312.5	314.8	327.6	334.8
Operating result	0.0	-1.8	2.1	-1.9	-8.1*
Operating result%	0.0	-0.6	0.7	-0.6	-2.4*

* Excluding non-recurring items: Operating profit EUR -4.5 million, operating profit percentage -1.3%.

stores in total, of which 1,289 were partners. Vianor operates in 27 countries; most extensively in the Nordic countries, Russia, and Ukraine. The expansion of the partner network will continue.

A softer partner model, Nokian Tyres Authorized Dealers (NAD), has expanded in the review period by 242 stores and comprises 1,481 stores under contract in 19 European countries and China. N-Tyre, a Nokian Tyres partner network, is operating with 120 stores in Russia and the CIS, and it has expanded in the review period by 18 stores.

OTHER MATTERS

1. Stock options on the Nasdaq Helsinki Stock Exchange

The total number of stock options 2010C was 1,340,000. Each stock option 2010C entitled its holder to subscribe to one share in Nokian Tyres plc. The shares were subscribed with the stock options 2010C during the period of May 1, 2014 to May 31, 2016.

The total number of stock options 2013A is 1,150,000. Each stock option 2013A entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013A during the period of May 1, 2015 to May 31, 2017. The present share subscription price with stock options 2013A is EUR 27.86/share. The dividends payable annually are deducted from the share subscription price.

The total number of stock options 2013B is 1,150,000. Each stock option 2013B entitles its holder to subscribe to one share in Nokian Tyres plc. The shares can be subscribed with the stock options 2013B during the period of May 1, 2016 to May 31, 2018. The present share subscription price with stock options 2013B is EUR 26.59/share. The dividends payable annually are deducted from the share subscription price.

2. Shares subscribed with option rights

After the new shares were registered on December 22, 2015, a total of 40 Nokian Tyres plc's shares were subscribed with the 2010C option rights. These option rights are attached to Nokian Tyres plc's Option Program of 2010. The new shares were registered into the Trade Register on May 16, 2016, as of which date the new shares established shareholder rights. The share capital will not increase with the subscriptions made by 2010 option rights. The entire subscription price of EUR 1,238.00 was entered in the invested unrestricted equity reserve. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 134,691,214 shares. The shares have been traded on Nasdaq Helsinki together with the old shares since May 17, 2016.

After the new shares were registered on May 16, 2016, a total of 1,219,996 Nokian Tyres plc's shares were subscribed with the 2010C option rights, a total of 40 shares with the 2013A option rights and a total of 145 shares with the 2013B option rights. These option rights are attached to Nokian Tyres plc's Option Programs of 2010 and 2013. The new shares have been registered into the Trade Register on August 18, 2016, as of which date the new shares established shareholder rights. The share capital will not increase with the subscriptions made by the 2010 and 2013 option rights. The entire subscription price of EUR 35,933,852.00 was entered in the invested unrestricted equity reserve. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 135,911,395 shares. The shares have been traded on Nasdaq Helsinki together with the old shares since August 19, 2016.

After the new shares were registered on August 18, 2016, a total of 300 Nokian Tyres plc's shares were subscribed with the 2013A option rights. These option rights are attached to Nokian Tyres plc's Option Program of 2013. The new shares were registered into the Trade Register on November 10, 2016, as of which date the new shares established shareholder rights. The share capital will not increase with subscriptions made by 2013 option rights. The entire subscription price of EUR 8,358.00 was entered in the invested unrestricted equity reserve. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 135,911,695 shares. The shares have been traded on Nasdaq Helsinki together with the old shares since November 11, 2016.

3. Authorizations

In 2012, the Annual General Meeting authorized the Board of Directors to make a decision to offer no more than 25,000,000 shares through a share issue. The authorization is effective for five years from that decision.

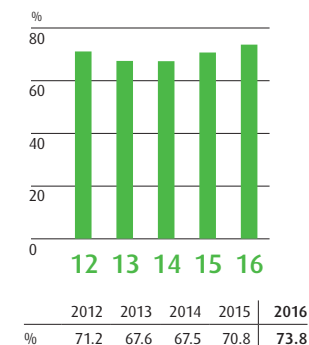
In 2016, the Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 5,000,000 the company's own shares. The authorization is effective at most until October 12, 2017.

4. Own shares

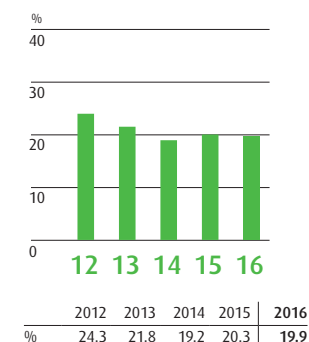
No share repurchases were made in the review period, and the company did not possess any own shares on December 31, 2016.

In 2014, Nokian Tyres entered into an agreement with a third-party service provider concerning the share-based incentive program

Equity ratio



Return on capital employed



for key personnel. The third party owns the shares until the shares are given to the participants within the program. In accordance with IFRS, these repurchased 300,000 shares have been reported as treasury shares in the Consolidated Statement of Financial Position. This number of shares corresponds to 0.2% of the total shares and voting rights of the company.

5. Trading in shares

Nokian Tyres' share price was EUR 32.04 (33.10) at the end of the review period. The volume weighted average share price during the period was EUR 31.75 (28.06), the highest was EUR 36.74 (37.57) and the lowest was EUR 27.48 (19.23). A total of 138,561,065 shares were traded in Nasdaq Helsinki during the period (195,229,321), representing 102% (145%) of the company's overall share capital. Nokian Tyres' shares are also traded on alternative exchanges, such as Bats CXE, Turquoise, and BATS. The total trading volume on these alternative exchanges was 127,537,938 shares during the review period. The company's market capitalization at the end of the period was EUR 4.814 billion (4.458 billion). The company had 35,483 (38,304) shareholders. The percentage of Finnish shareholders was 23.1% (27.5%), and 76.9% (72.5%) were non-Finnish holders and foreign shareholders registered in the nominee register. This figure includes Bridgestone's holding of approximately 14.7%.

6. Changes in ownership

Nokian Tyres has received announcements from BlackRock, Inc. on January 11, 2016, on January 15, 2016, on January 22, 2016, on February 16, 2016, on March 4, 2016, on March 9, 2016, on March 10, 2016, on March 14, 2016, on March 18, 2016, on April 22, 2016, on May 2, 2016, and on May 3, 2016, 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 8, 2016, on January 14, 2016, on January 21, 2016, on February 15, 2016, on March 3, 2016, on March 8, 2016, on March 9, 2016, on March 11, 2016, on March 17, 2016, on April 21, 2016, on April 29, 2016, and on May 2, 2016.

Nokian Tyres has received announcements from BlackRock, Inc. on January 14, 2016, on January 21, 2016, on January 25, 2016, on February 18, 2016, on March 7, 2016, on March 11, 2016, on March 16, 2016, on March 21, 2016, on March 23, 2016, and on April 25, 2016, 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 13, 2016, on January 20, 2016, on January 22, 2016, on February 17, 2016, on March 4, 2016, on March 10, 2016, on March 15, 2016, on March 18, 2016, on March 22, 2016, and on April 22, 2016.

Nokian Tyres has received an announcement from Sprucegrove Investment Management Ltd. on February 26, 2016 and a revised announcement on March 1, 2016, according to which the holdings of the mutual funds managed by Sprucegrove Investment Management Ltd. fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on February 25, 2016. According to Nokian Tyres, the holdings of the funds have fallen below the level of 5% already previously due to Nokian Tyres increasing its total number of shares during 2015.

Nokian Tyres has received an announcement from The Capital Group Companies, Inc. on March 24, 2016, according to which the holdings of the mutual funds managed by The Capital Group Companies, Inc. fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on March 23, 2016.

Nokian Tyres has received an announcement from The Capital Group Companies, Inc. on June 9, 2016, according to which the holdings of the mutual funds managed by The Capital Group Companies, Inc. exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on June 8, 2016.

Nokian Tyres has received an announcement from The Income Fund of America (IFA) on September 15, 2016, according to which the shares owned by The Income Fund of America exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on September 14, 2016.

More detailed information on flagging can be found at www.nokiantyres.com/company/investors/share/flagging-notifications/.

7. Decisions made at the Annual General Meeting

On April 12, 2016, the Annual General Meeting of Nokian Tyres approved the financial statements for 2015 and discharged the Board of Directors and the President and CEO from liability.

7.1 Dividend

The meeting decided that a dividend of EUR 1.50 per share be paid for the period ending on December 31, 2015. It was decided to pay the dividend to the shareholders included in the shareholder list

maintained by Euroclear Finland Ltd on the record date of April 14, 2016. The dividend payment date was April 28, 2016.

7.2. Members of the Board of Directors and Auditor

The meeting decided that the Board of Directors has seven members. The existing members Hille Korhonen, Tapio Kuula, Raimo Lind, Inka Mero and Petteri Walldén were elected to continue on the Board of Directors. Mr. Heikki Allonen and Ms. Veronica Lindholm were elected as new members of the Board.

Authorized public accountants KPMG Oy Ab continue as auditors.

7.3. Remuneration of the Members of the Board of Directors to remain unchanged

The meeting decided that the fee paid to the Chairman of the Board is EUR 80,000 per year, while the remuneration to the Board members is set at EUR 40,000 per year. The Members of the Board are also granted a fee of EUR 600 for every Board meeting and Committee meeting attended. Travel expenses will be compensated in accordance with the company's travel policy.

In accordance with current practice, 50% of the annual fee is paid in cash and 50% in company shares. It was decided that, in the period of April 13 to April 30, 2016, Nokian Tyres plc shares in the amount of EUR 40,000 be purchased on the stock exchange on behalf of the Chairman of the Board and shares in the amount of EUR 20,000 on behalf of each Board member. Therefore, the final remuneration paid to the Board members is tied to the company's share performance.

8. Chairman of the Board and Committees of the Board of Directors

In the Board meeting on April 12, 2016, Petteri Walldén was elected chairman of the Board. The members of the Personnel and Remuneration Committee are Tapio Kuula (chairman), Hille Korhonen and Petteri Walldén. The members of the Audit Committee are Raimo Lind (chairman), Heikki Allonen and Inka Mero.

9. Corporate social responsibility

Nokian Tyres published its Corporate Sustainability Report in April 2016. The Corporate Sustainability Report is available in Finnish and English on the company's website at www.nokiantyres.com/company/sustainability/. The report is based on the international, widely adopted GRI G4 guidelines that divide sustainability into three main groups (financial, environmental, and social sustainability

and their different subgroups). Product safety and quality, as well as profitable growth, good HR management, and environmental issues are important for the development of sustainable business operations at Nokian Tyres. The report is the third GRI report from Nokian Tyres and, in the interests of quality assurance, it has now been externally assured for the first time.

Nokian Tyres plc is included in the OMX GES Sustainability Finland GI index. The index is designed to provide investors with a liquid, objective, and reliable benchmark for responsible investment. The benchmark index comprises the 40 leading Nasdaq Helsinki listed companies in terms of sustainability. The index criteria are based on international guidelines for environmental, social, and governance (ESG) issues. The index is calculated by Nasdaq in cooperation with GES Investment Services. Nokian Tyres is also included in the STOXX Global ESG Leaders indices, and is a constituent of the FTSE4Good Index.

The new biomass power plant in Nokia started its operations in April 2016. The plant reduces the use of fossil fuels and increases the use of local energy sources. Nokian Tyres is one of three partners. The total investment was EUR 42 million. According to initial calculations, the proportion of renewable energy sources could increase from the current 40% to approximately 70%, thereby significantly decreasing the Nokia factory's greenhouse gas emissions in the future.

Nokian Tyres received good grades for corporate responsibility

Nokian Tyres has received consistently good results in the global Dow Jones Sustainability Index. The evaluations review the corporate responsibility of the companies' operations from 18 different perspectives, including environmental affairs, human rights, accountability in the procurement chain, and safety in the workplace. In the 2016 evaluation, Nokian Tyres was graded above average for its sector in almost all of the 18 sub-areas. The evaluation is carried out by a Swiss company named RobecoSam.

10. Nokian Tyres participating in UN Global Compact initiative

On January 11, 2016, Nokian Tyres announced that it has signed the United Nations' Global Compact initiative and is registered as a supporting member of the initiative as of December 23, 2015. Signing the initiative further strengthens the Group's commitment to profitable business and responsible methods.

11. Changes in operational structure and management team

On January 20, 2016, Nokian Tyres announced that it is going

to change its operational structure and responsibilities in the management team in order to strengthen the Company's further expansion and to improve distribution and the development and harmonization of processes.

Nokian Tyres' Management team as of April 1, 2016

Ari Lehtoranta, President and CEO

Alexej von Bagh, Process Development

Esa Eronen, Supply Operations

Teppo Huovila, Quality, Sustainability and ICT

Anna Hyvönen, Vianor and Partner Distribution

Anne Leskelä, Finance & IR

Ville Nurmi, Human Resources

Andrei Pantioukhov, Executive Vice President, General Manager of Russian Operations

Juha Pirhonen, Research and Development

Manu Salmi, Heavy Tyres

Pontus Stenberg, Sales

Antti-Jussi Tähtinen, Marketing and Communications

12. Agreement on work time flexibility supports preserving the role of the Nokia factory

On January 29, 2016, Nokian Tyres announced that it has signed an agreement at the Nokia factory on work time flexibility in the coming years. The agreement improves flexibility in production and supports the competitiveness of the company. The agreement also supports maintaining a significant role for the Nokia factory in the future, in terms of both tyre production and the development of new products and production methods. During the agreement period, there will be no temporary or permanent layoffs due to financial or production-related reasons at the factory. The agreement is in effect until June 30, 2018.

13. Nokian Hakkapeliitta R2 winter tyre wins the Tire technology of the year 2016 award

On February 18, 2016, Nokian Tyres announced that it has won the esteemed Tire technology of the year 2016 award with the Nokian Hakkapeliitta R2 winter tyre.

14. Nokian Tyres' incentive scheme to be updated

On February 24, 2016, Nokian Tyres announced that the Board of Directors of Nokian Tyres plc has decided to update the Group's incentive schemes. The update aims to clarify and improve the

schemes, and to offer a competitive reward system for all personnel. Nokian Tyres has decided to launch a new share-based incentive scheme for a group of key personnel and a new profit-sharing bonus scheme for all other personnel. The incentive scheme has long focused on options, which are due to expire in 2019.

15. Test tyre policies and processes at Nokian Tyres

On February 29, 2016, Nokian Tyres published a stock exchange release concerning the company's test tyre policies and processes. In the February 24 issue of the newspaper Kauppalehti, the company disclosed that its practices concerning tyre tests in the past have not always been in line with the sustainable approach of Nokian Tyres. Although the practices have substantially improved over the years, the company decided to launch an investigation into the matter in the autumn of 2015. Following the investigation, Nokian Tyres has ensured that any possible improper practices related to testing have been rectified. At the same time, the company has completed a review of its practices in order to increase openness and transparency in all activities. Learn more: www.nokiantyres.com/testtyre-faq/.

16. Nokian Tyres introduced a new winter product for Central Europe

On March 21, 2016, Nokian Tyres announced that it is adding a new winter tyre to its product selection for varying Central European winter weather. The sporty new Nokian WR A4 winter tyre combines high-performance handling and reliable winter grip in an optimal way. The new Nokian WR A4 complements Nokian Tyres' Central European winter tyre selection, which is one of the widest and most modern in the business.

17. Nokian Tyres signed a EUR 100 million Revolving Credit Facility

On May 12, 2016, Nokian Tyres announced that it has signed a EUR 100 million Revolving Credit Facility for 5 years with an international bank syndicate. The Facility will be used for refinancing the existing EUR 100 million Multicurrency Revolving Credit Facility that was signed March 31, 2011 as well as for general corporate purposes.

18. Nomination to Nokian Tyres' management team

On May 18, 2016, Nokian Tyres announced that Timo Tervolin has been appointed as Vice President, Strategy and Corporate Development and a member of Nokian Tyres' management team. His responsibilities include leading the company's strategy process and strategic programs, mergers and acquisitions, and monitoring

the markets and competition. Timo Tervolin joined Nokian Tyres on June 6, 2016 and reports to the President and CEO.

19. Nomination to Nokian Tyres' management team

On July 1, 2016, Nokian Tyres announced that Tarja Kaipio has been appointed as Vice President, Human Resources and member of the management team of Nokian Tyres plc as of August 8, 2016. She will be responsible for human resources functions and will report to the President and CEO.

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

20. Nokian Tyres plc: Shares subscribed with option rights

On August 18, 2016, Nokian Tyres announced that after May 16, 2016, registered new shares, a total of 1,219,996 Nokian Tyres plc's shares have been subscribed with the 2010C option rights, a total of 40 shares with the 2013A option rights, and a total of 145 shares with the 2013B option rights. As a result of the share subscriptions, the number of Nokian Tyres plc shares increased to 135,911,395 shares.

21. Nokian Tyres introduced new products

On September 9, 2016, Nokian Tyres introduced new products: the Nokian Hakka Blue 2 summer tyre, and Nokian Rockproof – a new, strong special tyre.

22. Nokian Tyres constructs an all-new technology center in Spain

On September 20, 2016, Nokian Tyres announced that it will construct a new technology center in Spain, in Santa Cruz de la Zarza. This development center will be located south of Madrid, and it will span approximately 300 hectares. In the future, it will be especially used for testing summer tyres with high speed ratings as well as the characteristics of winter tyres. The final construction of the center will be finished in late 2019, but the first stage will be completed already during 2017. The value of the investment is approximately EUR 16 million. Construction is scheduled to begin in early 2017.

23. Nokian Tyres' President and CEO to change

On September 27, 2016, Nokian Tyres announced that the President and CEO Ari Lehtoranta has resigned from his position in order to pursue new opportunities outside of Nokian Tyres. He continues in his present position until the end of 2016. The company's Board of

Directors will start the recruitment process to select a new President and CEO for the company.

» Read more: www.nokiantyres.com/company/news-article/nokian-tyres-president-and-ceo-to-change/.

24. Nokian Tyres plc: Managers' transactions

Nokian Tyres announced managers' transactions on November 4, 2016, on November 10, 2016, on November 11, 2016, on November 14, 2016, on November 15, 2016, on November 16, 2016, on November 18, 2016, on November 22, 2016, on November 24, 2016, on December 9, 2016, on December 12, 2016, and on December 13, 2016.

» Read more: www.nokiantyres.com/company/publications/releases/2016/managementTransactions/.

25. Nokian Tyres' tax dispute proceeds. The Company is now finally in a position to appeal to the Administrative Court

On November 7, 2016, Nokian Tyres announced that The Board of Adjustment of the Finnish Tax Administration held in force the reassessment decision from the Tax Administration related to additional taxes of EUR 62.8 million, but decreased the amount of punitive tax increases and interests from EUR 31.3 million to EUR 26.4 million concerning the tax years 2007–2010. The decision of the Board of Adjustment was not unanimous. The Company has already recorded the total additional taxes of EUR 94.1 million from the tax years 2007–2010 in full in the financial statement and result of year 2015, based on the Tax Administrations decisions from December 2015 and January 2016. The Company considers the decision unfounded and will appeal against it by filing a claim with the Administrative Court. The ruling of The Board of Adjustment of the Finnish Tax Administration does not affect the Company's dividend policy.

26. Andrei Pantioukhov appointed interim President and CEO of Nokian Tyres plc

On December 21, 2016, Nokian Tyres announced that The Board of Directors of Nokian Tyres plc has appointed MBA Andrei Pantioukhov, 44, as the interim President and CEO starting January 1, 2017. Mr. Pantioukhov currently serves as Nokian Tyres' General Manager, Russian operations, and also continues in this role. He has been in the Company since 2004, a member of the management since 2009, and Executive Vice President since the beginning of 2016.

Corporate Governance Statement

A separate Corporate Governance Statement, including a Remuneration Statement, has been issued and published in connection with the publishing of the Report by the Board of Directors. The statements are available on pages 68–76 of this report as well as on the company's website at www.nokiantyres.com/company/investors/corporate-governance/.

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, financial, and hazard risks. Strategic risks are related to customer relationships, competitors' actions, political risks, country risks, brand, R&D, 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 legislative changes, unpredictable rulings by judicial systems or authorities, or changes in raw material prices. Financial risks (Note 29) are related to fluctuations in interest rate and currency markets, refinancing, and counterparty and receivables risks. Hazard risks may lead to injuries, property damage, production outages, environmental impacts, or liabilities to third parties.

The most significant risks related to Nokian Tyres' business are the country risks related to the Russian business environment, reputation risks, tax risks (especially in Finland), product and R&D risks, production outage risks, currency and receivable risks, risks related to Corporate Governance, and information security and data administration risks. Due to the company's product strategy, interruption risks that are related to marketing and logistics may especially have a significant impact on peak season sales. The risk analysis performed in 2016 paid special attention to risks within the area of corporate social responsibility, the most significant of which were the risks related to reputation and product quality.

The risk management process aims to identify and evaluate the risks, and to plan and implement the practical measures for each risk. Among other things, such measures may include avoiding the

risk, reducing it in different ways, or transferring the risk through insurance or agreements. Control functions and actions are control or back-up procedures applied to reduce risks and ensure the completion of risk management measures.

Risk management is not allocated to a separate organization; its tasks follow the general distribution of responsibilities adopted elsewhere in the organization and its business activities. The company's Board of Directors discusses the most significant risks annually in connection with the strategic process.

Risks, uncertainty, and disputes in the near future

The global recovery continues. As we enter 2017, all regions are showing positive development. In 2017 and 2018, the growth rate is estimated to be slightly higher than in previous years. It is estimated that the global GDP will grow by 3.3% in 2017 (3.1% in 2016). The GDP growth estimates for the Nordic countries are from +1.0% to +2.3%, for Europe (including the Nordics) +1.3%, and for the US +2.1%. In Russia, the GDP is estimated to grow by approximately 1%. Possible effects related to US presidential election will be seen in coming months. An escalation of the Ukraine crisis could cause serious disruption, additional trade barriers, and a slowdown of economic development in Russia and Finland. Brexit as such has practically no effect on Nokian Tyres' business.

In 2016, the company's receivables increased compared to the previous year due to pre-summer tyre sales in Russia. The tyre inventories are at the planned level. The company follows the development of NWC very closely. At the end of the review period, Russian trade receivables accounted for 37% (31%) of the Group's total trade receivables. Russian receivable risk compared to 2015 is clearly lower. The collection rate of 2016 current receivables in Russia was 100%.

Approximately 40% of the Group's net sales in 2017 are estimated to be generated from Euro-denominated sales. The most important sales currencies in addition to the euro are the Russian ruble, the Swedish and Norwegian krona, and the US and Canadian dollar.

Nokian Tyres' other risks and uncertainty factors relate to the challenging pricing environment for tyres. As raw material prices rise, maintaining profitability will depend on the company's ability to raise tyre prices in line with increasing raw material costs.

The company announced in February 2016 that its practices concerning tyre tests in the past have not always been in line with the sustainable approach of Nokian Tyres. The company emphasizes

that its tyres have always been safe and that safety has never been compromised on. There are no court cases in process related to the matter.

More detailed information relating to the risks can be found at www.nokiantyres.com/annual-reports, Financial review 2016, on pages 43–49 and 72–73.

Tax disputes

Nokian Tyres Group has pending disputes with the Finnish Tax Administration. Those are described in the section "Tax rate" earlier in this report.

Personnel and safety

Nokian Tyres is an internationally growing company whose operations, profitability, and strategy implementation are built on the strong Hakkapeliitta values: entrepreneurship, innovation, and working together. These values and the strong Hakkapeliitta culture are maintained and promoted by means of good leadership and by supporting innovations and initiatives, for example.

Personnel development is supported by means of internal job rotation, on-the-job learning and training solutions. The Hakkapeliitta eAcademy training portal offers a group-wide, flexible online learning environment. Personal People Reviews play a key role in personnel development. The People Reviews focus on performance leadership, goals, and personal improvement.

Close cooperation with occupational healthcare and coordinated improvement activities allow for preventive management of worker absence. The management of working ability is a part of everyday supervisor work. In 2016, the positive development in the decline of work absences continued. Well-being at work is supported through diverse sports and club activities and personnel events.

The development of supervisor work and leadership are the most important. Nokian Tyres develops supervisor work by using the 360° supervisor evaluation model and the Hakkapeliitta Leader simulation game. The implementation of the new supervisor work principles also continued in 2016.

The personnel satisfaction survey actively provides the company with feedback regarding the development targets. Nearly 90% of the personnel responded to the survey in 2016. The identified development activities are particularly focused on developing supervisor work and occupational safety.

2016 continued the positive development regarding the number of occupational accidents, and the number of accidents fell by nearly 30% in the Group. The reporting of near misses and safety observations also improved further. Emphasis was laid on occupational safety training, communication, development of working practices, and the use of protective equipment. The actions aiming at ensuring a safe working environment are ongoing; the further improvement of the safety of production equipment and tools is an example of this. Zero accidents is the long-term goal for the company.

Committed, competent personnel, and a safe working environment will ensure continued business growth in the future.

Environment and Responsibility

At Nokian Tyres, the management of environmental and chemical safety and sustainability work are assigned to the Quality, Sustainability, and ICT department. The goals include accident prevention in all areas of operation, uninterrupted production, sustainable operations, and good corporate citizenship. When developing our operations, we apply best practices and advanced solutions while taking into account both economic factors and human values. Nokian Tyres promotes safety through risk management, continuous improvement of processes, and new investments.

Our factories in Nokia and Vsevolozhsk as well as our Swedish sales company Nokian Däck are certified to the ISO 14001 environmental management system standard and the ISO 9001 quality management system standard. The company's factories received the automotive industry's ISO/TS 16949 approval in 2013.

The long-term development of sustainability and environmental aspects make Nokian Tyres a pioneer of the tyre industry. Our products feature advanced solutions that improve the rolling resistance of tyres (thereby reducing fuel consumption and CO₂ emissions) or soil compaction in farming and forestry. The company was also the first tyre manufacturer in the world to discontinue the use of high aromatic (HA) oils in rubber compounds (already in 2005); its example accelerated the use of purified, low aromatic oils in tyre manufacturing in Europe. In 2010, the sales and import of all tyres containing HA oils were banned within the EU.

The outset for our environmental protection is the lifecycle approach: we take responsibility for the environmental effects of our products throughout their lifespan. Nokian Tyres strongly focuses

on the eco-friendliness of its products and processes. The company is also a shareholder in Finnish Tyre Recycling Ltd, a company for the collection and utilization of used tyres in Finland. In Finland, the recycling rate for decommissioned tyres is already approximately 97%. The recycling rate varies by country, and approximately half of the tyres that Nokian Tyres sells internationally are recycled.

In total, the environmental impact of our production was reduced compared to the previous year. A new incineration plant that reduces VOC emissions was commissioned in Nokia in February 2015. VOC emissions were down by approximately 10% in 2016 when compared to the previous year, but are still behind the level required by the EC directive. In 2016, the Group especially focused on improving energy efficiency, developing the environmental management system, and large-scale sustainability work. The environmental risk assessments were also updated in 2016. Our production facilities continued to focus on the recycling of waste; their utilization rate was 100% at our Nokia factory and 85% at our Vsevolozhsk factory. The new biopower plant was started in Nokia in April 2016. The plant reduces the use of fossil fuels and increases the use of local energy sources.

For more information concerning the management of environmental matters and sustainability, please see the Corporate Sustainability Report published in the spring of 2016. The report is available at www.nokiantyres.com/company/sustainability/.

The Corporate Sustainability Report for 2016 will be published in March 2017.

Outlook for 2017

The global recovery continues. As we enter 2017, all regions are showing positive development. In 2017 and 2018, the rate of growth is estimated to be slightly higher than in previous years. It is estimated that the global GDP will grow by 3.3% in 2017 (3.1% in 2016). The GDP growth estimates for the Nordic countries are from +1.0% to +2.3%, for Europe (including the Nordics) +1.3%, and for the US +2.1%. In Russia, the GDP is estimated to grow by approximately 1%.

In 2017, market demand for replacement car tyres is expected to show growth in Central Europe, North America, and the Nordic countries. In Russia, the market is expected to return to growth, but the pace of the recovery is likely to be quite moderate.

The company's replacement tyre market position (sell-in)

is expected to improve in 2017 in all key markets. In Russia, the company expects to retain and further strengthen its market leader position in the A+B segments in 2017.

The raw material cost is estimated to increase by approximately 15–20% in 2017 versus 2016. Rapidly growing raw materials costs will force the global tyre industry to increase prices in 2017.

Nokian Tyres retains competitive advantage by manufacturing in Russia. Approximately 70% of the Russian production was exported in 2016, and the margin between production costs in rubles and export sales in euros has improved along with the devaluation of the ruble. Nokian Tyres will invest in 2017 in the expansion of the Vsevolozhsk factory capacity and further improvements in the automation of production. As a result of these investments, the total annual nominal capacity of the Vsevolozhsk factory will increase from the current 15.5 million tyres to 17 million tyres.

Demand in Nokian Heavy Tyres' core products is estimated to remain healthy. The raw material cost increases cause pressure on pricing. Nokian Heavy Tyres' production capacity and delivery capability have improved and, therefore, the sales and EBIT are expected to increase slightly year-over-year.

Vianor (equity-owned) is expected to increase sales, to develop the service business further and to improve operating result in the full year 2017. Vianor (partners) and other Nokian Tyres' partner channels, such as Nokian Tyres Authorized Dealers (NAD) and the N-Tyre network, will continue to expand.

Nokian Tyres' budget for total investments in 2017 is EUR 190 million (105.6), of which EUR 83 million will be invested in Russia. EUR 78 million is planned to invest in Nokia factory and global development projects and the balance goes to Heavy Tyres, sales companies, and Vianor chain.

The operative management has presented the initial plans regarding the third factory to the Board of Directors in December 2016. The matter is under further investigation. The decision is to be made during spring 2017.

Financial guidance

In 2017, with the current exchange rates, net sales and operating profit are expected to grow by at least 5% compared to 2016.

The proposal for the use of profits by the Board of Directors

The distributable funds in the Parent company total EUR 608.6 million. The Board of Directors proposes to the Annual General Meeting that the distributable funds be used as follows:

A dividend of.....	1.53 EUR/share
be paid out, totaling.....	EUR 207.9 million
retained in equity	EUR 400.7 million
Total	EUR 608.6 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 2, 2017

Nokian Tyres plc
Board of Directors

EUR million 1.1.–31.12.	Notes	2016	2015
Net sales	(1)	1,391.2	1,360.1
Cost of sales	(3)(6)(7)	-724.2	-733.7
Gross profit		667.0	626.4
Other operating income	(4)	3.9	3.7
Selling and marketing expenses	(6)(7)	-267.6	-256.2
Administration expenses	(6)(7)	-49.4	-35.3
Other operating expenses	(5)(6)(7)	-43.4	-42.6
Operating profit		310.5	296.0
Financial income	(8)	140.1	200.9
Financial expenses ⁽¹⁾	(9)	-151.8	-222.7
Profit before tax		298.7	274.2
Tax expense ⁽²⁾⁽³⁾	(10)	-46.9	-33.5
Profit for the period		251.8	240.7
Attributable to:			
Equity holders of the parent		251.8	240.7
Non-controlling interest		-	-
Earnings per share (EPS) for the profit attributable to the equity holders of the parent:	(11)		
Basic, euros		1.87	1.80
Diluted, euros		1.86	1.80

EUR million 1.1.–31.12.	Notes	2016	2015
CONSOLIDATED OTHER COMPREHENSIVE INCOME			
Result for the period		251.8	240.7
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)	-0.3	-0.3
Translation differences on foreign operations ⁽⁴⁾		121.8	-55.2
Total other comprehensive income for the period, net of tax		121.6	-55.5
Total comprehensive income for the period		373.4	185.2
Total comprehensive income attributable to:			
Equity holders of the parent		373.4	185.2
Non-controlling interest		-	-

¹⁾ Financial expenses in 2015 have been adjusted with EUR 20.2 million reversal of interests on back taxes as the tax reassessment decisions on years 2007–2010 were annulled and returned to the Tax Administration for reprocessing. Additionally financial expenses in 2015 contain EUR 19.2 million expensed punitive interest for reprocessed tax reassessment decisions on years 2007–2010. These decrease financial expenses in 2015 with EUR 1.0 million net.

²⁾ Tax expense in 2016 has been adjusted with EUR 4.9 million according to the decision of the Board of Adjustment. Previously in 2015 tax expense has been adjusted with EUR 80.1 million as the tax reassessment decisions on years 2007–2010 were annulled and returned to the Tax Administration for reprocessing. Additionally tax expense in 2015 contains EUR 74.9 million expensed additional taxes with punitive tax increases for reprocessed tax reassessment decisions on years 2007–2010. These decrease tax expense in 2015 with EUR 5.2 million net.

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 has internal loans that are recognised as net investments in foreign operations in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". The impact in 2016 is EUR -1.3 million and 2015 EUR -13.7 million.

EUR million 31.12.	Notes	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	(12)(13)	542.3	485.0
Goodwill	(2)(14)	86.5	79.2
Other intangible assets	(14)	37.1	19.4
Investments in associates	(16)	0.1	0.1
Available-for-sale financial assets	(16)	0.7	0.3
Other receivables	(15)(17)	10.4	8.8
Deferred tax assets	(18)	12.4	7.5
		689.5	600.2
Current assets			
Inventories	(19)	304.3	271.3
Trade and other receivables	(20)(29)	452.6	441.1
Current tax assets		16.1	13.0
Cash and cash equivalents	(21)	513.2	429.3
		1,286.2	1,154.6
Total assets	(1)	1,975.7	1,754.8

EUR million 31.12.	Notes	2016	2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
	(22)(23)		
Share capital		25.4	25.4
Share premium		181.4	181.4
Treasury shares		-6.7	-8.6
Translation reserve		-264.1	-385.9
Fair value and hedging reserves		-3.1	-2.9
Paid-up unrestricted equity reserve		168.9	133.0
Retained earnings		1,356.6	1,299.2
		1,458.4	1,241.6
Non-controlling interest			
		-	-
Total equity		1,458.4	1,241.6
Liabilities			
Non-current liabilities			
	(24)		
Deferred tax liabilities	(18)	50.6	25.7
Provisions	(25)	0.1	0.5
Interest-bearing financial liabilities	(26)(27)(29)	137.0	199.7
Other liabilities		1.0	2.1
		188.8	228.0
Current liabilities			
	(28)		
Trade and other payables	(28)	219.4	242.4
Current tax liabilities		16.8	20.0
Provisions	(25)	3.5	2.8
Interest-bearing financial liabilities	(26)(27)(29)	88.8	19.9
		328.5	285.1
Total liabilities	(1)	517.2	513.2
Total equity and liabilities		1,975.7	1,754.8

Changes in net working capital arising from operative business are partly covered by EUR 350 million domestic commercial paper programme.

EUR million 1.1.–31.12.	2016	2015
Profit for the period	251.8	240.7
Adjustments for		
Depreciation, amortisation and impairment	100.5	100.4
Financial income and expenses	11.8	21.8
Gains and losses on sale of intangible assets, other changes	-7.9	-10.5
Income Taxes	46.9	33.5
Cash flow before changes in working capital	403.2	385.8
Changes in working capital		
Current receivables, non-interest-bearing, increase (-) / decrease (+)	46.3	-27.6
Inventories, increase (-) / decrease (+)	-9.8	8.2
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	6.5	4.0
Changes in working capital	43.0	-15.4
Financial items and taxes		
Interest and other financial items, received	15.5	2.9
Interest and other financial items, paid	-27.8	-49.8
Dividens received	0.0	0.0
Income taxes paid	-69.4	-40.0
Financial items and taxes	-81.7	-87.0
Cash flow from operating activities (A)	364.4	283.4
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	-101.5	-100.0
Proceeds from sale of property, plant and equipment and intangible assets	0.6	1.4
Acquisitions of Group companies	-11.7	-6.7
Change in non-controlling interest	-	-
Acquisitions of other investments	-0.4	0.0
Cash flows from investing activities (B)	-113.0	-105.3

EUR million 1.1.–31.12.	2016	2015
Cash flow from financing activities		
Proceeds from issue of share capital	35.9	33.3
Purchase of treasury shares	-	-
Change in current financial receivables, increase (-) / decrease (+)	28.6	-6.0
Change in non-current financial receivables, increase (-) / decrease (+)	5.1	0.4
Change in current financial borrowings, increase (+) / decrease (-)	48.9	48.5
Change in non-current financial borrowings, increase (+) / decrease (-)	-85.1	-73.4
Dividens received	0.5	0.4
Dividends paid	-202.0	-193.5
Cash flow from financing activities (C)	-168.1	-190.2
Change in cash and cash equivalents, increase (+) / decrease (-) (A+B+C)	83.2	-12.2
Cash and cash equivalents at the beginning of the period	429.3	439.9
Effect of exchange rate fluctuations on cash held	0.8	1.6
Cash and cash equivalents at the end of the period	513.2	429.3

Based on the annulled and later renewed tax reassessment decisions on years 2007–2010 the financial items and taxes contain paid tax increases of EUR 51.0 million in 2016 and EUR 6.1 million in 2015. Additionally in 2016 the Tax Administration refunded EUR 4.9 million tax increases according to the latest decision of the Board of Adjustment.

		Equity attributable to equity holders of the parent							Non-	
EUR million	Notes	Share capital	Share premium	Treasury shares	Translation reserve	Fair value and hedging reserves	Paid-up unrestricted equity reserve	Retained earnings	controlling interest	Total equity
Equity, 1 Jan 2015		25.4	181.4	-8.6	-330.7	-2.6	100.3	1,243.2	-	1,208.5
Profit for the period								240.7		240.7
Other comprehensive income, net of tax:										
Cash flow hedges						-0.3				-0.3
Net investment hedge										-
Translation differences					-55.2					-55.2
Total comprehensive income for the period					-55.2	-0.3		240.7		185.2
Dividends paid	(22)							-193.5		-193.5
Acquisition of treasury shares										-
Exercised warrants	(22)						33.3			33.3
Share-based payments	(23)							9.1		9.1
Total transactions with owners for the period							33.3	-184.5		-151.2
Changes in the shareholding of subsidiaries							-0.7			-0.7
Equity, 31 Dec 2015		25.4	181.4	-8.6	-385.9	-2.9	133.0	1,299.2	-	1,241.6
Equity, 1 Jan 2016		25.4	181.4	-8.6	-385.9	-2.9	133.0	1,299.2	-	1,241.6
Profit for the period								251.8		251.8
Other comprehensive income, net of tax:										
Cash flow hedges						-0.3				-0.3
Net investment hedge										-
Translation differences					121.8					121.8
Total comprehensive income for the period					121.8	-0.3		251.8		373.4
Dividends paid	(22)							-201.6		-201.6
Exercised warrants	(22)						35.9			35.9
Acquisition of treasury shares										-
Share-based payments	(23)			1.9				7.2		9.1
Total transactions with owners for the period							35.9	-194.4		-158.5
Equity, 31 Dec 2016		25.4	181.4	-6.7	-264.1	-3.1	168.9	1,356.6	-	1,458.5

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 2016. 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 from annual improvements and amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative being the most substantial ones. The changes had no material impact on the result or the financial position and only limited impact on 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.

The most significant future changes will have the following impact:

■ IFRS 15 – Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers will be effective for financial years beginning on or after 1 January 2018. The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. 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 assessed to be 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 is assessed not to change present handling of the commissions payable to distributors.

Timeline for implementing and the transition options to be used are as follows: the Group intends to implement the standard fully retrospectively with no special relieves applied.

At the same time amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers (not yet endorsed for use by the European Union as of 31 December 2016) are expected

to be effective. The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.

■ IFRS 9 – Financial Instruments and subsequent amendments

The Group is still assessing the impacts of the standard on the future financial statements of the Group.

■ IFRS 16 – Leases

The Group is assessing the impacts of the standard, and tentatively estimates that the new standard will have some impact on the future financial statements of the Group.

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 relate to the country risk in the Russian business environment. The uncertainty of the Russian economy is due to the development of oil price, interest rate and investments, and sanctions that followed the Ukraine crisis. However, the growth in Russia is expected to turn positive in 2017. Possible effects related to US presidential election will be seen in coming months. An escalation of the Ukraine crisis could cause serious disruption, additional trade barriers, and a slowdown of economic development in Russia and Finland. 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 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 foreseeable 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 within 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

Financial assets have been classified as follows: financial assets at fair value through profit and loss, available-for-sale financial assets, and loans and receivables.

Financial assets at fair value through profit and loss include liquid current investments, such as commercial papers, and derivative assets to which hedge accounting is not applied.

Loans and receivables include non-derivative assets with fixed or determinable payments that are not quoted in an active market. In the Group, this category includes trade receivables and other loan receivables resulting from commercial activities and cash funds and other current investments, such as bank deposits. Loans and other receivables have been measured at amortised cost less any write-downs, and in the statement of financial position they are included in current or non-current receivables, depending on their maturity.

Available-for-sale financial assets include quoted and unquoted shares. Quoted shares are measured at fair value, which is the share bid price on the reporting date. Changes in fair value are recognised in other comprehensive income until the financial asset is sold or divested, at which time the changes in fair value are transferred to profit and loss. Impairments are recorded in profit and loss. Unquoted shares are measured at cost if the fair value cannot be reliably determined.

Financial liabilities

Financial liabilities have been classified as follows: financial liabilities at fair value through profit and loss and financial liabilities measured at amortised cost.

Financial liabilities at fair value through profit and loss include derivative liabilities to which hedge accounting is not applied.

In the Group, loans are measured at fair value on the basis of the consideration received in connection with the original recognition, after which the loans are recorded at amortised cost using the effective interest rate method. Bank overdrafts are included in current liabilities in the statement of financial position.

Derivative instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate, foreign currency and electricity price risk exposures. Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value and fair values are presented in the statement of financial position under current receivables or liabilities. Publicly quoted market prices and rates, as well as generally used measurement models, are used to define the fair value of derivatives. The information and assumptions used in the measurement models are based on verifiable market prices and values.

Hedge accounting is not applied to the derivatives used to hedge cash flows from the Group's business operations in foreign currencies. Changes in fair value of derivatives to which hedge accounting is not applied are recognised immediately in profit and loss as financing items.

The Group applies IAS 39 compliant hedge accounting to hedges of the exposure to variability in cash flows that is attributable to an interest rate risk associated with recognised non-current liabilities and to hedges to manage electricity price risk. To meet all the hedge accounting criteria, at the inception of these hedges the Group designates and documents the hedging relationship between the hedged item and the hedging instrument including effectiveness measurement methods and the hedging strategy in accordance with the Group's risk management policy. The Group aims to choose hedging instruments that create no ineffective portion.

Hedge accounting is applied in cash flow hedging in connection with interest rate swaps, by which floating rate liabilities have been changed to fixed rate liabilities. The effective portion of the change in the fair value of the interest rate swaps is recognised in other comprehensive income and any remaining ineffective portion recognised in the income statement. The gains and losses recognised in other comprehensive income are transferred to financial items in the income statement when the hedged item affects the income statement.

The Group applies hedge accounting to certain currency derivatives and currency loans. Changes in fair value of the currency derivatives meeting the hedge accounting criteria are recognised in other comprehensive income except for the potential ineffective portion and the time value of currency options, which are recognised in the income statement. Correspondingly, the foreign exchange gains and losses on foreign currency loans taken out for hedging purposes are recorded under other comprehensive income and

interest expenses under financial items in the income statement.

The Group's forecast electricity purchases in Finland are hedged with electricity derivatives to which hedge accounting is applied. The effective portion of the fair value change of the electricity derivatives is recognised in other comprehensive income and the ineffective portion in the income statement under other operating income or expenses. The gains and losses recognised in other comprehensive income are transferred to cost of sales in the income statement when the hedged item affects the income statement.

Income recognition

Income from the sale of products is recognised when the significant risks and rewards connected with ownership of the goods, as well as the right of possession and effective control, have been transferred to the buyer and payment is probable. This is also the case when a customer separately requests that the assignment of goods be deferred. Revenue from services is recognised once the services have been rendered. Generally, sales are recognised upon delivery in accordance with the contractual terms and conditions. To calculate the net sales, sales revenue is adjusted with indirect taxes and discounts.

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 recognised as expenses in the income statement.

Finance leases have been recorded in the statement of financial position in the amount equalling 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 doubtful receivables and credits for returned goods. Doubtful receivables are based on the case-by-case assessment of outstanding trade receivables as well as on historical experience of the portion the Group will not receive under the original terms and conditions.

Actual and estimated credit losses are recorded as other operating expenses in the income statement.

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 (2010 and 2013 options).

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 a liability. 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 2016.

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 2016 and 2015 do not include any non-current assets held for sale or any discontinued operations.

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.

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 and the CIS, 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.

Operating segments

2016 EUR million	Passenger Car Tyres	Heavy Tyres	Vianor	Other operations	Eliminations	Group
Net sales from external customers	915.8	128.3	334.0	13.0	0.0	1,391.2
Services			79.4			79.4
Sales of goods	915.8	128.3	254.6	13.0	0.0	1,311.7
Inter-segment net sales	65.3	27.0	0.8	0.7	-93.8	
Net sales	981.1	155.3	334.8	13.7	-93.8	1,391.2
Operating result	305.8	28.2	-8.1	-14.5	-1.0	310.5
% of net sales	31.2%	18.2%	-2.4%	-105.5%		22.3%
Financial income and expenses						-11.8
Profit before tax						298.7
Tax expense						-46.9
Profit for the period						251.8
Assets	1,071.2	115.9	180.6	31.4	-7.8	1,391.4
Unallocated assets						584.3
Total assets						1,975.7
Liabilities	127.6	26.8	46.6	5.3	-3.2	203.0
Unallocated liabilities						314.2
Total liabilities						517.2
Capital expenditure	71.5	8.2	21.8	4.0	0.0	105.6
Depreciation and amortisation	69.1	8.6	6.4	0.7	0.0	84.7
Other non-cash expenses	23.6	2.0	4.5	1.5	0.0	31.7
2015 EUR million	Passenger Car Tyres	Heavy Tyres	Vianor	Other operations	Eliminations	Group
Net sales from external customers	891.3	127.4	326.9	14.6	0.0	1,360.1
Services			72.1			72.1
Sales of goods	891.3	127.4	254.8	14.6	0.0	1,288.1
Inter-segment net sales	60.3	27.9	0.7	0.8	-89.7	
Net sales	951.5	155.3	327.6	15.4	-89.7	1,360.1
Operating result	285.5	28.7	-1.9	-13.9	-2.5	296.0
% of net sales	30.0%	18.5%	-0.6%	-90.4%		21.8%
Financial income and expenses						-21.8
Profit before tax						274.2
Tax expense						-33.5
Profit for the period						240.7
Assets	955.2	109.9	183.5	22.7	-7.9	1,263.3
Unallocated assets						491.4
Total assets						1,754.8
Liabilities	99.5	18.3	46.7	2.5	2.5	169.5
Unallocated liabilities						343.6
Total liabilities						513.2
Capital expenditure	63.3	6.5	22.3	9.7	0.0	101.7
Depreciation and amortisation	68.2	8.2	6.2	0.1	0.0	82.6
Other non-cash expenses	13.1	2.1	0.5	2.1	0.0	17.9

**Geographical information
2016**

EUR million	Finland	Sweden	Norway	Russia and the CIS	the rest of Europe	North America	the rest of the world	Group
Net sales	220.2	200.8	178.8	223.1	407.5	149.8	11.0	1,391.2
Services	30.5	21.2	23.6	0.2	1.6	2.4		79.4
Sales of goods	189.8	179.5	155.3	222.9	405.9	147.5	11.0	1,311.7
Assets	432.9	86.0	54.4	561.7	119.8	85.7	3.1	1,343.7
Unallocated assets								632.0
Total assets								1,975.7
Capital expenditure	55.5	7.4	5.1	36.3	0.7	0.5	0.0	105.6

2015

EUR million	Finland	Sweden	Norway	Russia and the CIS	the rest of Europe	North America	the rest of the world	Group
Net sales	226.4	198.2	172.6	238.2	353.8	159.7	11.4	1,360.1
Services	25.9	21.9	20.3	0.2	1.5	2.3		72.1
Sales of goods	200.5	176.3	152.2	238.0	352.3	157.4	11.4	1,288.1
Assets	429.4	97.2	57.2	454.8	117.1	84.6	1.8	1,242.2
Unallocated assets								512.6
Total assets								1,754.8
Capital expenditure	70.0	1.6	3.0	26.4	0.2	0.6	0.0	101.7

2. Acquisitions

Acquisitions and other changes in 2016

Vianor-chain has expanded further through several minor business combinations in Finland, Sweden, Norway and USA.

EUR million	2016
Purchase consideration	
Consideration paid in cash	12.8
Contingent consideration liability	0.1
Total consideration	12.9

The Group is committed to pay contingent considerations of total EUR 0.1 million in case the net sales and operating profits of the acquired businesses within the next three years after the acquisition year exceed the targets set for each (total net sales EUR 0.3 million and total operating profits EUR 0.1 million).

Recognised amounts of identifiable assets acquired and liabilities assumed:

EUR million	Notes	2016
Property, plant and equipment	(12)	3.8
Inventories		2.8
Trade and other receivables		1.2
Cash and cash equivalents		1.0
Total Assets		8.7
Deferred tax liabilities	(18)	0.3
Financial Liabilities		2.1
Trade and other payables		0.3
Total Liabilities		2.7
Total identifiable net assets		6.0
Composition of goodwill in the acquisition		
Consideration transferred		12.9
Total identifiable net assets		6.0
Goodwill	(14)	6.9
Consideration paid in cash		12.8
Cash and cash equivalents in the subsidiaries acquired		1.0
Net cash outflow		11.7

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.

Since these pieces of information are not material individually, the presentation is aggregated. The profits of the acquired companies, totalling EUR 0.4 million, are included in the consolidated income statement. 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 selling and marketing 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. Goodwill is measured as the excess of the consideration transferred over the total identifiable net assets. None of the goodwill recognised is deductible for income tax purposes.

Acquisitions and other changes in 2015

Vianor-chain has expanded further through several minor business combinations in Finland (including Kumielo Oy from 1 January 2015), Sweden and Norway.

EUR million	2015
Purchase consideration	
Consideration paid in cash	7.1
Contingent consideration liability	0.7
Total consideration	7.8

The Group is committed to pay contingent considerations of total EUR 0.7 million in case the net sales and operating profits of the acquired businesses within the next three years after the acquisition year exceed the targets set for each (total net sales EUR 9.9 million and total operating profits EUR 0.8 million).

Recognised amounts of identifiable assets acquired and liabilities assumed:

EUR million	Notes	2015
Property, plant and equipment	(12)	0.6
Inventories		1.8
Trade and other receivables		1.0
Cash and cash equivalents		0.5
Total Assets		3.9
Deferred tax liabilities	(18)	0.0
Financial Liabilities		-0.2
Trade and other payables		-0.9
Total Liabilities		-1.1
Total identifiable net assets		2.8
Composition of goodwill in the acquisition		
Consideration transferred		7.8
Total identifiable net assets		-2.8
Goodwill	(14)	5.1
Consideration paid in cash		7.1
Cash and cash equivalents in the subsidiaries acquired		0.5
Net cash outflow		6.6

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.

Since these pieces of information are not material individually, the presentation is aggregated. The profits of the acquired companies, totalling EUR 1.0 million, are included in the consolidated income statement. 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 selling and marketing 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. Goodwill is measured as the excess of the consideration transferred over the total identifiable net assets. None of the goodwill recognised is deductible for income tax purposes.

3. Cost of sales

EUR million	2016	2015
Raw materials	321.2	348.4
Goods purchased for resale	122.2	129.7
Wages and social security contributions on goods sold	37.7	43.1
Other costs	100.0	122.8
Depreciation of production	63.1	60.8
Sales freights	46.9	46.1
Change in inventories	33.0	-17.1
Total	724.2	733.7

4. Other operating income

EUR million	2016	2015
Gains on sale of property, plant and equipment	0.7	1.5
Other income	3.2	2.2
Total	3.9	3.7

5. Other operating expenses

EUR million	2016	2015
Losses on sale of property, plant and equipment and other disposals	0.0	0.1
Research and development costs	20.3	18.7
Quality control	2.9	3.1
Expensed credit losses and provisions	19.0	17.7
Other expenses	1.2	3.0
Total	43.4	42.6

Other operating expenses include the ineffective portion of the electricity derivatives used as cash flow hedges amounting to EUR -0.6 million (EUR 2.2 million in 2015).

6. Depreciation, amortisation and impairment losses

EUR million	2016	2015
Depreciation and amortisation by asset category		
Intangible rights	5.3	5.0
Other intangible assets	1.7	1.3
Buildings	9.8	8.1
Machinery and equipment	66.5	66.9
Other tangible assets	1.4	1.3
Total	84.7	82.6

Impairment losses by asset category		
Other intangible assets	3.6	-
Total	3.6	-

Depreciation and amortisation by function		
Production	63.1	60.8
Selling and marketing	12.6	12.7
Administration	6.9	7.2
Other depreciation and amortisation	2.0	2.0
Total	84.7	82.6

Impairment losses by function		
Administration	3.6	-
Total	3.6	-

7. Employee benefit expenses

EUR million	2016	2015
Wages and salaries	160.5	153.3
Pension contributions - defined contribution plans	23.4	22.2
Share-based payments	15.0	9.1
Other social security contributions	20.2	20.0
Total	219.0	204.6

Information on the employee benefits and loans of the key management personnel is presented in note 34 Related party transactions.

Persons	2016	2015
Number of personnel, average		
Production	1,825	1,940
Selling and marketing	2,392	2,179
Others	216	302
Total	4,433	4,421

8. Financial income

EUR million	2016	2015
Interest income on loans and receivables	2.5	0.9
Dividend income on available-for-sale financial assets	0.0	0.0
Exchange rate gains and changes in fair value		
Loans and receivables	31.4	130.6
Foreign currency derivatives held for trading	105.6	67.4
Other financial income	0.5	1.9
Total	140.1	200.9

9. Financial expenses

EUR million	2016	2015
Interest expense on financial liabilities measured at amortised cost	-6.6	-8.1
Interest expense on interest rate derivatives		
Designated as hedges	-0.6	-0.6
Held for trading	-	0.0
Exchange rate losses and changes in fair value		
Loans and receivables	-33.0	-131.9
Foreign currency derivatives held for trading	-107.9	-77.2
Other financial expenses	-3.9	-4.9
Total	-151.8	-222.7

Other financial expenses in 2015 include a EUR 2.7 million tender premium related to a buy-back of a bond, and a net income of EUR 1.0 million reversed penalty interests related to additional taxes.

10. Tax expense

EUR million	2016	2015
Current tax expense	-46.1	-42.5
Adjustment for prior periods	2.8	5.1
Change in deferred tax	-3.6	3.9
Total	-46.9	-33.5

The reconciliation of tax expense recognised in the income statement and tax expense using the domestic corporate tax rate (2016: 20.0%, 2015: 20.0%):

EUR million	2016	2015
Profit before tax	298.7	274.2
Tax expense using the domestic corporate tax rate	-59.7	-54.8
Effect of deviant tax rates in foreign subsidiaries	7.0	18.2
Tax exempt revenues and non-deductible expenses	-1.1	-1.1
Losses on which no deferred tax benefits recognised	-1.0	-1.8
Adjustment for prior periods	7.8	5.1
Other items	0.1	0.8
Tax expense	-46.9	-33.5

Income tax relating to components of other comprehensive income:

EUR million	2016		
	Before tax amount	Tax benefit	Net of tax amount
Cash flow hedges	-0.3	0.1	-0.3
Translation differences on foreign operations	121.8		121.8
	121.5	0.1	121.6

EUR million	2015		
	Before tax amount	Tax benefit	Net of tax amount
Cash flow hedges	-0.4	0.1	-0.3
Translation differences on foreign operations	-55.2		-55.2
	-55.6	0.1	-55.5

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	2016	2015
Profit attributable to the equity holders of the parent		
Profit for the period to calculate the diluted earnings per share	251.8	240.7
Shares, 1,000 pcs		
Weighted average number of shares	134,855	133,626
Dilutive effect of the options	707	118
Diluted weighted average number of shares	135,562	133,744
Earnings per share, euros		
Basic	1.87	1.80
Diluted	1.86	1.80

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 2015	3.0	250.0	774.7	16.8	42.9	1,087.4
Increase	0.6	1.2	32.3	0.7	72.0	106.7
Acquisitions through business combinations			0.6			0.6
Decrease		-7.7	-18.3	-0.3	-22.8	-49.1
Transfers between items	0.5	7.9	36.3	0.1	-33.1	11.6
Other changes	3.4				-3.6	-0.2
Exchange differences		-12.7	-30.4	-0.4	-2.3	-45.7
Accumulated cost, 31 Dec 2015	7.5	238.6	795.2	16.8	53.0	1,111.2
Accum. Depreciation, 1 Jan 2015	3.4	-69.2	-506.7	-12.1		-584.6
Depreciation for the period		-8.1	-58.4	-1.3		-67.8
Decrease			3.1	0.2		3.3
Other changes	-3.4	6.2	3.7			6.6
Exchange differences		1.7	14.5	0.4		16.5
Accum. Depreciation, 31 Dec 2015	0.0	-69.4	-543.9	-12.8		-626.2
Carrying amount, 31 Dec 2015	7.5	169.2	251.3	4.0	53.0	485.0
Accumulated cost, 1 Jan 2016	7.5	238.6	795.2	16.8	53.0	1,111.2
Increase	0.3	13.3	34.3	1.2	57.0	106.2
Acquisitions through business combinations						0.0
Decrease	-0.1	-0.1	-6.3	-0.3	-13.6	-20.4
Transfers between items		7.3	36.8	0.1	-44.2	0.0
Other changes		1.8	1.3	-1.7	-12.6	-11.1
Exchange differences	0.4	30.6	72.0	1.7	4.3	109.0
Accumulated cost, 31 Dec 2016	8.2	291.5	933.3	17.9	43.9	1,294.8
Accum. Depreciation, 1 Jan 2016	0.0	-69.4	-543.9	-12.8		-626.2
Depreciation for the period		-9.8	-67.3	-1.4		-78.6
Decrease			1.8	0.2		2.0
Other changes		-2.0	-1.5	1.5		-2.0
Exchange differences		-7.3	-39.1	-1.4		-47.8
Accum. Depreciation, 31 Dec 2016	0.0	-88.6	-649.9	-13.9		-752.4
Carrying amount, 31 Dec 2016	8.2	202.9	283.4	3.9	43.9	542.3

13. Finance leases

EUR million	Buildings	Machinery and equipment
Accumulated cost, 1 Jan 2015	7.7	0.1
Decrease/Increase	-7.7	-
Accum. depreciation	-	-0.1
Carrying amount, 31 Dec 2015	-	0.1
Accumulated cost, 1 Jan 2016	-	0.1
Decrease/Increase	-	-
Accum. depreciation	-	-0.1
Carrying amount, 31 Dec 2016	-	0.0

14. Intangible assets

EUR million	Goodwill	Intangible rights	Other intangible assets	Total	EUR million	Goodwill	Intangible rights	Other intangible assets	Total
Accumulated cost, 1 Jan 2015	73.3	51.4	15.8	140.4	Accumulated cost, 1 Jan 2016	79.2	52.8	17.3	149.2
Increase		0.3	0.2	0.5	Increase		21.3	2.4	23.7
Acquisitions through business combinations	5.2			5.2	Acquisitions through business combinations	7.5			7.5
Decrease		-4.0		-4.0	Decrease				-
Transfers between items		5.4	1.9	7.3	Transfers between items			0.0	0.0
Other changes		-0.3		-0.3	Other changes				-
Exchange differences	0.7		-0.6	0.1	Exchange differences	-0.2		1.8	1.6
Accumulated cost, 31 Dec 2015	79.2	52.8	17.3	149.2	Accumulated cost, 31 Dec 2016	86.5	74.1	21.4	182.0
Accum. Depreciation, 1 Jan 2015		-36.8	-10.6	-47.4	Accum. Depreciation, 1 Jan 2016		-39.0	-11.7	-50.7
Depreciation for the period		-5.0	-1.3	-6.3	Depreciation for the period		-5.3	-1.7	-7.0
Decrease				-	Decrease				-
Other changes		2.8		2.8	Other changes				-
Exchange differences			0.2	0.2	Exchange differences			-0.9	-0.9
Accum. Depreciation, 31 Dec 2015	-	-39.0	-11.7	-50.7	Accum. Depreciation, 31 Dec 2016	-	-44.3	-14.1	-58.4
Carrying amount, 31 Dec 2015	79.2	13.8	5.6	98.5	Carrying amount, 31 Dec 2016	86.5	29.8	7.3	123.6

Impairment losses

In 2016 Vianor recorded impairment losses of total EUR 3.6 million on other intangible assets. The impairments were caused by unsuccessful executions and operational cancellations of few ICT-projects. These projects are fully recognized as losses, which are reported in administration expenses.

In 2015 no impairment losses were recorded.

Impairment tests for goodwill

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

Allocation of goodwill

EUR million

Passenger Car Tyres	54.8
Vianor	31.8
Total goodwill	86.5

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 5.4% (7.2% in 2015) and for Vianor is 4.8-9.1% (6.3-11.9% in 2015) 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 57 million (EUR 70 million in 2015). Of the key assumptions, Vianor is the most sensitive to actual realisation of gross margin levels based on demand forecasts. A lag of mere 0.6%-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 carrying 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%.

15. Carrying amounts and fair values of financial assets and liabilities

EUR million	Note	2016			2015				
		Carrying amount	Fair value		Carrying amount	Fair value			
			Level 1	Level 2		Level 3	Level 1	Level 2	Level 3
Financial assets									
Financial assets at fair value through profit or loss									
Derivatives held for trading	(30)	17.6	-	17.6	-	8.9	-	8.9	-
Money market instruments	(21)	16.0	-	16.0	-	6.0	-	6.0	-
Loans and receivables									
Other non-current receivables	(17)	10.4	-	8.6	-	8.8	-	6.8	-
Trade and other receivables	(20)	375.1	-	375.8	-	360.1	-	360.7	-
Cash in hand and at bank	(21)	497.3	-	497.3	-	423.3	-	423.3	-
Available-for-sale financial assets									
Unquoted shares	(16)	0.7	-	-	0.7	0.3	-	-	0.3
Derivative financial instruments designated as hedges	(30)	9.8	-	9.8	-	19.9	-	19.9	-
Total financial assets		926.8	-	925.0	0.7	827.2	-	825.5	0.3
Financial liabilities									
Financial liabilities at fair value through profit or loss									
Derivatives held for trading	(30)	9.4	-	9.4	-	15.4	-	15.4	-
Financial liabilities measured at amortised cost									
Interest-bearing financial liabilities	(26)	225.8	-	228.5	-	219.6	-	224.2	-
Trade and other payables	(28)	78.0	-	78.0	-	55.7	-	55.7	-
Derivative financial instruments designated as hedges	(30)	6.9	-	6.9	-	5.5	-	5.5	-
Total financial liabilities		320.1	-	322.7	-	296.1	-	300.8	-

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

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 financial assets and liabilities at fair value have been classified to Level 2 in the fair value hierarchy. Level 2 includes Group's derivative financial instruments and money market investments. To establish the fair value of these instruments the Group uses generally accepted valuation models with inputs based on observable market data.

Financial assets and liabilities not measured at fair value but for which the fair value can be measured are categorised in Level 2 and Level 3 in the fair value hierarchy. Level 2 includes loans and receivables and financial liabilities measured at amortised cost. Their fair values are based on the future cash flows that are discounted with market interest rates on the reporting date. Level 3 includes unquoted shares for which the cost is assessed to represent the fair value.

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

16. Investments in associates and available-for-sale financial assets

EUR million	Investments in associates	Unquoted shares
Accumulated cost, 1 Jan 2016	0.1	0.3
Decrease/Increase	-	0.4
Accumulated cost, 31 Dec 2016	0.1	0.7
Carrying amount, 31 Dec 2016	0.1	0.7
Carrying amount, 31 Dec 2015	0.1	0.3

17. Other non-current receivables

EUR million	2016	2015
Loan receivables	10.4	8.8
Finance lease receivables	-	-
Total	10.4	8.8

Maturing of finance lease receivables

EUR million	2016	2015
Finance lease receivables - gross invest		
In less than 1 year	-	2.6
In 1 to 5 years	-	-
In over 5 years	-	-
	-	2.6
Finance lease receivables - net invest		
In less than 1 year	-	2.5
In 1 to 5 years	-	-
In over 5 years	-	-
	-	2.5
Future finance lease income	-	0.1
Finance lease receivables	-	2.5

On 31 December 2016 the Group had no finance lease receivables (EUR 2.5 million in 2015), no contingent rents (EUR 0.0 million in 2015) and no unguaranteed residual values to the benefit of the lessor (EUR 2.5 million in 2015).

18. Deferred tax assets and liabilities

EUR million	31 Dec 2014	Recognised in income statement	Recognised in other comprehen- sive income	Net exchange differences	Acquisitions/ disposals of subsidiaries	31 Dec 2015
Deferred tax assets						
Intercompany profit in inventory	10.4	2.6				13.0
Provisions	0.3	0.1				0.4
Tax losses carried forward	0.1	0.0				0.0
Cash flow hedges	0.6		-0.6			0.1
Other items	9.8	-0.4		-0.2		9.2
Total	21.2	2.3	-0.6	-0.2		22.8
Deferred tax assets offset against deferred tax liabilities	-12.1	-3.2				-15.3
Deferred tax assets	9.1	-0.9	-0.6	-0.2		7.5
Deferred tax liabilities						
Property, plant and equipment and intangible assets	17.6	0.4		-0.6		17.4
Untaxed reserves	0.7	-0.1				0.6
Convertible bond	0.1	-0.1				0.0
Undistributed earnings in subsidiaries	20.2	1.0				21.2
Other items	0.2	1.7				1.9
Total	38.8	2.8	-	-0.6		41.1
Deferred tax liabilities offset against deferred tax assets	-12.1	-3.2				-15.3
Deferred tax liabilities	26.7	-0.4	-	-0.6		25.7

EUR million	31 Dec 2015	Recognised in income statement	Recognised in other comprehen- sive income	Net exchange differences	Acquisitions/ disposals of subsidiaries	31 Dec 2016
Deferred tax assets						
Intercompany profit in inventory	13.0	0.4				13.4
Provisions	0.4	0.4				0.8
Tax losses carried forward	0.0	0.0				0.0
Cash flow hedges	0.1		-0.3			-0.3
Other items	9.2	4.3		0.2		13.7
Total	22.8	5.0	-0.3	0.2		27.7
Deferred tax assets offset against deferred tax liabilities	-15.3	0.0				-15.3
Deferred tax assets	7.5	5.0	-0.3	0.2		12.4
Deferred tax liabilities						
Property, plant and equipment and intangible assets	17.4	1.0		-0.1		18.3
Untaxed reserves	0.6	-0.1				0.6
Undistributed earnings in subsidiaries	21.2	8.6				29.8
Other items	1.9	15.4				17.3
Total	41.1	25.0	-	-0.1	-	65.9
Deferred tax liabilities offset against deferred tax assets	-15.3	0.0				-15.3
Deferred tax liabilities	25.7	25.0	-	-0.1	-	50.6

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 2016 the Group had carry forward losses for EUR 4.4 million (EUR 2.4 million in 2015), 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 2023.

The Group has utilised previously unrecognised tax losses from prior periods with EUR 0.0 million in 2016 (EUR 0.0 million in 2015).

No deferred tax liability was recognised on the undistributed earnings, EUR 44.5 million in 2016 (EUR 57.6 million in 2015), of foreign subsidiaries as the earnings have been invested permanently to the countries in question.

19. Inventories

EUR million	2016	2015
Raw materials and supplies	103.1	89.8
Work in progress	6.9	6.2
Finished goods	194.3	175.3
Total	304.3	271.3

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 2016 EUR 0.0 million expense was recognised to decrease the carrying amount of the inventories to reflect the net realisable value (EUR 1.0 million in 2015).

20. Trade and other receivables

EUR million	2016	2015
Trade receivables	374.3	356.9
Loan receivables	0.8	3.2
Accrued revenues and deferred expenses	22.0	13.1
Derivative financial instruments		
Designated as hedges	10.0	19.8
Measured at fair value through profit or loss	17.7	8.9
Other receivables	27.8	39.2
Total	452.6	441.1

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.

The balance amount of recognised losses is EUR 58.6 million (EUR 35.9 million in 2015).

The Group recognised expenses for losses on trade receivables worth EUR 18.6 million in 2016 (EUR 17.7 million in 2015).

Significant items under accrued revenues and deferred expenses

EUR million	2016	2015
Annual discounts, purchases	1.9	2.8
Financial items	3.6	1.1
Social security contributions	5.3	6.8
Insurances	0.2	0.1
Payments in transit	2.1	1.9
Other items	8.9	0.4
Total	22.0	13.1

Significant items under other receivables

EUR million	2016	2015
VAT receivables	24.1	33.7
Advance payments	3.6	5.5
Total	27.8	39.2

21. Cash and cash equivalents

EUR million	2016	2015
Cash in hand and at bank	497.3	423.3
Money market instruments	16.0	6.0
Total	513.2	429.3

22. 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 2015	133,171	25.4	181.4	100.3	-8.6	298.5
Exercised warrants	1,220	-	-	33.3	-	33.3
Acquisition of treasury shares	-	-	-	-	-	-
Other changes	-	-	-	-0.7	-	-0.7
31 Dec 2015	134,391	25.4	181.4	133.0	-8.6	331.2
1 Jan 2016	134,391	25.4	181.4	133.0	-8.6	331.2
Exercised warrants	1,221	-	-	35.9	-	35.9
Acquisition of treasury shares	67	-	-	-	-	-
Other changes	-	-	-	-	1.9	1.9
31 Dec 2016	135,679	25.4	181.4	168.9	-6.7	369.1

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 premium.

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-funds: the fair value reserves for available-for-sale financial assets, and the hedging fund for changes in the fair values of derivative 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 rights are entered in the paid-up unrestricted reserve.

Treasury shares

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

The Group has entered into an agreement with a third-party service provider concerning administration and hedging of the share-based incentive program for key personnel. As a part of this agreement,

the service provider purchases and administers shares for hedging the underlying cash flow risk and implementing the program. The third party owns the shares until the shares are given to the participants within the program. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by the Group. During 2014, a total number of 300,000 shares was acquired. At the end of financial year 2016 the total number of shares was 232,792 (2015: 300,000), which corresponds 0.2% (2015: 0.2%) of all shares of the Company.

Dividends

After the balance sheet date, the Board of Directors proposed that a dividend of EUR 1.53 per share be paid (EUR 1.50 in 2015).

Specification of the distributable funds

The distributable funds on 31 December 2016 total EUR 608,6 million (EUR 575.6 million on 31 December 2015) and are based on the balance of the Parent company and the Finnish legislation.

23. Share-based payments

Share option plans

Share option plan 2010 directed at personnel

The Annual General Meeting in 2010 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 2010 (2010A warrants), 2011 (2010B warrants) and 2012 (2010C 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 became 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

should without delay and compensation have offered 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.

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 2013 (2013A warrants), 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.

BASIC INFORMATION	2010 warrants	2013 warrants			Total
	2010C	2013A	2013B	2013C	
Annual General Meeting date	8 April 2010	11 April 2013	11 April 2013	11 April 2013	
Initial amount of options, pcs	1,340,000	1,150,000	1,150,000	1,150,000	6,130,000
Shares to subscribe per option, pcs	1	1	1	1	
Initial exercise price, EUR	35.30	32.26	29.54	24.42	
Dividend adjustment	yes	yes	yes	yes	
Current exercise price, EUR	-	27.86	26.59	22.92	
Initial allocation date	8 May 2012	29 April 2013	5 May 2014	7 May 2015	
Vesting date	1 May 2014	1 May 2015	1 May 2016	1 May 2017	
Expiration date	31 May 2016	31 May 2017	31 May 2018	31 May 2019	
Maximum contractual life, years	4.1	4.1	4.1	4.1	4.1 *
Remaining contractual life, years	0.0	0.4	1.4	2.4	1.1 *
Participants at the end of period	expired	890	1,428	3,156	
Method of settlement	in equity				
Vesting condition	employment requirement until the vesting date				

* Weighted average

TRANSACTIONS DURING THE PERIOD	2010 warrants	2013 warrants			Exercise price, weighted average, EUR	Total
	2010C	2013A	2013B	2013C		
1 January 2016						
At the beginning of the period (pcs)						
outstanding	1,269,310	1,090,384	989,936	1,013,065	26.90	4,362,695
reserve	70,610	59,496	160,064	136,935	26.10	427,105
Changes during the period (pcs)						
Granted during the period	0	0	140,000	138,400	24.80	278,400
Forfeited during the period	0	0	19,187	109,010	23.50	128,197
Exercised during the period	1,220,036	340	185		29.40	1,220,561
Weighted average exercise price during the exercise period, €	29.45	27.86	26.59		29.40	
Weighted average share price during the exercise period, € *	30.74	31.73	32.55		31.67	
Expired during the period	119,884				29.50	119,884
31 December 2016						
At the end of the period (pcs)						
exercised	1,220,116	460	185		29.40	1,220,761
outstanding	0	1,090,044	1,110,564	1,042,455	25.80	3,243,063
vested & outstanding	0	1,090,044	1,110,564		27.20	2,200,608
reserve	0	59,496	39,251	107,545	25.00	206,292

The weighted average price of the Nokian Tyres plc share during the period that the option in question was exercisable in 2016.

Measurement of fair value

The fair value of share options is determined with Black-Scholes option pricing model. The fair value of the options is determined at the grant date and recognised as expense in employee benefits until vesting. The decision date by the Board of Directors is the grant date.

Main assumptions for Black-Scholes model to options granted during the period	2013B	2013C	EUR million	2016	2015	
Share price at grant, EUR	30.86	31.36	Impact on period profits and financial position			
Share price at reporting date, EUR	35.42	35.42				
Exercise price, EUR	26.59	24.42		Expense recognised for the period	5.6	8.3
Expected volatility, % *	26.96	29.05		Expense recognised for the period, equity-settled	5.6	8.3
Option life, years	1.6	2.6		Liability for cash-settlements on 31 December	-	-
Risk-free interest rate, %	-0.65	-0.52				
Expected dividends, EUR	0.00	0.00				
Fair market value per option at grant, EUR	6.23	9.87				
Total fair value 31 December 2016, EUR million	0.9	1.2				

* The determination of expected volatility was based on the historical volatility of the share using monthly observations over corresponding remaining option life.

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.

BASIC INFORMATION	PSP 2013 Earning period 2015	PSP 2016 Earning period 2016	Total
Issuing date	5 February 2013	23 February 2016	
Annual General Meeting date	11 April 2013	12 April 2016	
Initial amount of shares, pcs	200,000	515,000	715,000
Dividend adjustment	no	no	
Initial allocation date	7 May 2015	23 February 2016	
Beginning of earning period	1 January 2015	1 January 2016	
End of earning period	31 December 2015	31 December 2016	
End of restriction period	31 December 2018	31 March 2018	
Vesting conditions	Net sales & operating profit	Net sales & operating profit	
Maximum contractual life, years	3.7	2.1	2.9 *
Remaining contractual life, years	2.0	1.2	1.6 *
Participants at the end of period	36	188	
Method of settlement	in equity & cash	in equity & cash	
* Weighted average			
TRANSACTIONS DURING THE PERIOD			
1 January 2016			
At the beginning of the period (pcs) outstanding	172,800	0	172,800
Changes during the period (pcs)			
Granted during the period	0	508,675	508,675
Forfeited during the period	8,800	88,100	96,900
Earned during the period (gross)	119,395		119,395
Delivered during the period (net)	67,208		67,208
31 December 2016			
At the end of the period (pcs) outstanding	164,000	420,575	584,575

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 2016 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 2016 as to the number of shares to be eventually vesting.

Earning period 2016

Share price at grant, EUR	33.24
Share price at reporting date, EUR	35.42
Expected dividends, EUR	1.50
Fair market value per share at grant, EUR	31.74
Total fair value 31 December 2016, EUR million	13.3

EUR million	2016	2015
Impact on period profits and financial position		
Expense for the period	9.4	0.8
Expense for the period, equity-settled	4.2	0.2
Liability for cash-settlements on 31 December	4.4	0.6

24. Pension liabilities

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

25. Provisions

EUR million	Warranty provision	Restructuring provision	Total
1 Jan 2016	3.1	0.2	3.3
Provisions made	1.3	-	1.3
Provisions used	-0.9	0.0	-1.0
31 Dec 2016	3.5	0.1	3.6

EUR million	2016	2015
Non-current provisions	0.1	0.5
Current provisions	3.5	2.8

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 1–2 years.

Restructuring provision

Due to the economic uncertainty, in 2015 the annual production volume in Passenger Car Tyres and Heavy Tyres -units at the Nokia factory was adjusted to meet the reduced order stock with lay-offs in various periods, personnel cuts and pension arrangements.

Out of the cost impacts of these adjustment measures EUR 0.2 million have been expensed in 2015. The still unrealised estimated costs of the liability components for the probable continued allowances to the dismissed, collected by the Unemployment

Insurance Fund in due course, have been recorded both as current and non-current provisions. The remaining provision is expected to be utilised evenly between years 2017–2018.

26. Interest-bearing financial liabilities

EUR million	2016	2015
Non-current		
Loans from financial institutions and pension loans	137.0	112.1
Bond loans	-	87.6
Finance lease liabilities	-	0.0
	137.0	199.7
Current		
Commercial papers	-	-
Bond loans	87.7	-
Current portion of non-current loans from financial institutions and pension loans	1.1	19.8
Current portion of finance lease liabilities	0.0	0.0
	88.8	19.9

Interest-bearing financial liabilities by currency

EUR million	2016	2015
Currency		
EUR	200.9	199.7
RUB	24.9	19.8
Total	225.8	219.6

Effective interest rates for interest-bearing financial liabilities

EUR million	2016	
	Without hedges	With hedges
Loans from financial institutions and pension loans	2.3%	3.0%
Bond loans	3.4%	3.4%
Finance lease liabilities	4.5%	4.5%
Commercial papers	-	-
Total	2.7%	3.1%

EUR million	2015	
	Without hedges	With hedges
Loans from financial institutions and pension loans	2.6%	3.1%
Bond loans	3.4%	3.4%
Finance lease liabilities	4.5%	4.5%
Commercial papers	-	-
Total	2.9%	3.2%

See note 15 for the fair values of the interest-bearing financial liabilities.

27. Maturing of finance lease liabilities

EUR million	2016	2015
Minimum lease payments		
In less than 1 year	-	0.0
In 1 to 5 years	-	-
In over 5 years	-	-
	-	0.0
Present value of minimum lease payments		
In less than 1 year	-	0.0
In 1 to 5 years	-	-
In over 5 years	-	-
	-	0.0
Future finance charges	-	0.0
Total of minimum lease payments	-	0.0

On 31 December 2016 the Group's finance leases relating to machinery and equipment amounted to EUR 0.0 million (EUR 0.1 million on 31 December 2015) and they were included in property, plant and equipment. In 2016 the amount of contingent lease payments were EUR +0.0 million (EUR +0.0 million in 2015). None of the finance lease payments are bound to any interest rate.

28. Trade and other payables

EUR million	2016	2015
Trade payables	78.0	55.7
Accrued expenses and deferred revenues	92.6	71.7
Advance payments	0.6	1.0
Derivative financial instruments		
Designated as hedges	6.9	4.4
Measured at fair value through profit or loss	9.5	15.4
Other liabilities	31.9	94.3
Total	219.4	242.4

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

Other liabilities in 2015 contain EUR 51.0 million for tax reassessment decisions on years 2007-2010.

Significant items under accrued expenses and deferred revenues

EUR million	2016	2015
Wages, salaries and social security contributions	36.5	29.5
Annual discounts, sales	33.4	30.2
Financial items	1.6	5.0
Commissions	4.7	1.5
Share-based payments	4.4	0.6
Goods received and not invoiced	0.6	0.8
Other items	11.4	4.2
Total	92.6	71.7

29. 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 updated and approved by the Board. Financing activities and financial risk management are centralized to the parent company Group Treasury, which enters into 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 is responsible for the credit policy and makes the credit decisions that have a significant impact on the credit exposure.

Foreign currency risk

The Nokian Tyres Group consists of the parent company in Finland, separate sales companies in Russia, Sweden, Norway, the USA, Canada, Czech Republic, Switzerland, Ukraine, Kazakhstan, Belarus

and China, the tyre chain companies in Finland, Sweden, Norway, Russia, Switzerland and the USA, and the tyre plants located in Nokia, Finland and Vsevolozhsk, Russia.

Transaction risk

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

company in RUB as UAH and BYN are non-convertible currencies.

The open foreign currency exposure of the parent company and the Group companies 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 (transaction exposure). For risk management purposes, estimated currency cash flows are added to the open foreign currency exposure so that the overall foreign currency risk exposure horizon covers the next 12 months (budget exposure). 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 market available. The budget exposure is hedged according to the market situation and the hedge ratio can be 70% of the budget exposure at maximum. As hedging instruments, currency forwards, currency options and cross-currency swaps are used.

Transaction risk EUR million	31 Dec 2016								31 Dec 2015							
	EUR CAD	EUR NOK	EUR RUB	EUR SEK	EUR USD	CZK EUR	UAH EUR	RUB EUR	EUR CAD	EUR NOK	EUR RUB	EUR SEK	EUR USD	CZK EUR	UAH EUR	RUB EUR
Trade receivables	7.8	16.0	19.7	27.8	21.0	81.0	0.0	50.5	6.7	14.6	19.9	25.1	23.0	87.2	0.0	59.8
Loans and receivables	10.3	36.0	118.5	55.3	9.9	4.6	0.0	0.0	6.2	29.8	97.3	151.0	13.2	12.9	0.0	0.0
Total currency income	18.1	52.0	138.2	83.2	30.9	85.7	0.0	50.5	12.8	44.3	117.2	176.1	36.2	100.1	0.1	59.8
Trade payables	0.0	0.0	-0.1	0.0	-0.5	-46.2	0.0	-5.4	0.0	0.0	-0.1	0.0	-0.4	-50.7	-2.0	-3.0
Borrowings	0.0	-35.5	-241.4	-9.8	-20.8	-37.0	-6.9	-45.0	-1.7	-29.9	-145.3	0.0	-0.5	-47.8	-3.6	-55.3
Total currency expenditure	0.0	-35.5	-241.5	-9.8	-21.3	-83.1	-6.9	-50.4	-1.7	-29.9	-145.4	0.0	-0.9	-98.5	-5.6	-58.3
Foreign exchange derivatives	-15.5	-14.3	101.4	-70.7	-9.5	-12.6	0.0	0.0	-9.9	-11.5	28.1	-173.0	-33.0	-2.5	0.0	0.0
Binding sales contracts	4.3	2.1	2.4	2.1	3.9	33.4	0.0	0.0	7.7	3.4	1.7	3.7	4.0	58.4	0.0	0.0
Binding purchase contracts	0.0	0.0	0.0	0.0	-3.3	-27.4	0.0	0.0	0.0	0.0	0.0	0.0	-2.7	-50.3	0.0	0.0
Future interest items	0.0	0.5	-4.4	0.3	0.1	-0.4	0.0	-0.3	0.0	0.5	-9.8	0.3	0.0	-0.4	-0.3	-0.4
Net exposure	7.0	4.8	-3.9	5.2	0.9	-3.9	-7.0	0.2	8.9	6.9	-8.1	7.1	3.6	7.2	-5.8	1.5

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 impacts of the exchange rate fluctuations from the foreign net investments are recorded as translation differences in other comprehensive income and in the translation reserve within equity. As the settlement of Group's internal loans in the subsidiary in Kazakhstan is not likely to occur in the foreseeable future, the loans are considered as a net investment in a foreign operation according to IAS21 'The Effects of Changes in Foreign Exchange Rates'. In 2016 the internal loans which were earlier considered as a net investment were converted into equity in the subsidiary in Ukraine. The net investments in foreign subsidiaries are not hedged based on the Board decision in 2013.

Group's total comprehensive income was positively affected by translation differences on foreign operations by EUR 121.8 million (EUR -55.2 in 2015) of which EUR -1.3 million (EUR -13.7 million in 2015) was recorded on internal loans recognised as net investment in foreign operation.

The accumulated translation differences from a foreign subsidiary recorded in the translation reserve within equity through other comprehensive income are brought from equity to the income statement and entered as a gain or loss on the sale if a subsidiary is divested fully or in part.

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.

Translation risk

EUR million	31 Dec 2016			31 Dec 2015		
	Net investment	Hedge	Hedge ratio	Net investment	Hedge	Hedge ratio
Currency of net investment						
CZK	19.9	-	-0%	3.5	-	-0%
EUR *	-	-	-0%	27.5	-	-0%
KZT **	2.4	-	-0%	6.0	-	-0%
NOK	37.3	-	-0%	29.6	-	-0%
RUB	635.6	-	-0%	460.2	-	-0%
SEK	14.8	-	-0%	16.5	-	-0%
UAH	4.0	-	-0%	-25.4	-	-0%
USD	100.9	-	-0%	100.3	-	-0%

* A loan denominated in EUR given to the Ukrainian subsidiary TOV Nokian Shina which is considered as a net investment in a foreign operation.

** The figure includes a loan denominated in KZT given to the Kazakhstani subsidiary TOO Nokian Tyres which is considered as a net investment in a foreign operation.

EUR million	31 Dec 2016				31 Dec 2015			
	Base currency		Base currency		Base currency		Base currency	
	10% stronger	10% weaker	10% stronger	10% weaker	10% stronger	10% weaker	10% stronger	10% weaker
	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Base currency / Quote currency								
EUR/CZK	-1.0	-	1.0	-	-0.1	-	0.1	-
EUR/KZT	0.0	-	0.0	-	0.0	-	0.0	-
EUR/NOK	-0.2	-	0.2	-	-0.3	-	0.3	-
EUR/RUB	0.2	-	-0.2	-	0.2	-	-0.2	-
EUR/SEK	-0.3	-	0.3	-	-0.3	-	0.3	-
EUR/UAH	-0.7	-	0.7	-	-0.6	-	0.6	-
EUR/USD	0.0	-	0.0	-	-0.1	-	0.1	-

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 31.0 million (EUR 24.8 million in 2015) and the fixed rate interest-bearing liabilities EUR 194.8 million (EUR 194.7 million in 2015) 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 78% (98% in 2015) and the average fixing period of the interest-bearing financial liabilities was 21 months (34 months in 2015) including the interest rate derivatives. The Group uses interest rate derivatives as cash flow hedges and hedge accounting is mainly applied for those derivatives.

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 electricity derivatives amounted to 260 GWh (200 GWh in 2015).

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.

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.

EUR million	31 Dec 2016 Interest rate				31 Dec 2015 Interest rate			
	1%-point higher		1%-point lower		1%-point higher		1%-point lower	
	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Impact of interest rate change	-1.2	2.7	1.2	-2.7	-1.1	4.4	1.1	-4.4

EUR million	31 Dec 2016 Electricity price				31 Dec 2015 Electricity price			
	5 EUR/MWh higher		5 EUR/MWh lower		5 EUR/MWh higher		5 EUR/MWh lower	
	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Impact of electricity price change	0.4	0.9	-0.4	-0.9	0.4	0.6	-0.4	-0.6

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. In May the Group replaced with an international bank syndicate a EUR 100 million multicurrency revolving credit facility with a EUR 100 million revolving credit facility due in 5 years unless a 2 year extension option will be executed. The Group has a EUR 350 million domestic commercial paper program. 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 2016 the Group has met all the requirements set in the financial covenants. Financial covenants are mainly linked to equity ratio. Management monitors regularly that the covenant requirements are met. Agreements relating to Group financing contain terms and conditions upon which the agreement may terminate, if control in the parent 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 513.2 million (EUR 429.3 million in 2015). At the end of the year the Group's available current credit limits were EUR 506.6 million (EUR 506.6 million in 2015), out of which the committed limits were EUR 155.7 million (EUR 155.7 million in 2015). The available committed non-current credits amounted to EUR 150.0 million (EUR 0.0 million in 2015).

The Group's interest-bearing financial liabilities totalled EUR 225.8 million, compared to the year before figure of EUR 219.6 million. Around 89% of the interest-bearing financial liabilities were in EUR. The average interest rate of interest-bearing financial liabilities was 3.1%. Current interest-bearing financial liabilities, including the portion of non-current financial liabilities maturing within the next 12 months, amounted to EUR 88.8 million (EUR 19.9 million in 2015).

Contractual maturities of financial liabilities

EUR million	2016							Total
	Carrying amount	Contractual maturities*						
	2017	2018	2019	2020	2021	2022–		
Non-derivative financial liabilities								
Loans from financial institutions and pension loans								
Fixed rate loans	7.1	-0.7	-0.7	-0.7	-0.7	-0.6	-4.9	-8.3
Floating rate loans	130.7	-3.3	-3.3	-131.6	0.0	0.0	0.0	-138.3
Bond loans	87.7	-90.5	0.0	0.0	0.0	0.0	0.0	-90.5
Commercial papers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance lease liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other payables	78.0	-78.0	0.0	0.0	0.0	0.0	0.0	-78.0
Bank overdraft	0.3	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3
Derivative financial liabilities								
Interest rate derivatives								
Designated as hedges	2.2	-0.9	-0.9	-0.3	0.0	0.0	0.0	-2.2
Measured at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency derivatives								
Designated as hedges								
Cashflow out	3.7	-6.3	-5.5	-67.3	0.0	0.0	0.0	-79.1
Cashflow in	-9.5	0.9	1.0	68.6	0.0	0.0	0.0	70.5
Measured at fair value through profit or loss								
Cashflow out	9.4	-562.6	0.0	0.0	0.0	0.0	0.0	-562.6
Cashflow in	-17.6	568.6	0.0	0.0	0.0	0.0	0.0	568.6
Electricity derivatives								
Designated as hedges	0.7	-0.3	-0.3	-0.1	0.0	0.0	0.0	-0.7
Total	292.7	-173.4	-9.8	-131.4	-0.7	-0.7	-4.9	-320.9

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

Contractual maturities of financial liabilities

EUR million	2015						
	Carrying amount	Contractual maturities*					
	2016	2017	2018	2019	2020	2021	Total
Non-derivative financial liabilities							
Loans from financial institutions and pension loans							
Fixed rate loans	7.1	-0.2	-0.7	-0.7	-0.7	-5.6	-8.4
Floating rate loans	124.8	-21.9	-1.0	-1.0	-105.6	0.0	-129.4
Bond loans	87.6	-2.9	-90.6	0.0	0.0	0.0	-93.4
Commercial papers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance lease liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other payables	55.7	-55.7	0.0	0.0	0.0	0.0	-55.7
Bank overdraft	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial liabilities							
Interest rate derivatives							
Designated as hedges	2.4	-0.8	-0.8	-0.6	-0.1	0.0	-2.4
Measured at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency derivatives							
Designated as hedges							
Cashflow out	0.0	-5.7	-5.1	-5.0	-54.4	0.0	-70.1
Cashflow in	-19.8	1.1	1.1	1.2	69.0	0.0	72.3
Measured at fair value through profit or loss							
Cashflow out	15.4	-540.0	-30.7	0.0	0.0	0.0	-570.7
Cashflow in	-8.9	534.8	30.9	0.0	0.0	0.0	565.7
Electricity derivatives							
Designated as hedges	3.0	-1.4	-0.8	-0.6	-0.2	0.0	-3.0
Total	267.3	-92.7	-97.6	-6.6	-92.1	-0.7	-295.2

* 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 principles of customers' credit risk management are documented in the Group's credit risk policy. The Group Credit Committee makes all the significant credit decisions. 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 Group companies regularly according to the Group credit risk policy principles. In addition, the country risk is monitored constantly and credits are limited in countries where political or economical environment is unstable. 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. Significant items of trade receivables are evaluated both counterparty specifically and in a portfolio level in order to identify possible impairment. There are no over 15% customer or country risk concentrations in trade receivables, other than the Russian customers' share of 37% (31% in 2015) on the reporting date.

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 or public institutions. The Board approves the investment policy for financial instruments annually.

The aging of trade receivables

EUR million	2016	2015
Not past due	318.7	271.7
Past due less than 30 days	39.6	72.6
Past due between 30 and 90 days	3.7	4.1
Past due more than 90 days	12.3	8.6
Total	374.3	356.9

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	2016	2015
Average interest-bearing liabilities	223.9	262.9
Less: Average liquid funds	273.5	275.1
Average net debt	-49.7	-12.2
Operating profit	310.5	296.0
Add: Depreciations and amortisations	84.7	82.6
EBITDA	395.2	378.6
Average net debt / EBITDA	-0.13	-0.03

Equity ratio

EUR million	2016	2015
Equity attributable to equity holders of the parent	1,458.5	1,241.6
Add: Non-controlling interest	0.0	0.0
Total equity	1,458.5	1,241.6
Total assets	1,975.7	1,754.8
Less: Advances received	0.6	1.0
Adjusted total assets	1,975.2	1,753.8
Equity ratio	73.8%	70.8%

30. Fair values of derivative financial instruments

EUR million	2016			2015		
	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	545.3	17.6	9.3	497.9	8.9	15.4
Interest rate and currency swaps	20.0	0.0	0.0	20.0	0.0	0.0
Derivatives designated as cash flow hedges						
Foreign currency derivatives						
Interest rate and currency swaps	67.5	9.5	3.7	67.5	19.8	0.0
Interest rate derivatives						
Interest rate swaps	100.0	0.0	2.2	100.0	0.1	2.5
Electricity derivatives						
Electricity forwards	7.7	0.3	1.0	7.0	0.0	3.0

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.

31. Operating lease commitments

EUR million	2016	2015
The Group as a lessee		
Non-cancellable minimum operating lease payments		
In less than 1 year	20.3	20.3
In 1 to 5 years	49.8	53.1
In over 5 years	1.1	9.3
	71.2	82.7

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 retail outlets.

The income statement in 2016 contains EUR 55.2 million expenses for operating lease agreements (EUR 34.9 million in 2015).

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 extensions.

32. Contingent liabilities and assets and contractual commitments

EUR million	2016	2015
For own debt		
Mortgages	1.0	1.0
Pledged assets	4.7	4.8
Other own commitments		
Guarantees	10.9	5.2
Contractual commitments	-	1.6

33. Disputes, litigations and risks in the near future

The Finnish Tax Administration has made tax reassessments on the Group transfer pricing starting from year 2007 and demanding in excess of EUR 105 million of additional taxes with punitive tax increases and interests. In the spring 2015 the most substantial reassessments were returned to the Tax Administration for reprocessing, but the renewed decisions, received in December 2015, changed only slightly – the claims decreased with a bit over EUR 6 million. In November 2016 the Board of Adjustment decreased mainly the punitive tax increases with further EUR 5 million. The Company has recorded the total amounts as is in the financial statements and the results of years 2013 and 2014, and the latest decreases in 2015 and 2016. The Company considers the decisions to be incorrect and has appealed against them by leaving a claim to the Administrative Court. The Company will also, if needed, start a process with the competent authorities to negotiate for the elimination of the double taxation. Additionally the Company has initiated a separate process to determine the legality of the procedures used in the tax audit by Tax Administration and tax inspectors in its entirety. The disputes are expected to last for several years. Corresponding transfer pricing audit on year 2011 is pending.

The company announced in February 2016 that its practices concerning tyre tests in the past have not always been in line with the sustainable approach of Nokian Tyres. The company emphasizes that its tyres have always been safe and that safety has never been compromised on. There are no court cases in process related to the matter.

Additionally, the Group has some other pending business related disputes and court cases, which are expected to have no material effect on the consolidated financial statements.

The existing uncertainty in the Russian economy is due to the development of oil price, interest rate and investments, and sanctions that followed the Ukraine crisis. However, the growth in Russia is expected to turn positive in 2017. Possible effects related to US presidential election will be seen in coming months. An escalation of the Ukraine crisis could cause serious disruption, additional trade barriers, and a slowdown of economic development in Russia and Finland. 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.

34. 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 Reifen GmbH		Germany	100	100	100
Nokian Reifen AG		Switzerland	100	100	100
Nokian Tyres U.S. Holdings Inc.		USA	100	100	100
Nokian Tyres Inc		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.	Madrid	Finland	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	
Kymen Rengaskeskus Oy	Hamina	Finland	100	100	
Öljyhetki Oy	Kotka	Finland	100	100	
Vianor Russia Holding Oy	Nokia	Finland	100	100	
OOO Vianor SPb	St. Petersburg	Russia	100	100	
Vianor Fleet Solution 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	
Dekkspecialisten AS	Oslo	Norway	100	100	
Vianor AG		Switzerland	100	100	
Vianor Inc.		USA	100	100	
Associated companies					
Sammaliston Sauna Oy	Nokia	Finland	33	33	33
Not combined due to the company characteristics and minor significance.					

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 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	2016	2015
Key management personnel		
Employee benefit expenses		
Short-term employee benefits	4,842.1	3,904.4
Post-employment benefits	-162.3	145.2
Termination benefits	112.0	-
Share-based payments	6,170.3	2,018.7
Total	10,962.1	6,068.4
Remunerations		
Ari Lehtoranta, President	1,484.7	1,210.2
of which incentives for the reported period	731.2	522.3
Members of the Board of Directors		
Petteri Walldén	91.4	89.0
Heikki Allonen	36.0	-
Hille Korhonen	51.4	49.0
Tapio Kuula	49.6	36.0
Raimo Lind	50.8	49.0
Veronica Lindholm	33.0	-
Inka Mero	50.2	48.4
Prior members of the Board of Directors		
Hannu Penttilä	16.0	49.0
Kim Gran	-	13.1
Risto Murto	-	13.0
Total	378.4	346.5
No incentives were paid to the members of the Board of Directors.		
Other key management personnel	3,016.0	2,274.8
of which incentives for the reported period	987.7	610.2

No special pension commitments have been granted to the members of the Board of Directors and no statutory pension expense incurs. In 2016 the statutory pension expense for President Lehtoranta was EUR 270 thousand (EUR 225 thousand in 2015) and due to his resignation all pension deposits for the supplementary pension plan will be returned and hence the reversed expense was EUR 176 thousand (in 2015 the expense was EUR 132 thousand). The agreed plan retirement age was 63 years. The annual account deposits for the pension capital redemption contract have been pledged to guarantee the recognized pension plan commitment. The contract was 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.

	2016	2015
Granted (pcs)		
Shares	303,875	128,600
Share options	48,025	233,400
Held (pcs)		
Shares	42,735	42,369
Share options	334,325	634,800
Exercisable	168,900	229,700

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

35. 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	2016	2015
Net sales	(1)	651.8	687.8
Cost of sales	(2)(3)	-507.2	-560.8
Gross profit		144.6	127.0
Selling and marketing expenses	(2)(3)	-28.5	-26.8
Administration expenses	(2)(3)(4)	-24.8	-17.4
Other operating expenses	(2)(3)	-17.6	-19.9
Other operating income		0.3	1.3
Operating profit		74.1	64.2
Financial income and expenses	(5)	138.8	160.9
Profit before appropriations and tax		212.9	225.1
Change in accumulated depreciation in excess of plan	(6)	0.4	-1.4
Income tax	(7)	-16.5	-7.5
Profit for the period		196.7	216.2

Parent Company Balance Sheet, FAS

EUR million 31.12.	Notes	2016	2015
ASSETS			
Fixed assets and other non-current assets			
Intangible assets	(8)	16.1	13.7
Tangible assets	(8)	131.5	128.8
Shares in Group companies	(9)	133.0	132.0
Investments in associates	(9)	4.3	3.0
Shares in other companies	(9)	0.6	0.2
Total non-current assets		285.4	277.6
Current assets			
Inventories	(10)	91.5	97.3
Non-current receivables	(11)	274.1	263.5
Current receivables	(12)	367.6	395.6
Cash and cash equivalents		482.9	411.9
Total current assets		1,216.1	1,168.3
		1,501.6	1,446.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity	(13)		
Share capital		25.4	25.4
Share premium		182.5	182.5
Treasury shares		-5.4	-7.7
Paid up unrestricted equity fund		169.0	133.0
Retained earnings		248.3	234.1
Profit for the period		196.7	216.2
Total shareholders' equity		816.5	783.5
Untaxed reserves and provisions			
Accumulated depreciation in excess of plan	(8)	36.8	37.2
Liabilities			
Non-current liabilities	(14)	102.5	190.4
Current liabilities	(15)	545.7	434.8
Total liabilities		648.2	625.3
		1,501.6	1,446.0

EUR million 1.1.–31.12.	2016	2015
Profit for the period	196.7	216.2
Adjustments for		
Depreciation, amortisation and impairment	27.7	26.4
Financial income and expenses	-138.8	-160.9
Gains and losses on sale of intangible assets, other changes	0.0	-1.3
Income Taxes	16.5	7.5
Cash flow before changes in working capital	102.1	87.9
Changes in working capital		
Current receivables, non-interest-bearing, increase (-) / decrease (+)	28.5	-45.1
Inventories, increase (-) / decrease (+)	5.9	24.5
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	80.6	-2.8
Changes in working capital	114.9	-23.4
Financial items and taxes		
Interest and other financial items, received	20.8	25.4
Interest and other financial items, paid	-18.5	-18.4
Dividens received	138.9	172.7
Income taxes paid	-67.0	-21.4
Financial items and taxes	74.2	158.4
Cash flow from operating activities (A)	291.2	222.9
Cash flows from investing activities		
Acquisitions of property, plant and equipment and intangible assets	-32.9	-33.3
Proceeds from sale of property, plant and equipment and intangible assets	0.0	1.3
Acquisitions of Group companies	0.0	0.0
Acquisitions of other investments	-2.7	-1.8
Cash flows from investing activities (B)	-35.6	-33.8

EUR million 1.1.–31.12.	2016	2015
Cash flow from financing activities		
Proceeds from issue of share capital	35.9	32.7
Purchase of treasury shares	0.0	0.0
Change in current financial receivables, increase (-) / decrease (+)	0.0	-17.7
Change in non-current financial receivables, increase (-) / decrease (+)	-10.7	49.5
Change in current financial borrowings, increase (+) / decrease (-)	80.6	-4.0
Change in non-current financial borrowings, increase (+) / decrease (-)	-87.9	-62.3
Group contributions paid	0.0	0.0
Dividends paid	-202.6	-193.5
Cash flow from financing activities (C)	-184.6	-195.4
Change in cash and cash equivalents, increase (+) / decrease (-) (A+B+C)	71.0	-6.3
Cash and cash equivalents at the beginning of the period	411.9	418.2
Cash and cash equivalents at the end of the period	482.9	411.9

Based on the annulled and later renewed tax reassessment decisions on years 2007–2010 the financial items and taxes contain paid tax increases of EUR 51.0 million in 2016 and EUR 6.1 million in 2015. Additionally in 2016 the Tax Administration refunded EUR 4.9 million tax increases according to the latest decision of the Board of Adjustment.

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.

1. Net sales by segments and market areas

EUR million	2016	2015
Passenger Car Tyres	505.2	542.4
Heavy Tyres	146.6	145.3
Other	0.0	0.0
Total	651.8	687.8
Finland	124.7	135.4
Other Nordic countries	182.3	178.3
Baltic countries and Russia	32.1	48.3
Other European countries	208.4	218.4
North America	93.9	96.8
Other countries	10.4	10.5
Total	651.8	687.8

2. Wages, salaries and social expenses

EUR million	2016	2015
Wages and salaries	40.6	43.6
Pension contributions	7.2	7.7
Other social expenses	3.0	2.7
Total	50.7	54.0
Remuneration of the members of the Board of the Directors and the President on accrual basis	2.3	1.6
of which incentives	1.2	0.5

No special pension commitments have been granted to the members of the Board.

The agreed retirement age of the President was 63 years. See also Notes to Consolidated Financial Statements, note 34 Related party transactions.

Personnel, average during the year

Production	463	602
Selling and marketing	73	70
Others	183	195
Total	719	867

3. Depreciation

EUR million	2016	2015
Depreciation according to plan by asset category		
Intangible assets	4.9	4.3
Buildings	2.1	2.0
Machinery and equipment	21.1	20.0
Other tangible assets	0.1	0.0
Total	28.1	26.3
Depreciation by function		
Production	20.8	20.0
Selling and marketing	0.2	0.2
Administration	5.1	4.5
Other operating depreciation	2.0	1.6
Total	28.1	26.3

4. Auditors' fees

EUR million	2016	2015
Authorised public accountants KPMG Oy Ab		
Auditing	0.1	0.1
Tax consulting	0.2	0.2
Other services	0.1	0.1
Total	0.5	0.4

5. Financial income and expenses

EUR million	2016	2015
Dividend income		
From the Group companies	138.5	172.3
From others	0.0	0.0
Total	138.5	172.3
Interest income, non-current		
From the Group companies	17.3	21.2
From others	0.0	0.0
Total	17.3	21.2
Other interest and financial income		
From the Group companies	2.8	3.5
From others	0.7	0.8
Total	3.5	4.2
Exchange rate differences (net)	-1.5	-22.9
Interest and other financial expenses		
To the Group companies	-14.0	-5.3
To others	-4.5	-4.9
Other financial expenses	-0.6	-3.6
Total	-19.0	-13.8
Total financial income and expenses	138.8	160.9

Other financial expenses in 2015 include a EUR 2.7 million tender premium related to a buy-back of a bond, and a net income of EUR 1.0 million reversed penalty interests related to additional taxes.

6. Appropriations

EUR million	2016	2015
Change in accumulated depreciation in excess of plan		
Intangible assets	0.3	0.2
Buildings	-0.3	0.0
Machinery and equipment	-0.4	1.2
Other tangible assets	0.0	0.0
Total	-0.4	1.4

7. Income tax

EUR million	2016	2015
Direct tax for the year	-21.5	-12.5
Direct tax from previous years	5.0	5.0
Change in deferred tax	0.0	0.0
Total	-16.5	-7.5

8. Fixed assets

EUR million	Intangible assets		Land property	Tangible assets		Advances and fixed assets under construction
	Intangible rights	Other intangible rights		Buildings	Machinery and equipment	
Accumulated cost, 1 Jan 2016	49.6	3.6	0.7	69.5	405.1	3.8
Increase	0.3				21.7	
Decrease					-18.0	
Transfer between items	6.9	0.1		0.5	12.4	0.4
Accumulated cost, 31 Dec 2016	56.8	3.7	0.7	69.9	421.3	4.3
Accum. depr. acc. to plan 1 Jan 2016	-36.6	-2.9		-31.4	-325.0	-3.6
Accum. depr. on disposals					3.5	
Depreciations for the period	-4.7	-0.2		-2.1	-21.1	-0.1
Accum. depr. acc. to plan, 31 Dec 2016	-41.3	-3.0		-33.5	-342.6	-3.6
Carrying amount, 31 Dec 2016	15.5	0.6	0.7	36.4	78.7	0.6
Carrying amount, 31 Dec 2015	13.0	0.7	0.7	38.1	80.1	0.2
Accum. depreciation in excess of plan, 31 Dec 2016	2.8	0.1	-	12.8	16.9	-0.4
Accum. depreciation in excess of plan, 31 Dec 2015	2.4	0.1	-	17.7	17.3	-0.4

9. Investments

EUR million	Shares in Group companies	Investments in associates	Shares in other companies
Accumulated cost, 1 Jan 2016	132.0	3.0	0.2
Decrease	-26.6	-	-
Increase	27.6	1.3	0.4
Accumulated cost, 31 Dec 2016	133.0	4.3	0.6
Carrying amount, 31 Dec 2016	133.0	4.3	0.6
Carrying amount, 31 Dec 2015	132.0	3.0	0.2

10. Inventories

EUR million	2016	2015
Raw materials and supplies	47.1	49.8
Work in progress	3.0	2.5
Finished goods	41.4	45.0
Total	91.5	97.3

11. Non-current receivables

EUR million	2016	2015
Loan receivables from the Group companies	274.0	263.1
Loan receivables from others	0.2	0.3
Total long-term receivables	274.1	263.5

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

12. Current receivables

EUR million	2016	2015
Receivables from the Group companies		
Trade receivables	129.1	134.3
Loan receivables	152.6	166.1
Accrued revenues and deferred expenses	14.9	24.3
Total	296.6	324.6
Trade receivables	29.7	28.6
Other receivables	5.3	5.2
Accrued revenues and deferred expenses	35.9	37.2
Total	71.0	71.0
Total short-term receivables	367.6	395.6
Significant items under accrued revenues and deferred expenses		
Financial items	32.0	33.2
Social payments	4.7	6.2
Capital expenditure in Russian factory	0.1	7.2
Goods and services rendered and not invoiced, subsidiary	9.7	13.6
Other items	4.3	1.2
Total	50.8	61.4

13. Shareholders' equity

EUR million	2016	2015
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	133.0	99.6
Emission gains	35.9	33.4
Paid-up unrestricted equity reserve, 31 December	169.0	133.0
Retained earnings, 1 January	450.3	427.6
Dividends to shareholders	-202.0	-193.5
Retained earnings, 31 December	248.3	234.1
Treasury shares	-5.4	-7.7
Profit for the period	196.7	216.2
Total non-restricted shareholders' equity	608.6	575.6
Total shareholders' equity	816	783.5
Specification of the distributable funds, 31 December		
Retained earnings	248.3	234.1
Omat osakkeet	-5.4	-7.7
Paid-up unrestricted equity reserve	169.0	133.0
Profit for the period	196.7	216.2
Distributable funds, 31 December	608.6	575.6

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

The Company has entered into an agreement with a third-party service provider concerning administration and hedging of the share-based incentive program for key personnel. As a part of this agreement, the service provider purchases and administers shares for hedging the underlying cash flow risk and implementing the program. The third party owns the shares until the shares are given to the participants within the program. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by the Company. During 2014, a total number of 300,000 shares was acquired. At the end of 2016 the total number of shares held was 232,792 (2015: 300,000), which corresponds 0.2% (2015: 0.2%) of all shares of the Company.

14. Non-current liabilities

EUR million	2016	2015
Interest-bearing		
Bonds	-	87.7
Loans from financial institutions	102.4	102.4
Total	102.4	190.1
Non-interest-bearing		
Accrued expenses and deferred revenues	0.1	0.3
Total	0.1	0.3
Total non-current liabilities	102.5	190.4

15. Current liabilities

EUR million	2016	2015
Interest-bearing		
Liabilities to the Group companies		
Finance loans	336.5	256.3
Bonds	87.7	-
Total	424.2	256.3

The original notional amount of the bond due in 2017 was EUR 150 million and the annually payable coupon is 3.25%. In September 2015 the Company bought back bonds with a notional amount of EUR 62.3 million.

Non-interest-bearing		
Liabilities to the Group companies		
Trade payables	41.4	54.4
Accrued expenses and deferred revenues	8.9	2.9
Total	50.3	57.2
Trade payables	26.0	18.6
Liabilities to the others	2.1	53.4
Accrued expenses and deferred revenues	43.0	49.3
Total	71.1	121.3

Total non-interest-bearing liabilities 121.5 178.5

Total current liabilities 545.7 434.8

Significant items under accrued expenses and deferred revenues

Wages, salaries and social security contributions	11.2	11.6
Annual discounts, sales	4.3	8.7
Taxes	4.5	4.0
Financial items	15.3	20.4
Commissions	4.3	3.1
Goods received and not invoiced	0.6	0.4
Warranty commitments	0.9	0.8
Other items	1.9	3.2
Total	43.0	52.2

Other liabilities 2015 contain EUR 51.0 million for tax reassessment decisions on years 2007-2010.

16. Contingent liabilities

EUR million	2016	2015
For own debt		
Pledged assets	-	0.0
On behalf of Group companies and investments in associates		
Guarantees	81.4	63.0

The amount of debts and commitments mortgaged for total EUR 78.5 million (2015: EUR 60.4 million).

On behalf of other companies		
Guarantees	0.2	0.2
Other own commitments		
Guarantees	29.9	22.6
Leasing and rent commitments		
Payments due in 2017/2016	4.0	3.4
Payments due in subsequent years	8.2	5.3

17. Derivative financial instruments

EUR million	2016	2015
Interest rate derivatives		
Interest rate swaps		
Notional amount	100.0	100.0
Fair value	-2.2	-2.4
Foreign currency derivatives		
Currency forwards		
Notional amount	585.8	569.6
Fair value	8.2	-6.8
Interest rate and currency swaps		
Notional amount	87.5	87.5
Fair value	5.8	19.8
Electricity derivatives		
Electricity forwards		
Notional amount	7.7	7.0
Fair value	-0.7	-3.0

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 swap will occur during the next three years and the cash flows of the electricity forwards during the next five 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 2016.

Information on Nokian Tyres' share

SHARE DATA

Market	Nasdaq Helsinki
ISIN	FI0009005318
Symbol	NRE1V
Reuters symbol	NRE1V.HE
Bloomberg symbol	NRE1V:FH
Industry	OMXH Large Caps
Sector	Tires & Rubber
Number of shares, December 31, 2016	135,911,695

Share capital and shares

Nokian Tyres' share was quoted on the main list of Nasdaq Helsinki (Helsinki Stock Exchange until 2007) for the first time on June 1, 1995. The company has one class of shares, each share entitling the shareholder to one vote at the Annual General Meeting and carrying equal rights to a dividend. On December 31, 2016, the number of shares entitled to a dividend was 135,911,695.

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

Share price development and trading volume in 2016

At the end of 2016, Nokian Tyres' share was quoted at EUR 35.42, showing an increase of 7.0% on the previous year's closing price of EUR 33.10. At its highest, Nokian Tyres' share was quoted at EUR 36.74 in 2016 (EUR 37.57 in 2015) and EUR 27.48 (EUR 19.23) at its lowest. During the year, a total of 138,561,065 (195,229,321) Nokian Tyres' shares were traded on Nasdaq Helsinki. At the end of the year, the market capitalization of the share capital was EUR 4,813,992,237 (EUR 4,458,277,859).

Nokian Tyres' shares are also traded on alternative platforms, such as Bats CXE, Turquoise and BATS. A total of 127,537,938 shares in Nokian Tyres were traded on these alternative platforms during 2016.

On December 31, 2016, the number of shares was 135,911,695.
» Read more: www.nokiantyres.com/company/investors/share/share-performance/

Dividend policy

The dividend policy adopted by the company's Board of Directors is to propose to the Annual General Meeting a dividend that reflects

the company's profit development. The dividend policy was updated in 2015.

Nokian Tyres' dividend policy for 2016–2018 is as follows: the company's target is to provide steady or higher absolute dividend per share throughout 2016–2018 (despite the investments in the third factory). The company targets to distribute at least 50% of net profits in dividends.

FINANCIAL TARGETS 2016–2018*

Faster than market growth with healthy profitability

Faster than the market growth Our target is to achieve an average annual growth that is higher than our target market growth. This means we aim at growing organically faster than the tyre replacement market. With the present market outlook this would result to minimum 4–5% average annual sales growth for the period 2016–2018.

Healthy profitability We target to maintain our industry leading operating profit level of minimum 22%.

Good shareholder return Our target is to provide steady or higher absolute dividend per share throughout 2016–2018 (despite the investments in 3rd factory).
Dividend policy: Company targets to distribute at least 50% of net profits in dividends.

*with stable exchange rates

Board authorizations

Annual General Meeting 2012

The Annual General Meeting on April 12, 2012 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 Companies Act that entitle you to shares (including convertible bonds) on one or more occasion. The Board may decide to issue new shares or shares held by the company. The maximum number of shares included in the authorization accounts for approximately 19% of the company's entire share capital.

The authorization includes the right to issue shares or special rights through a private offering; in other words, to deviate from the shareholders' pre-emptive right subject to the provisions of the law.

Under the authorization, the Board of Directors is entitled to decide on the terms and conditions of a share issue, or the granting of special rights under Chapter 10, Section 1 of the Finnish

Companies Act, including the recipients of shares or special rights entitling them to shares, and the compensation to be paid. This authorization was given to be exercised for purposes determined by the Board of Directors. The subscription price of new shares shall be recognized under paid-up unrestricted equity reserve.

The consideration payable for the Company's own shares shall be recognized under paid-up unrestricted equity reserve. The authorization is effective for five years from the decision made at the Annual General Meeting. This authorization invalidates all other Board authorizations regarding share issues and convertible bonds.

Annual General Meeting 2016

The Annual General Meeting held on April 12, 2016 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 3.7% of all the shares of the Company.

The shares may be repurchased in order to improve the capital structure of the Company, to carry out acquisitions or other arrangements related to the Company's business, to be transferred for other purposes, or to be cancelled, for the Company's incentive plans, or if according to the Board of Directors' comprehension, it is the interest of shareholders.

The price paid for the shares repurchased under the authorization shall be based on the market price of the Company's share in public trading. The minimum price to be paid would be the lowest market price of the share quoted in public trading during the authorization period and the maximum price the highest market price quoted during the authorization period.

The company's own shares can be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase).

The authorization will be effective until the next Annual General Meeting of Shareholders, but at most until October 12, 2017.

Stock options 2010 directed at personnel

The Annual General Meeting held on April 8, 2010 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 are designed to be part of the Group's incentive and commitment program. The purpose of the stock options is to

encourage the personnel to work on a long-term basis to increase shareholder value.

The number of stock options is 4,000,000. A total of 1,320,000 stock options will be marked with the symbol 2010A, 1,340,000 with the symbol 2010B, and 1,340,000 with the symbol 2010C. According to the original subscription terms, the stock options entitle the subscription of a maximum of 4,000,000 Nokian Tyres plc's new shares or existing shares held by the company. The Board distributed the stock options in spring 2010 (2010A stock options), 2011 (2010B stock options), and 2012 (2010C stock options).

The original share subscription price for stock options 2010A was the average price of a Nokian Tyres plc share weighted by the share trading volume on Nasdaq Helsinki between April 1 and April 30, 2010, i.e. EUR 18.14. For stock options 2010B, the original share subscription price was the average price of a Nokian Tyres plc share weighted by the share trading volume on Nasdaq Helsinki between April 1 and April 30, 2011, i.e. EUR 32.90 and for stock options 2010C, the original share subscription price was the average price of a Nokian Tyres plc share weighted by the share trading volume on Nasdaq Helsinki between April 1 and April 30, 2012, i.e. EUR 35.30.

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, 2012–May 31, 2014 for stock options 2010A

May 1, 2013–May 31, 2015 for stock options 2010B

May 1, 2014–May 31, 2016 for stock options 2010C.

As a result of the subscriptions with the 2010 stock options, the number of Nokian Tyres' shares may be increased by a maximum of 4,000,000 new shares. The share subscription price shall be credited to the paid-up unrestricted equity reserve. A share ownership plan is incorporated with the 2010 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 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 are designed to be part of the Group's incentive and commitment program. 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 new shares in the Company or existing shares held by the Company. The stock options now 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 current subscription prices are EUR 27.86 per share for stock options 2013A, EUR 26.59 per share for stock options 2013B and EUR 24.42 per share for stock options 2013C.

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 may be increased 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 with 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

Nokian Tyres' 2010C stock options for the option scheme 2010 were listed on Nasdaq Helsinki's main list as of May 1, 2014. At their highest, the 2010C stock options were quoted at EUR 4.03 and at their lowest at EUR 0.51. The trade volume was 612,418 during the year.

Nokian Tyres' 2013A stock options for the option scheme 2013 were listed on Nasdaq Helsinki's main list as of May 4, 2015. At their highest, the 2013A stock options were quoted at EUR 8.77 and at their lowest at EUR 3.22. The trade volume was 981,934 during the year.

Nokian Tyres' 2013B stock options for the option scheme 2013 were listed on Nasdaq Helsinki's main list as of May 2, 2016. At their highest, the 2013B stock options were quoted at EUR 10.42 and at their lowest at EUR 5.08. The trade volume was 667,359 during the year.

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

Share rewards system 2016

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

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

The share rewards system has three one-year earnings periods, the calendar years 2016, 2017 and 2018. The Company's board will decide on the system's earnings criteria and the goals set for each criterion at the beginning of the earnings period. The system's possible reward for the earnings period of 2016 is based on the Group's operating profit and net sales. The rewards paid for the

earnings period of 2016 correspond to a maximum of 515,000 shares in Nokian Tyres plc, including the monetary reward.

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

Management shareholding

On December 31, 2016, Nokian Tyres' Board members and the President and CEO held a total of 64,064 Nokian Tyres' shares, and a total of 60,000 stock options that were not publicly traded in 2016. On December 31, 2016, Nokian Tyres' Board members and the President and CEO did not hold Nokian Tyres' publicly traded stock options. The shares and publicly traded stock options represent 0.1% of the total number of votes.

Share identification

ISIN code.....FI0009005318
Trading codeNRE1V (Nasdaq Helsinki)
Currency.....Euro

Changes in the ownership of nominee-registered shareholders in 2016

Nokian Tyres has received announcements from BlackRock, Inc. on January 11, 2016, on January 15, 2016, on January 22, 2016, on February 16, 2016, on March 4, 2016, on March 9, 2016, on March 10, 2016, on March 14, 2016, on March 18, 2016, on April 22, 2016, on May 2, 2016, and on May 3, 2016, 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 8, 2016, on January 14, 2016, on January 21, 2016, on February 15, 2016, on March 3, 2016, on March 8, 2016, on March 9, 2016, on March 11, 2016, on March 17, 2016, on April 21, 2016, on April 29, 2016, and on May 2, 2016.

Nokian Tyres has received announcements from BlackRock, Inc. on January 14, 2016, on January 21, 2016, on January 25, 2016, on February 18, 2016, on March 7, 2016, on March 11, 2016, on March 16, 2016, on March 21, 2016, on March 23, 2016, and on April 25, 2016, 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 13, 2016, on January 20, 2016, on January 22, 2016, on February 17, 2016, on March 4, 2016, on March 10, 2016, on March 15, 2016, on March 18, 2016, on March 22, 2016, and on April 22, 2016.

Nokian Tyres has received an announcement from Sprucegrove Investment Management Ltd. on February 26, 2016 and a revised announcement on March 1, 2016, according to which the holdings of the mutual funds managed by Sprucegrove Investment Management Ltd. fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on February 25, 2016. According to Nokian Tyres, the holdings of the funds have fallen below the level of 5% already previously due to Nokian Tyres increasing its total number of shares during 2015.

Nokian Tyres has received an announcement from The Capital Group Companies, Inc. on March 24, 2016, according to which the holdings of the mutual funds managed by The Capital Group Companies, Inc. fell below the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on March 23, 2016.

Nokian Tyres has received an announcement from The Capital Group Companies, Inc. on June 9, 2016, according to which the holdings of the mutual funds managed by The Capital Group Companies, Inc. exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on June 8, 2016.

Nokian Tyres has received an announcement from The Income Fund of America (IFA) on September 15, 2016, according to which the shares owned by The Income Fund of America exceeded the level of 5% of the share capital in Nokian Tyres plc, as a result of share transactions concluded on September 14, 2016.

More detailed information on flagging can be found at www.nokiantyres.com/company/investors/share/flagging-notifications/.

Number of shares on December 31, 2016

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of shares
1–100	15,812	44.6	850,818	0.6
101–500	13,224	37.3	3,488,636	2.6
501–1,000	3,263	9.2	2,561,980	1.9
1,001–5,000	2,702	7.6	5,682,770	4.2
5,001–10,000	256	0.7	1,856,888	1.4
10,001–50,000	167	0.5	3,307,520	2.4
50,001–100,000	24	0.1	1,628,006	1.2
100,001–500,000	26	0.1	5,918,050	4.4
500,001–	9	0.0	110,617,027	81.4
Total	35,483	100.0	135,911,695	100.0

Biggest Shareholders registered in Finland on December 31, 2016

Biggest Shareholders registered in Finland	Number of shares	% of shares
Varma Mutual Pension Insurance Company	3,772,007	2.8
Ilmarinen Mutual Pension Insurance Company	2,815,947	2.1
Odin Norden	1,031,217	0.8
The State Pension Fund	773,000	0.6
Schweizer Nationalbank	758,639	0.6
Mandatum Life Insurance Company Limited	600,000	0.4
OP Investment Funds	522,417	0.4
Nordea	508,573	0.4
Svenska litteratursällskapet i Finland r.f.	494,700	0.4
Barry Staines Linoleum Oy	430,000	0.3
Total	11,706,500	8.6
Foreign Shareholders ¹⁾	104,496,414	76.9
Bridgestone Corporation ²⁾	20,000,000	14.7

¹⁾ includes also shares registered in the name of a nominee

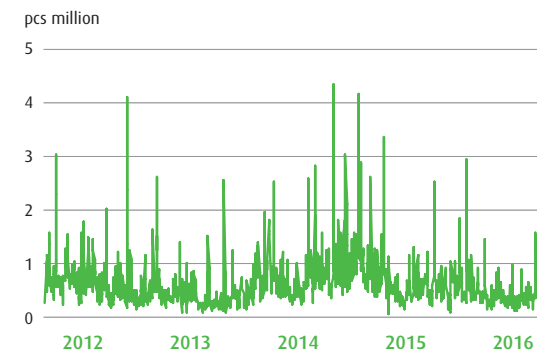
²⁾ in the name of a nominee

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

Shareholder structure on December 31, 2016

	Number of shares	% of shares
Non-Finnish and nominee registered	104,496,414	76.9
Households	14,110,156	10.4
General Government	7,997,622	5.9
Financial and insurance corporations	3,136,824	2.3
Non-profit institutions	3,541,280	2.6
Corporations	2,629,399	1.9
Total	135,911,695	100.0

Share trading volumes on Nasdaq Helsinki Jan 1, 2012–Dec 31, 2016



Share price development on Nasdaq Helsinki Jan 1, 2012–Dec 31, 2016



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

Signatures for the financial statements and the report by the Board of Directors

Nokia, 2 February 2017

Petteri Walldén

Heikki Allonen

Hille Korhonen

Tapio Kuula

Raimo Lind

Veronica Lindholm

Inka Mero

Andrei Pantioukhov, CEO

To the Annual General Meeting of Nokian Tyres Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Nokian Tyres Plc (business identity code 0680006-8) for the year ended 31 December 2016. The financial statements comprise the consolidated statement of financial position, 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 performance and financial position 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.

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 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.

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.

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.

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

**THE KEY AUDIT
MATTER**
**HOW THE MATTER WAS
ADDRESSED IN THE AUDIT**
Revenue recognition and impairment of trade receivables

(Refer to Accounting policies for the consolidated financial statements, note 20 and 29)

- The aggregate amount of trade receivables amounted to EUR 374.3 million in the consolidated statement of financial position as at 31 December 2016.
- The industry is marked by seasonal sales and long credit periods granted to clients.
- Due to the uncertain economic situation in Russia, which is a significant market for the Group, collection of receivables has been challenging.

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.

Carrying value of inventories

(Refer to Accounting policies for the consolidated financial statements and note 19)

- As at 31 December 2016, the inventory balance totaled EUR 304.3 million in the consolidated statement of financial position.
- The Group's sales are seasonal, and consequently at season-end inventories may need to be impaired.
- There are several different warehouse management software systems in operation in the Group companies. Calculation of the total value of inventories also involves manual procedures.

Our audit procedures included, among others:

- We evaluated the Group's inventory valuation methods used in relation to the accounting principles applied by the Group.
- We assessed the inventory accounting practices on Group level and in Group companies as well as evaluated and tested controls over inventory management.

**THE KEY AUDIT
MATTER**
**HOW THE MATTER WAS
ADDRESSED IN THE AUDIT**
Foreign currency risks

(Refer to Accounting policies for the consolidated financial statements, notes 1 and 29)

- 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 and 33)

- The Group has been subject to a tax audit concerning the tax years 2007-2010. As a result the parent company has been obliged to pay significant additional taxes mainly regarding transfer pricing in the intra-group sales between Finland and Russia. The company believes that the additional tax assessment made by the Finnish Tax Administration is unfounded. The tax rectification process started may take several years.
- 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 of the Group and 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 in 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 company 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

Other information

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

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 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, we conclude that

there is a material misstatement in of the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Other subheadings as needed

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 27 February 2017
KPMG Oy Ab

Lasse Holopainen
Authorised Public Accountant

Corporate Governance Statement

I Introduction

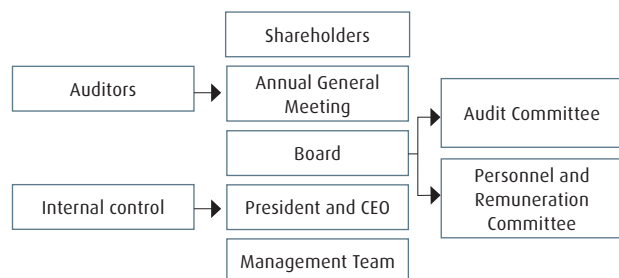
Nokian Tyres plc (hereinafter referred to as the “Company”) complies with the recommendation concerning the Corporate Governance for Finnish listed companies (Corporate Governance 2015) that came into force on January 1, 2016, and the company has not departed from the recommendations in the said code. The code document is available in its entirety at www.cgfinland.fi/en/. The Company follows the Finnish Limited Liability Companies Act, the Acts on auditing and accounting, EU-level regulations, the Nasdaq Helsinki rules and the regulations, and instructions from 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 Company’s corporate governance is based on the annual general meeting, the Articles of Association, the Board of Directors, the President and CEO, the group’s management team, the legislation and regulations mentioned above as well as the group’s policies, procedures, and practices. The Board of Directors has approved the Corporate Governance Statement. The Company’s auditors verify 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’ administrative organization



Annual General Meeting and Articles of Association

The Company’s highest decision-making power is held by the Annual 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 from liability. The Annual General Meeting elects the members of the Board of Directors and the auditor and determines their remuneration. In addition, the Annual 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.

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.

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. The Articles of Association state that the invitation to the Annual General Meeting must be published in one daily newspaper distributed nationwide and one distributed in the Tampere region. In addition, the Company publishes the invitation to the Annual General Meeting as a stock exchange release and on its website. The invitation lists the agenda of the meeting. The Board’s proposals to the meeting are available on the Company’s website before the meeting.

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

The Annual General Meeting for 2016 took place on April 12, 2016 at the Tampere Hall in Tampere. The meeting confirmed the consolidated financial statements and discharged the Board members and the President from liability for the fiscal year 2015. All of the documents related to the Annual General Meeting are available on the Internet at www.nokiantyres.com/company/investors/.

The Annual General Meeting for 2017 will take place on April 10, 2017 at 4 pm in Tampere.

Shareholder’s rights

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

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

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

Board of Directors

The Board is responsible for corporate governance and the appropriate conduct of ordinary activities 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 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 report, interim reports
- Proposals to the Annual 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 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
- 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 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 they must be disqualified due to a conflict of interest.

Composition of the Board

According to the Articles of Association of Nokian Tyres, the Board of Directors comprises no fewer than three and no more than eight members. 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 account of 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. The Board shall include no fewer than two representatives from both genders. The proposal regarding the composition of the Board for the Annual General Meeting is prepared by the Personnel and Remuneration Committee. The Board shall have no fewer than two representatives from both genders. This goal has been met in the current Board. The principles concerning the selection of the Board and its diversity are shown on the Company's website at www.nokiantyres.com/company/investors/.

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 from among its members. The remuneration payable to the Board members is also confirmed at the Annual General Meeting.

The Board will decide on the committees and their chairpersons and members each year during the constituent meeting. In 2016, the Personnel and Remuneration Committee and the Audit Committee were operational.

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 Vice President responsible for finance and control and other Group Management Team members as well as the internal auditor participate in the Board meetings, when necessary. The

auditor participates in the annual meeting dealing with financial statements and auditing plan. The Group General Counsel is the secretary of the Board.

Information on the Board members

The Annual General Meeting on April 12, 2016 elected 7 members. Petteri Walldén, Hille Korhonen, Tapio Kuula, Raimo Lind, and Inka Mero were re-elected. Heikki Allonen and Veronica Lindholm were elected as new members. In addition to the people listed above, Hannu Penttilä was also a member of the Board until April 12, 2016.

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

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

Education: Master of Science (Engineering).

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

Vice Chairman of the Board: Tikkurila Oyj

Member of the Board: Efla Oy, Kuusakoski Group Oy, and Staffpoint Holding Oy.

Heikki Allonen (b. 1954)

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

Education: Master of Science (Engineering).

Key experience:

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: Nammo AS

Member of the Supervisory Board: Ilmarinen Mutual Pension Insurance Company

Hille Korhonen (b. 1961)

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

Full-time position: President and CEO, Alko Oy

Education: Licentiate of Science (Technology).

Key experience:

2008–2012 Fiskars Oyj Abp, Vice President, Operations;

2003–2007 Iittala, Group Director, Operations;

1996–2003 Nokia Corporation, management duties for logistics;

1993–1996 Outokumpu Copper Plc, Manager, Logistics and Marketing Development.

Key positions of trust:

Member of the Board: Finnish Commerce Federation, Ilmarinen Mutual Pension Insurance Company

Tapio Kuula (b. 1957)

Member of the Board since 2015. Chairman of the Personnel and Remuneration Committee.

Education: M.Sc. (Econ), M.Sc. (Electrical Engineering), B.Sc. (Econ).

Honorary Doctor in Technology (Lappeenranta University of Technology)

Key experience:

2009–2015 Fortum Corporation, President and CEO;

2000–2009 Fortum Power and Heat Oy, President;

2005–2009 Fortum Corporation, Senior Vice President;

2000–2005 Fortum Corporation, President, Power and Heat Sector;

1999–2000 Fortum Power and Heat Oy, Senior Executive Vice President;

1997–1998 Imatran Voima Oy, Executive Vice President, member of the Management team and the Board;

1996–1997 Imatran Voima Oy, Director, Distribution;

1995–1996 Länsivoima Oyj, Deputy Managing Director;

1993–1996 Jyllinkosken Sähkö Oyj, Managing Director;

1989–1993 Koillis-Pohjan Sähkö Oy, Managing Director;

1988–1989 Energy Utility of the City of Seinäjoki, Managing Director;

1986–1988 Stuart Edgar Ltd. (G A Serlachius) UK, System Development Manager;

1984–1986 G A Serlachius, System Development Manager;

1980–1984 Koillis-Pohjan Sähkö Oy, Research Manager.

Key positions of trust:

Co-chairman: Northern Dimension Business Council

Member of the Board: Fortum Corporation

Raimo Lind (b. 1953)

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

Education: Master of Science (Economics).

Key experience:

2005–2013 Wärtsilä Oyj Abp, CFO, Senior Executive Vice President and deputy to the CEO;

1998–2004 Wärtsilä Oyj Abp, CFO;

1992–1997 Tamrock, President of Coal Division, President of Service Division, CFO;

1990–1991 Scantrailer Oy, Managing Director;

1976–1989 Wärtsilä Oyj Abp, Service Division, Vice President; Wärtsilä Singapore Ltd, Managing Director; Wärtsilä Diesel Division, VP Group Controller.

Key positions of trust:

Chairman of the Board: Elisa Oyj, Evac Group Oy, Nest Capital

Member of the Board: HiQ AB

Veronica Lindholm (b. 1970)

Member of the Board since 2016.

Education: Master of Science (Economics).

Full-time position: Finnkinno Oy, Managing Director

Key experience:

2015– Finnkinno Oy, Managing Director;

2013–2015 Mondelez Finland, Managing Director;

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, 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.

Full-time position: Co-founder and Chairman, Pivot5 Oy

Education: Master of Science (Economics).

Key experience:

2016– Pivot5 Oy, Co-founder and Chairman;

2008– KoppiCatch Oy, Co-founder and Chairman;

2006–2008 Playforia Oy, CEO;

2005–2006 Nokia Corporation, Director;

2001–2005 Digia Oyj, VP, Sales and Marketing;

1996–2001 Sonera Oyj, Investment Manager.

Key positions of trust:

Chairman of the Board: IndoorAtlas Oy, KoppiCatch Oy and Pivot5 Oy

Member of the Board: Fiskars Oyj, KMX Holding Oy, StartupSauna Foundation and YIT Oyj

Hannu Penttilä (b. 1953)

Member of the Board from March 24, 1999 to April 12, 2016.

Education: Master of Laws.

Key experience:

2001–2014 Stockmann plc, CEO;

1994–2001 Stockmann plc, Executive Vice President;

1992–2001 Stockmann plc, Director, Department Store Division;

1986–1991 Stockmann plc, Director, Helsinki Department Store;

1985–1986 Stockmann plc, Director, Tapiola Department Store;

1978–1984 Stockmann plc, Company lawyer;

1976–1978 Ministry of Labour, Inspector, junior ministerial secretary.

Independence of the Board members

The Board members are independent of the company. All Board members are independent of all major shareholders of the company.

The Board members' ownership of Nokian Tyres

Nokian Tyres holdings of the Board members and persons closely associated	Number of shares, December 31, 2016
Petteri Walldén, chairman	18,456
Heikki Allonen, member	663
Hille Korhonen, member	7,927
Tapio Kuula, member	6,359
Raimo Lind, member	2,056
Veronica Lindholm, member	663
Inka Mero, member	2,056
	38,180

The Board members' attendance at meetings

The Board met 14 times in 2016.

Attendance at meetings by the Company's Board members in 2016	Attendance/ meetings
Petteri Walldén, chairman	14/14
Heikki Allonen, member (since April 12, 2016)	7/7
Hille Korhonen, member	14/14
Tapio Kuula, member	13/14
Raimo Lind, member	14/14
Veronica Lindholm, member (since April 12, 2016)	6/7
Inka Mero, member	13/14
Hannu Penttilä, member (until April 12, 2016)	7/7

Committees of the Board

The Board appoints its committees annually at its first constituent meeting following the Annual General Meeting. The Board chooses the members and chairman for the committees from among its members. Each committee must include no fewer than three members having the competence and expertise necessary for working in the committee. 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 majority of the members of the Personnel and Remuneration Committee must be independent of the company. 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 the Board's proposal to the Annual 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 employee stock options, share rewards 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.

In 2016, the members of the Personnel and Remuneration committee were Petteri Walldén (Chairman until April 12, 2016), Hille

Korhonen, Tapio Kuula (Chairman from April 12, 2016), and Hannu Penttilä (until April 12, 2016).

The committee assembled 6 times.

All committee members are independent of the company and of all major shareholder

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 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 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.

In 2016, the members of the Audit Committee were Raimo Lind (Chairman), Inka Mero, Heikki Allonen (from April 12, 2016), and Tapio Kuula (until April 12, 2016). The Company's chief auditor participates in the committee's meetings.

The committee assembled 5 times in 2016.

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

The attendance of Board members at committee meetings in 2016

	Personnel and Remuneration Committee	Audit Committee
Petteri Walldén	6/6	
Heikki Allonen (since April 12, 2016)		4/4
Hille Korhonen	6/6	
Tapio Kuula	3/3	1/1
Raimo Lind		5/5
Inka Mero		5/5
Hannu Penttilä (until April 12, 2016)	3/3	

President and CEO and his/her duties

The President and CEO manages the Group's business operations and implements the current corporate governance in accordance with the instructions and guidelines provided by the Board of Directors and the Limited Liability Companies Act. With regard to the extent and quality of the Company's operations, the President and CEO may only undertake unusual or extensive actions when authorized to do so by the Board of Directors. The President and CEO is in charge of ensuring that the company accounting follows the statutory requirements and that asset management is arranged reliably. The President and CEO is elected by the Board of Directors. Ari Lehtoranta, M.Sc. (Electrical Engineering), was the Company's President and CEO until December 31, 2016.

Ari Lehtoranta (b. 1963)

Education: M.Sc. (Electrical Engineering), specialized in Telecommunications

Position: President and CEO from September 1, 2014 to December 31, 2016

Key experience:

2010–Aug 31, 2014 Executive Vice President, Central and Northern Europe, KONE Corporation;

2008–2010 Executive Vice President, Major Projects, KONE Corporation;

2005–2008 Senior Vice President, Head of Radio Access, Nokia Siemens Networks;

2003–2005 Vice President, Operational Human Resources, Nokia Corporation;

Nokian Tyres holdings of the President and CEO and persons closely associated December 31, 2016	Number of shares	Stock options	Stock options	Stock options
		2013 2013A	2013 2013B	2013 2013C
Ari Lehtoranta, President and CEO	25,882	-	-	60,000

Nokian Tyres holdings of the Group's management team and persons closely associated December 31, 2016	Number of shares	Stock options	Stock options	Stock options
		2013 2013A	2013 2013B	2013 2013C
Esa Eronen, VP, Supply Operations	5,424	-	15,000	15,000
Teppo Huovila, VP, Quality, Sustainability and ICT	4,779	-	6,700	6,700
Anna Hyvönen, Managing Director, Vianor and Partner Distribution	-	-	6,700	6,700
Tarja Kaipio, VP, Human Resources	-	-	-	3,400
Anne Leskelä, VP, Finance and IR	5,772	-	20,000	20,000
Andrei Pantioukhov, EVP, General Manager of Russian operations*	14,472	15,000	20,000	30,000
Juha Pirhonen, VP, Research and Development	1,077	-	19,200	15,325
Manu Salmi, VP, Nokian Heavy Tyres	2,886	-	15,000	15,000
Pontus Stenberg, VP, Sales	2,624	-	15,000	15,000
Timo Tervolin, VP, Strategy and Corporate Development	-	-	-	10,000
Antti-Jussi Tähtinen, VP, Marketing and Communications	1,886	3,000	10,000	10,000
Alexej von Bagh, VP, Process Development	6,165	-	20,000	15,000

*Company's interim President and CEO as of January 1, 2017

1999–2003 Head of Broadband Systems division, Head of Systems Integration, Head of Customer Services Europe, Nokia Networks; 1985–1999 Various positions at Nokia Corporation, including Managing Director of Nokia Telecommunications in Italy.

Key positions of trust:

Chairman of the Board: Rubber Manufacturers' Association of Finland
Vice Chairman of the Board: Chemical Industry Federation of Finland

Member of the Board: East Office of Finnish Industries

Member of the Supervisory Board: Ilmarinen Mutual Pension Insurance Company

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. In accordance with the Group's meeting practices, a Management Workshop assembles once per month. In addition to the President and CEO, the workshop is attended by the Vice Presidents of the profit and service centers, the Vice President for Russian operations and the chief audit executive (CAE). More detailed information concerning the management team is available 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 financial reports released by the company contain essentially correct information on the Group's financial position. The group has defined group-level instructions and policies for the key operative units specified below in order to ensure efficient and profitable Company operations.

The business activities of the Group are divided into two areas: the manufacturing business and the tyre retail chain. The manufacturing business consists of business units, which are Passenger Car Tyres, Heavy Tyres (the Nokian Heavy Tyres business unit was incorporated as an independent company as of January 1, 2006), and Other Business. Each business unit is responsible for

its business area and its financial performance, risk management, balance sheet and investments, supported by the different service functions. The Group's sales companies are a part of the sales function and serve as product distribution channels in local markets. The tyre retail chain is organized into a sub-group. Its parent company is Vianor Holding Oy, fully owned by the parent company Nokian Tyres plc. The tyre outlets operating in different countries are part of the sub-group.

The Managing Directors of the company's subsidiaries are responsible for the daily operations and administration of their companies. They report to the company's Vice President responsible for Sales, while the Managing Directors 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 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. Operative company 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 Vice President responsible for finance and control 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 business 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 is in charge of consolidating the business areas' figures to produce Group-level financial information. Each legally separate Group company produces its own information in compliance with the instructions provided and in line with local legislation. The revenue 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 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.

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, accuracy, and good service.

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, financial, and hazard risks. Strategic risks are related to customer relationships, competitors' actions, political risks, country risks, brand, R&D, 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 legislative changes, unpredictable rulings by judicial systems or authorities, or changes in raw material prices. Financial risks (Note 29) are related to fluctuations in interest rate and currency markets, refinancing, and counterparty and receivables risks. Hazard risks may lead to injuries, property damage, production outages, environmental impacts, or liabilities to third parties.

The most significant risks related to Nokian Tyres' business are the country risks related to the Russian business environment,

reputation risks, tax risks (especially in Finland), product and R&D risks, production outage risks, currency and receivable risks, risks related to Corporate Governance, and information security and data administration risks. Due to the company's product strategy, interruption risks that are related to marketing and logistics may especially have a significant impact on peak season sales. The risk analysis performed in 2016 paid special attention to risks within the area of corporate social responsibility, the most significant of which were the risks related to reputation and product quality.

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

Risk management is not allocated to a separate organization; its tasks follow the general distribution of responsibilities adopted elsewhere in the organization and its business activities. 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 carries out assessments and audits on the efficiency of risk management, internal control, and corporate governance processes. Internal audit is an independent and objective function whose aim is to help the organization to achieve its goals. The Internal Audit function in the Group is managed by the Chief Audit Executive (CAE), who works under the Board of Directors and the President and CEO. The Internal Audit function of the Group is planned to be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. An external auditor performed an assessment of the group's Internal Audit in the spring of 2015. The focus areas for internal audit are approved by the Board of Directors each year. The CAE reports on their findings and the agreed further actions to the Audit Committee and the Board of Directors.

In 2016, 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 a substantial felony related to business secrets that was pending in court and where Nokian Tyres was the complainant. The Internal Audit function at Vianor focuses on guiding the outlets and ensuring conformity to the Vianor activity management system. It reports to the Internal Auditor of the Group and the Managing Directors of the country units.

Decision-making concerning related party transactions

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

The Company only has related party transactions that are a part of normal business, and the information regarding them is provided in the annual report and the notes to the financial statements.

Insider issues

The Company complies with the guidelines for insider trading drawn up by Nasdaq Helsinki. Furthermore, the company has drawn up separate insider trading guidelines that have been approved by the Board of Directors.

The members of the Board, the President and CEO, all of the members of the Company's management team and the secretary of the Board of Directors, and the Chief Audit Executive have been defined as permanent insiders. A list of permanent insiders is maintained in the digital system of Euroclear Finland Oy. The Company's permanent insiders are considered to be aware of all projects.

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

The Company maintains a project-specific list of insiders who have insider information concerning a specific project, including external advisors. The Company maintains a project-specific list of

insiders either manually within the Company or in a digital system maintained by Euroclear Finland Oy.

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

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

Persons holding executive positions within the Company and permanent insiders are not allowed to trade in the Company's securities for 30 days before the publication of the Company's financial statement report, half year report, or interim report ("closed window"). The same applies to persons who participate in the preparation, drawing up, and/or publication of the Company's financial reports. The prohibition on trading mentioned above also applies to persons who process the reporting and forecasts of the Nokian Tyres Group and those who have access to group-level financial figures through different systems.

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

Audit

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

The Group's audit fees in 2016 amounted to EUR 437,000 (2015: EUR 537,000). The fees paid to the authorized public accountants for other services totaled EUR 739,000 (EUR 347,000).

Report of salaries and remuneration

A. Decision-making mechanism for remuneration

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

The Board of Directors makes decisions concerning the salary, benefits, and long-term incentives of the President and CEO and the rest of the management team. In addition to the President and CEO's short-term incentive system, the Board also decides on the maximum level of the management team's short-term incentive system. The Personnel and Remuneration Committee prepares the above matters for decision by the Board, using external experts when necessary. The President and CEO decides on the goals for the management team's short-term incentive system.

In 2012, the Annual General Meeting authorized the Board of Directors to make a decision to offer no more than 25,000,000 shares through a share issue. The authorization is effective for five years from that decision. In 2015, the Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 5,000,000 of the company's own shares using funds from the Company's unrestricted equity. This authorization is valid until the next Annual General Meeting, but at most until October 12, 2017. The Board may also use these shares as incentives.

B. General principles for remuneration

Remuneration of the Board members

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

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

- Annual fee for chairman, EUR 80,000
- Annual fee for member, EUR 40,000
- Meeting fee EUR 600/attended meeting/person

Board members are not included in the Company's option and share issue programs.

Remuneration for the President and CEO

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

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

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

Short-term and long-term incentive systems

The President and CEO's short-term performance-related bonus is based on the Group's profitability and cash flow, and it may amount to a maximum of 100% of the annual salary. The target period is one year and the bonus is paid out once per year.

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

Pensions and information regarding the termination of the employment relationship

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

The President and CEO's period of notice is 6 months. If the agreement is terminated by the company, the President and CEO is entitled to compensation corresponding to 18 months' salary and other benefits, in addition to the notice period's salary.

The management team

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

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

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

	Short-term incentive scheme	Long-term incentive schemes		
		Performance based bonus scheme 2015 and 2016,%*	Share-based incentive plan 2013 (maximum) Earnings period 2015	Share-based incentive plan 2016 (maximum) Earnings period 2016
President and CEO	100%	33,800	70,000	30,000***
Other management team	44%**	70,000	216,875	195,000

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

** Other members of the Management team on average

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

bonus is determined on the basis of the Group's operating profit and the achievement of the KPIs set for different functions. The function specific KPIs consist of several factors including profitable growth, cash flow, and the efficiency of operative process. The maximum annual bonus corresponds to 40–50% of a person's annual salary. The annual bonus is paid out once per year.

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

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

Pensions and information regarding the termination of the employment relationship

The management team members have no separate pension agreements.

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

Incentive systems for key personnel

Option scheme 2013

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

Share rewards system 2016

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

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

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

The possible reward from the earnings period of 2016 will be paid in 2017, partially as shares in the Company and partially as money. The monetary reward is intended to cover the taxes and tax-like charges incurred on the key person. As a rule, the reward is not paid if the key person's employment is terminated before the reward is due. Shares that are offered as a reward cannot be handed over during the limitation period of approximately one year.

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

C. Remuneration statement

Board of Directors

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

Table 2. Remuneration to the Board members in 2016 (cash basis)

	Position on the Board	Fixed annual fee, € ^{***}	Meeting remuneration fees, €	Committee meeting remuneration fees, €	Total remuneration fees, €	Shares acquired with fixed annual fee, number of shares	Share holdings of the Board, number of shares
Petteri Walldén	chairman	80,000	7,800	3,600	91,400	1,326	18,456
Heikki Allonen [*]	member	40,000	3,600	2,400	46,000	663	663
Hille Korhonen	member	40,000	7,800	3,600	51,400	663	7,927
Tapio Kuula	chairman of the Personnel and Remuneration Committee	40,000	7,200	2,400	49,600	663	6,359
Raimo Lind	chairman of the Audit Committee	40,000	7,800	3,000	50,800	663	2,056
Veronica Lindholm [*]	member	40,000	3,000		43,000	663	663
Inka Mero	member	40,000	7,200	3,000	50,200	663	2,056
Hannu Penttilä ^{***}	member		4,200	1,800	6,000		Memberships ended
Total		320,000	48,600	19,800	388,400	5,304	38,180

^{*} member since April 12, 2016

^{**} member until April 12, 2016

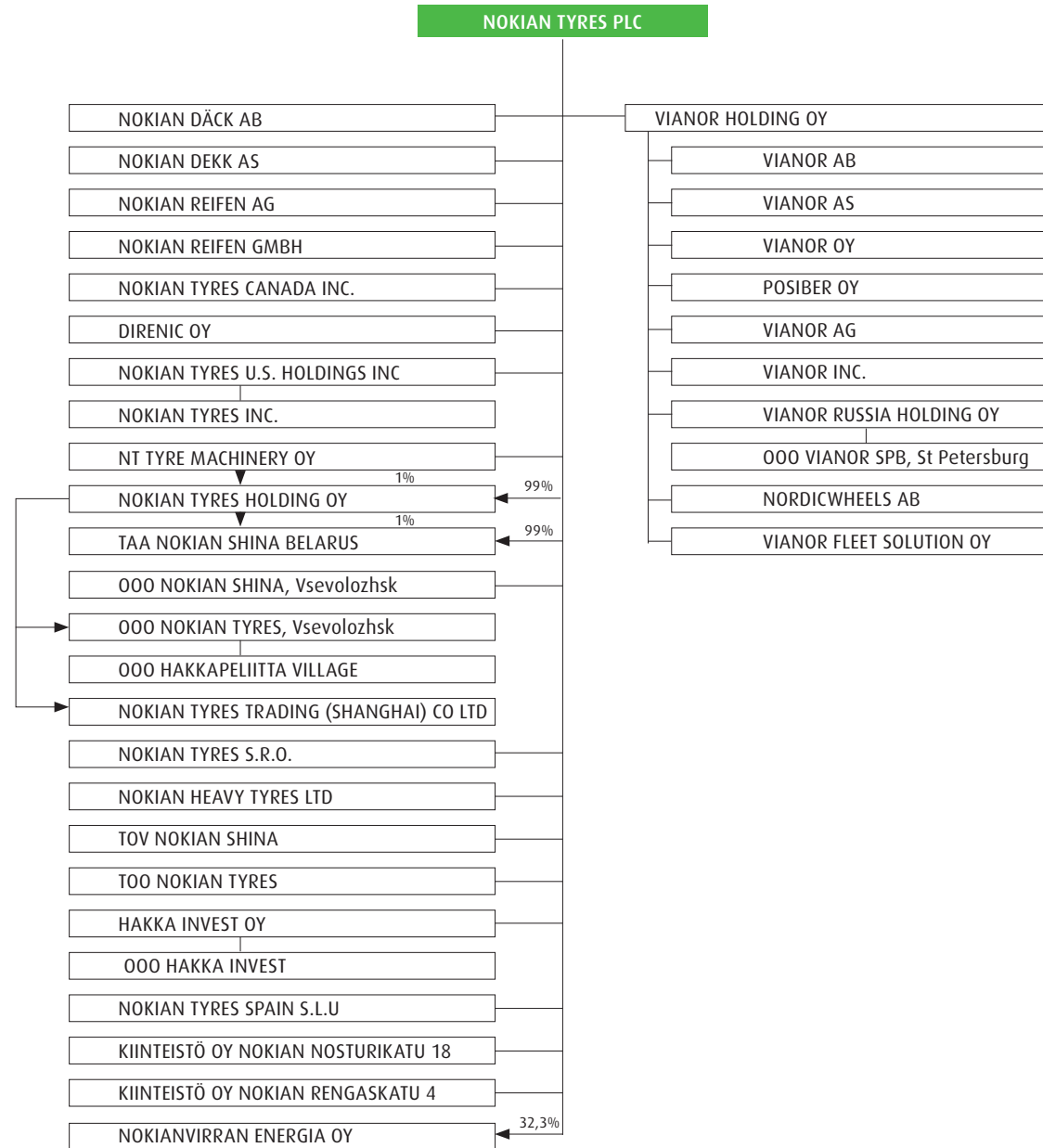
^{***} 50% of the annual fee to be paid in cash and 50% in company shares

President and CEO and management team

Table 3: Salaries and financial benefits paid to the President and CEO and the company's other management team members in 2016 (cash basis)

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

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



Investor information and Investor Relations

Annual General Meeting

The Annual General Meeting of Nokian Tyres plc will be held at Tampere-talo, in Tampere, Finland, street address Yliopistonkatu 55, on Monday April 10, 2017, starting at 4 p.m. Registration of attendants, the distribution of ballots and a coffee service will begin at 2 p.m.

Shareholders registered no later than March 29, 2017 in the company's shareholder register, which is maintained by Euroclear Oy, are entitled to attend the Annual General Meeting.

The 2016 Annual Report, Financial Review, Corporate Governance Statement, and Remuneration Statement for 2016 will be available in electronic form at the Company's website. The Annual Report includes the Financial Review as well as the Report by the Board of Directors and the Auditors' Report.

» Read more at www.nokiantyres.com/annualgeneralmeeting2017.

» Read more at www.nokiantyres.com/company/investors/.

Dividend payment

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.53 per share be paid for the financial year 2016. The record date for the dividend payment will be April 12, 2017 and the dividend payment date April 27, 2017, provided that the Board's proposal is approved.

Share register

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

Financial reports

Nokian Tyres will publish financial information in Finnish and in English as follows:

- Interim Report for three months on May 3, 2017
- Half year Report for six months on August 8, 2017
- Interim Report for nine months on November 1, 2017

Nokian Tyres publishes its Financial Reports and Annual Report on the internet at www.nokiantyres.com/company/investors/.

Principles of investor relations

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 used to determine the share value. The operations are based on equality, openness, accuracy, and good service.

The Management of Nokian Tyres is strongly committed to serving the capital markets. The company's President & CEO and CFO are the main parties dealing with and answering questions from analysts and investors. Nokian Tyres adopts at least a three-week period of silence before the publication of financial information and at least a six week period of silence before the publication of the Financial Statements Bulletin.

Analyst and investor meetings are mainly held both in Finland and abroad in conjunction with the publication of the company's financial results. At other times analysts and investors are mainly answered by phone or email.

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Stock exchange releases in 2016

In 2016, Nokian Tyres published 27 general stock exchange releases, 17 releases of managers' transactions and 27 flagging notifications. In addition, the company published press and product releases. The titles of the most significant stock exchange releases are given below. All of the 2016 releases as well as previous years' releases can be found on the Nokian Tyres website at www.nokiantyres.com/company/publications/releases/.

January 20	Changes in operational structure and management team
February 5	Nokian Tyres plc Financial Statement Bulletin 2015
February 5	Proposal by the Board of Directors of Nokian Tyres plc to the Annual General Meeting
February 24	Nokian Tyres' incentive scheme to be updated
February 29	Test tyre policies and processes in Nokian Tyres
March 18	Nokian Tyres Annual Report 2015 published
April 12	Nokian Tyres plc Annual General Meeting, decisions
April 12	Decisions of the organizational meeting of Nokian Tyres plc's Board of Directors
April 19	Nokian Tyres applies for listing of stock options 2013B
May 4	Nokian Tyres plc Interim Report January–March 2016
May 12	Nokian Tyres signed a EUR 100 million Revolving Credit Facility
May 16	Nokian Tyres plc: Shares subscribed with option rights
May 18	Nomination to Nokian Tyres' management team
July 1	Nomination to Nokian Tyres' management team
August 9	Nokian Tyres plc Half year financial report
August 18	Nokian Tyres plc: Shares subscribed with option rights
September 27	Nokian Tyres' President and CEO to change
November 1	Nokian Tyres plc Interim report January–September 2016
November 7	Nokian Tyres tax dispute proceeds. The Company is now finally in a position to appeal to the Administrative Court.
November 10	Nokian Tyres plc: Shares subscribed with option rights
December 21	Andrei Pantioukhov appointed interim President and CEO of Nokian Tyres plc

Annual Report and Financial Review 2016

The 2016 Annual Report, Financial Review, Corporate Governance Statement, and Remuneration Statement for 2016 will be available in electronic form at the Company's website. The Annual Report includes the Financial Review as well as the Report by the Board of Directors and the Auditors' Report.

» Read more at www.nokiantyres.com/company/investors/

