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nokian TYRES

# NOKIAN TYRES LIMITED
# 1996 ANNUAL REPORT

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# SHAREHOLDER INFORMATION

## ANNUAL GENERAL MEETING

The Annual General Meeting of Nokian Tyres Limited will be held on 26 March 1997 at 4:00 p.m. at Nokian Tyres Limited in Nokia. Shareholders so registered in the company's shareholder register maintained by the Central Share Register of Finland by 14 March 1997 at the latest are entitled to attend the Annual General Meeting. Any shareholder who would like to attend must register by 24 March 1997, 3:00 p.m., either in writing to: Nokian Tyres Limited,
PO Box 20, FIN-37101 Nokia; or by telephone to:
+358-3-3407 438 or +358-3-3407 293.

## PAYMENT OF DIVIDENDS

The Board of Directors will propose at the Annual General Meeting of Shareholders that a dividend of FIM 2.90 per share be paid. If the Board of Directors' proposal is accepted, the matching date for the dividend will be 2 April 1997, and the payment date will be 8 April 1997.

## SHARE REGISTER

Shareholders are requested to report changes in their contact information as well as changes in their ownership to the book-entry registry where they are listed.

## 1997 FINANCIAL DATA

Nokian Tyres Limited will publish information in Finnish and in English on the 1997 fiscal year as follows:

| | |
|---|---|
| 4 month Interim Report | 4 June 1997 |
| 8 month Interim Report | 8 October 1997 |
| Financial Statements Bulletin | February 1998 |
| Annual Report 1997 | March 1998 |

These reports can be ordered from Nokian Tyres Limited, Communications Department, PO Box 20, FIN-37101 Nokia; telephone +358-3-3407 298, fax +358-3-3407 799, info@nokiantyres.fi

Nokian Tyres was founded in 1988, and listed in Helsinki Stock Exchange on 1 June 1995. However, the business started already in 1898 when Suomen Gummitehdas Oy (=Finnish Rubber Works) was founded. The company started to produce bicycle tyres in 1925, and the first car tyre was produced in 1932.

Nokian Tyres is the leading tyre manufacturer in the Nordic countries. It develops, produces, and markets car and van tyres, heavy tyres (forestry tyres, tyres for agricultural machinery, harbour and mining machinery tyres, industrial tyres, truck tyres), bicycle tyres and inner tubes, and retreading materials. The company also owns a tyre retail chain in Norway.

The strategy of Nokian Tyres is to concentrate on products designed for the conditions of the north globally. The company goal is to maintain a strong market position in the Nordic countries as one of the leading tyre distributors in all product areas. In special products, like winter tyres and forestry tyres, Nokian Tyres aims at being an important global distributor.

## 1996 KEY FIGURES

| | 1996 | 1995 | Change, % |
|---|---|---|---|
| Net sales, MFIM | 1,144.9 | 1,113.2 | + 3 |
| Operating profit, MFIM | 139.8 | 120.2 | + 16 |
| Profit before extraordinary items and tax, MFIM | 119.2 | 96.4 | + 24 |
| Return on capital employed, % | 20.8 | 20.2 | + 3 |
| Interest bearing net debt, MFIM | 210.4 | 191.2 | + 10 |
| Gross investments, MFIM | 105.0 | 77.1 | + 36 |
| Cash flow from operations, MFIM | 101.3 | 114.9 | - 12 |
| Earnings per share, FIM | 8.30 | 6.93 | + 20 |
| Shareholders' equity per share, FIM | 42.00 | 35.90 | + 17 |
| Equity ratio, % | 41.9 | 39.6 | + 6 |
| Gearing, % | 49.4 | 52.8 | + 6 |
| Personnel, 31st December | 1,279 | 1,328 | - 4 |

# REVIEW BY THE PRESIDENT


*In 1996 Nokian Tyres again improved its results and increased its net sales from the previous year, although the situation in the tyre market was not favourable. The markets and the demand for tyres decreased in every important export country and in every product area, excluding passenger car winter tyres, where demand increased. Generally the tyre markets decreased by 10-30 % depending on the country and product area, but for example, in North America, the market for forestry tyres dropped over 40 % from the previous year.*

*In Nokian Tyres the difficult market situation was especially reflected in the sales of heavy tyres and bicycle tyres. In spite of the decline in tyre market, our company continued its growth, primarily because of new product introductions.*

*However, our actions to improve productivity within the company had an impact on our positive result. This proves that the innovative process with which Nokian Tyres' people co-operate step by step to improve productivity is a profitable one. Naturally the machinery and equipment investments have also boosted our activities.*

*The prices of raw materials were lower than in 1995, which also played a part in the favourable development. Additionally, the value of Finnish markka against the company´s principal export currencies was lower than in the previous year.*

*Completing Plan 2001 was an important issue in 1996, and this plan will give direction to our future actions.*

## NEW PRODUCTS AND SUCCESS IN TESTS

*The growth in Nokian Tyres' sales figures was mainly due to an early sales season for passenger car winter tyres. The demand in this product area was lively, and it exceeded our supply capacity. The new winter tyre family - the studded Nokian Hakkapeliitta 1 and the studless Nokian Hakkapeliitta NRW that were introduced in the beginning of the year - played a key role in this success. Especially our new, unique, innovations like the environmental stud technology, received positive feedback. Our tyres excelled in tyre comparisons in motor magazines in Nordic countries and in Europe. Test results are extremely important for a tyre manufacturer when new products are launched, and our success in these comparisons once again demonstrates that Nokian Tyres can develop and produce globally competitive products.*

*Other new products were also added to our product range, such as the Nokian NRT 2 passenger car summer tyre. Sales for this product will start in spring 1997, and we expect it to strengthen our market position of summer tyres. Truck and bus tyre product selection was increased with the addition of Nokian NTR 841 tyres, which have been designed bearing in mind the strenuous conditions of professional use.*

*For harbour machinery we developed the Nokian HTS tyres, which employ a new tread pattern and a new kind of rubber compound that makes the tread increasingly wear resistant. Among the novelties were also the Nokian Noktop 61 and 62 retreading materials for truck tyres, aimed especially to the export market.*

## STEADY GROWTH IN INVESTMENTS

*During this decade, our net sales have grown 100 %, whereas the amount of personnel has grown 20 %. After the factory expansion in 1981 we have been able to grow without additional expansions; only during the last few years did the premises start to get too small. In 1995 we decided on a factory expansion of 4,000 square metres, and now the construction work is completed and machinery installations have been started. Additionally, we decided on another factory expansion of 3,800 square metres, to increase the passenger car tyre curing capacity.*

*By investing in the factory expansion, we also aim to upgrade our product selection to allow us to achieve a better gross margin. Additionally we will continue to improve the quality of our products, increase productivity and production. As part of our Plan 2001, we will continue investments in order to pursue the positive development and the steady growth of past years. Without investments the growth would be modest, and it would depend solely on internal improvements.*

*We decided to renovate our office building during 1997 to improve communication and efficiency also in the offices.*

## EXCHANGE RATES UP BY 120 %

*Worth noting was the strong upward trend of the exchange rates for Nokian Tyres share during 1996; the rates rose by 120 %. In my opinion this signifies that more and more investors know our company, and are assured about its productivity and value as an investment property. Our good performance in the tyre business, which is fully comparable with other branches, has become more widely known. Nokian Tyres was one of the most profitable tyre companies in the world.*

*The dividend policy of the company follows the profit development, and is 35 % of net profit for the year.*

## LIFELONG LEARNING PROGRAMME FOR PERSONNEL

*To ensure and develop our competitiveness in a lasting way, we initiated during the previous year an extensive Lifelong Learning programme for our personnel to enhance personal development and support the learning of new skills.*

*The actual objective of the programme is to implement a personal learning plan for every employee at Nokian Tyres by the end of 1998. The plan contains both tasks and personal learning objectives integrated with the company vision and strategy. The programme proceeds stepwise, and by the end of the year 83 personal learning plans had been implemented. The skills of the personnel and the creativity and ideas that are generated through skills development are among the most important competitive tools of a company, and lasting development is not possible without the will and effort of the organisation as a whole.*

## QUALITY, EFFICIENCY, AND STEADY GROWTH

*We continue our basic strategies: concentrating on products developed to conditions in the north, developing and upgrading of our product range. We will also continue to develop the actions to improve quality and productivity. New investments are aimed at achieving higher internal efficiency and continuing steady growth. We will focus on strengthening our market position and making our brand name better known especially in our export countries. The new products that will be launched in 1997 are aimed at further improving our market position.*

*We estimate that the market situation for tyres in 1997 will be better than in 1996. We anticipate a slow improvement on the Heavy Tyres product area, as the amount of transportation increases and the outlook for the forest industry improves*

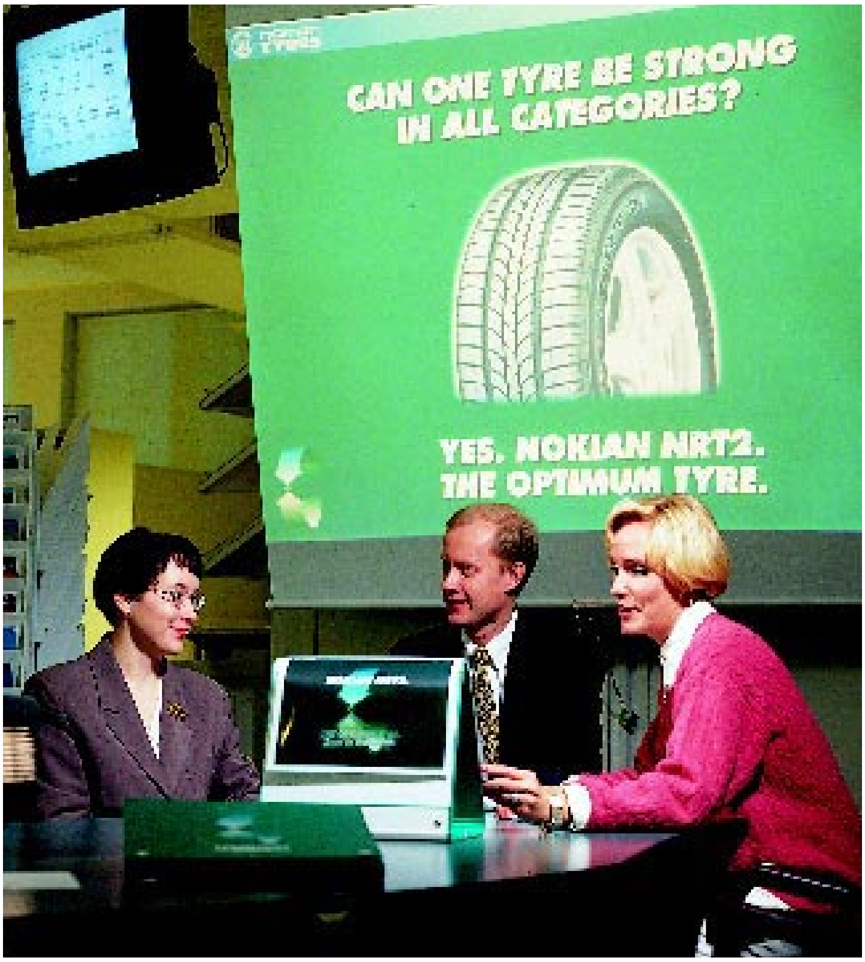
*Raw material prices are likely to remain stable in 1997.*

*The outlook for the year to come is more stable and positive than last year, and we believe that we are able to maintain the good level of profitability of the previous years.*

*I would like to thank our customers for their increased confidence in our products and production methods, and our personnel for their valuable input, creativity, and enthusiasm to further develop our company. I want to thank the co-operating parties in our different localities for their good work. I extend a warm thank you to our shareholders for the increased confidence they have vested in our company.*

*1996 was a good year. The objective of our work will continue to be the contentment of our customers, personnel, environment, and shareholders.*

LASSE KURKILAHTI

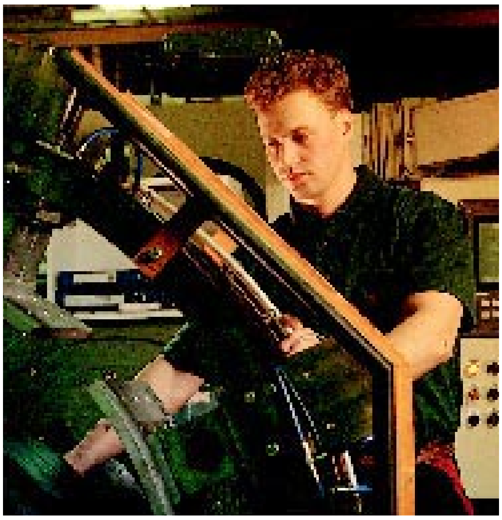



## REVIEW OF COMPANY AND TYRE INDUSTRY

The tyre industry is one of slow growth: the approximately FIM 300 billion tyre market grows only a few percentages a year. There are 135 tyre companies world-wide of which Nokian Tyres is ranked 26th. The 10 largest manufacturers' sales amount to 80 % of the world's tyre market. In Europe, the 10 largest manufacturers' share is 90 % of the FIM 100 billion market. Nokian Tyres' net sales makes it the 10th largest tyre manufacturer in Europe, and one of the leading suppliers in its home market i.e. the Nordic countries.

Major tyre manufacturers focus on, for example, passenger car summer tyres and truck tyres that are marketed world-wide. Nokian Tyres focuses on market areas with nordic conditions, and the sale of certain speciality products. Winter tyres and forestry tyres are the most important speciality products, with new product areas including harbour and mining machinery tyres. Because of this strategy Nokian Tyres has been able to grow faster than the tyre market in general.

Passenger car tyre sales, which is divided into original equipment and replacement markets, form more than half of the tyre market in Europe. In the original equipment market, tyres are sold directly to car manufacturers, and in replacement market, to consumers via tyre retailers, car dealers, and petrol stations. In passenger car tyre sales Nokian Tyres concentrates on replacement markets, which account for approximately 95 % of the sales. The remaining 5 % is original equipment installations. Nokian Tyres product development works in close co-operation with machinery manufacturers, for example forestry machinery companies. In these product areas the share of original equipment sales amounts to about 50 %.



## SALES AND DELIVERIES

Finland, Sweden, Norway, and today also the Baltic States and Russia, form the so called strategic home market, which is the main market area of Nokian Tyres. The Alpine region and North America are also focus areas. In 1996 Nokian Tyres' products were exported to 40 countries. The Nokian Tyres export sales has doubled during the last few years, and in 1996, it was approximately FIM 804 million, which was 70 % of net sales.

Nokian Tyres has its own sales companies in Sweden, Norway, Germany, Switzerland, and Canada, and a retail chain in Norway. In other export countries independent importers handle the marketing and imports. In Finland the company sales organisation takes care of the sales to tyre retailers, car dealers, and petrol stations.

Currently the company sells all the products manufactured for its own sale under the brand names Nokia or Nokian. Nokian Hakkapeliitta, which has been in the company product selection for 60 years, is the best known single brand.

In Finland Nokian tyres are well known products, and during the latest years they have gained more recognition internationally as well. Last year the company was clearly the market leader in Finland, where its market share is estimated to be a generous 30 %. In Sweden the company is the fourth largest supplier, and in Norway the third. There are more than 60 competing tyre brands sold in this area. Nokian Tyres will increase its marketing effort in the export countries to increase the visibility of its brand.

## PRODUCTION

Nokian Tyres has two factories in Finland. Car and van tyres, heavy tyres, and retreading materials are manufactured in the Nokia factory (about 117,500 $m^2$), which is located in the town of Nokia in Central Finland. Bicycle tyres and inner tubes are manufactured in the Lieksa factory (about 14,000 $m^2$), which resides in Eastern Finland. The factories operate mainly in three shifts, 340 days a year. In 1996 3,2 million passenger car winter and summer tyres, 7,600 tons of heavy tyres, and 3,500 tons of retreading materials were produced at the Nokia factory. The Lieksa factory produced 1,5 million bicycle tyres and 1,3 million inner tubes.

In accordance with the production agreement, truck tyres, a part of agricultural tractor tyres, and a small share of passenger car tyres are manufactured by a long-term partner and shareholder, Sumitomo Rubber Industries (SRI) factories in England, France, and Japan. Nokian Tyres in turn manufactures passenger car winter tyres and industrial tyres in Finland for SRI under the brand name Dunlop.

Nokian Tyres invests heavily in improving quality and productivity. The objective of the quality improvement programme is to cut down quality costs by raising the quality of both products and work. Quality costs are measured constantly. Improving quality has direct consequences in improving productivity. Det Norske Veritas, an international standardisation organisation, has granted Nokian Tyres the ISO 9001 quality certificate.

During the latest years Nokian Tyres has automised its production and invested in machinery and equipment. Currently Nokian Tyres is expanding its factory, the expansion investment is the largest in recent history; a 4,000 $m^2$ addition has been completed, and machinery installations have been started. The Retreading Materials unit will start production in the new premises in early 1997, a new tread extrusion line will be completed during 1997, and mixing machinery installations will be completed by summer 1998. In the first phase the purpose of this investment is to increase the passenger car tyre manufacturing from the current three million to four million tyres per year, and to double the retreading material production capacity. Additionally the investment further improves production efficiency and product quality, and increases the production of high performance car tyres.

The company has decided on another factory expansion of 3.800 $m^2$ in order to increase passenger car curing capacity. The construction work will start in March 1997, and it is planned to be completed in spring 1998.

## PRODUCT DEVELOPMENT

The Nokian Tyres annual investment in product development has been approximately 2.5 % of net sales. The product development investment is directed to the specialist areas of the company, for instance winter and forestry tyres. Nokian Tyres has a product development programme, which covers all product groups and product launches until year 2001. Nokian Tyres searches for new solutions and unique innovations to improve materials, tyre structure, tread pattern, and quality. The most important of recent innovations is the entirely new and unique stud technology, Nokian Eco Stud System; the eco-studded tyre wears the road less, there is less noise from the studs, and the tyre is more wear resistant.

A basic property of the Nokian winter tyres, is durable safety, economy, and driving comfort. The starting point for summer tyre development is the so called principle of responsible safety, where safety, economy and environmental friendliness are equally important. The principle of development is that one basic property must not be developed at the expense of other properties. The goal is that the customer is satisfied with the tyre during its entire life-span.

The Nokian Tyres Ivalo Test Centre, which is the world's northernmost tyre test centre, has sped up and boosted the winter tyre development. For testing the summer tyres, there is a test track in Nokia.

## PERSONNEL

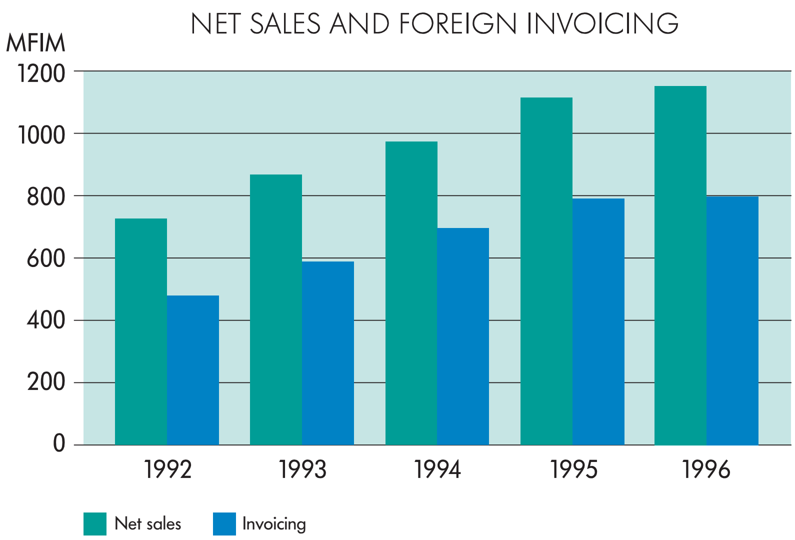
At the end of 1996 Nokian Tyres had 1279 employees; 1029 in Nokia, 83 in Lieksa, and altogether 167 people in the subsidiaries. The personnel have been encouraged to initiate and participate. The practises of teamwork and submitting initiatives have boosted the activities of the company, and strengthened its competitiveness.

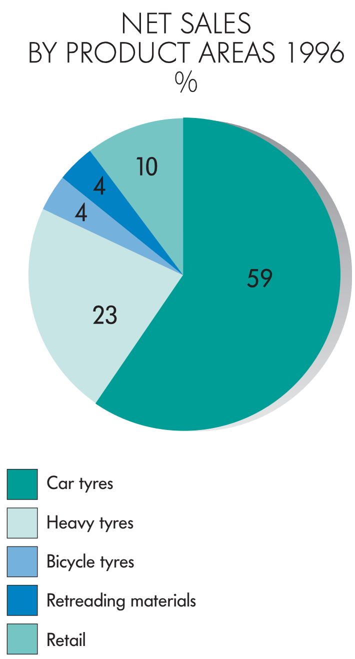
The personnel have actively been trained during the last few years. The largest recent training effort is the Lifelong Learning programme, started in 1996. The objective of the programme is that every employee will have a personal learning plan by the end of 1998. With the learning plans the creative capacity of the company grows, and the employees can develop their skills to correspond to the demands of changing tasks.

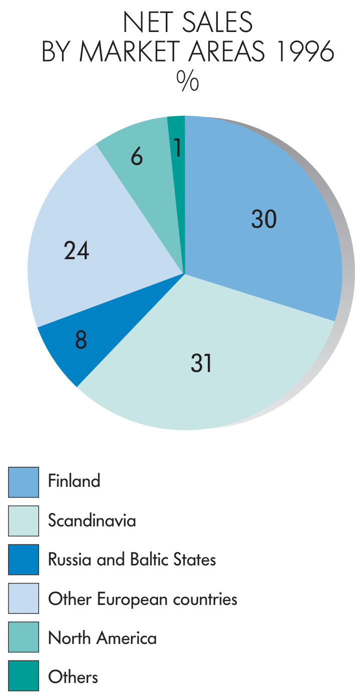
## ENVIRONMENTAL PROTECTION

Nokian Tyres strives to minimize environmental effects of products in their production, use and disposal. In different parts of environmental performance the main objectives of Nokian Tyres are continual improvement and sustainable development according to BS 7750 and the Business Charter of International Chamber of Commerce (ICC). Environmental protection indicators that describe the activities, actual objectives for example to reduce both waste and energy consumption as well as polluting releases from production, have been defined to follow development. In 1996, the company invested especially in improving recycling of waste and reducing harmful emissions; a catalytic purification plant was purchased for cleaning solvent emissions. As a sign of continual improvement in environmental performance, Nokian Tyres prepares to fulfil the requirements of the EU EMAS (Eco-Management and Audit Scheme) regulation.

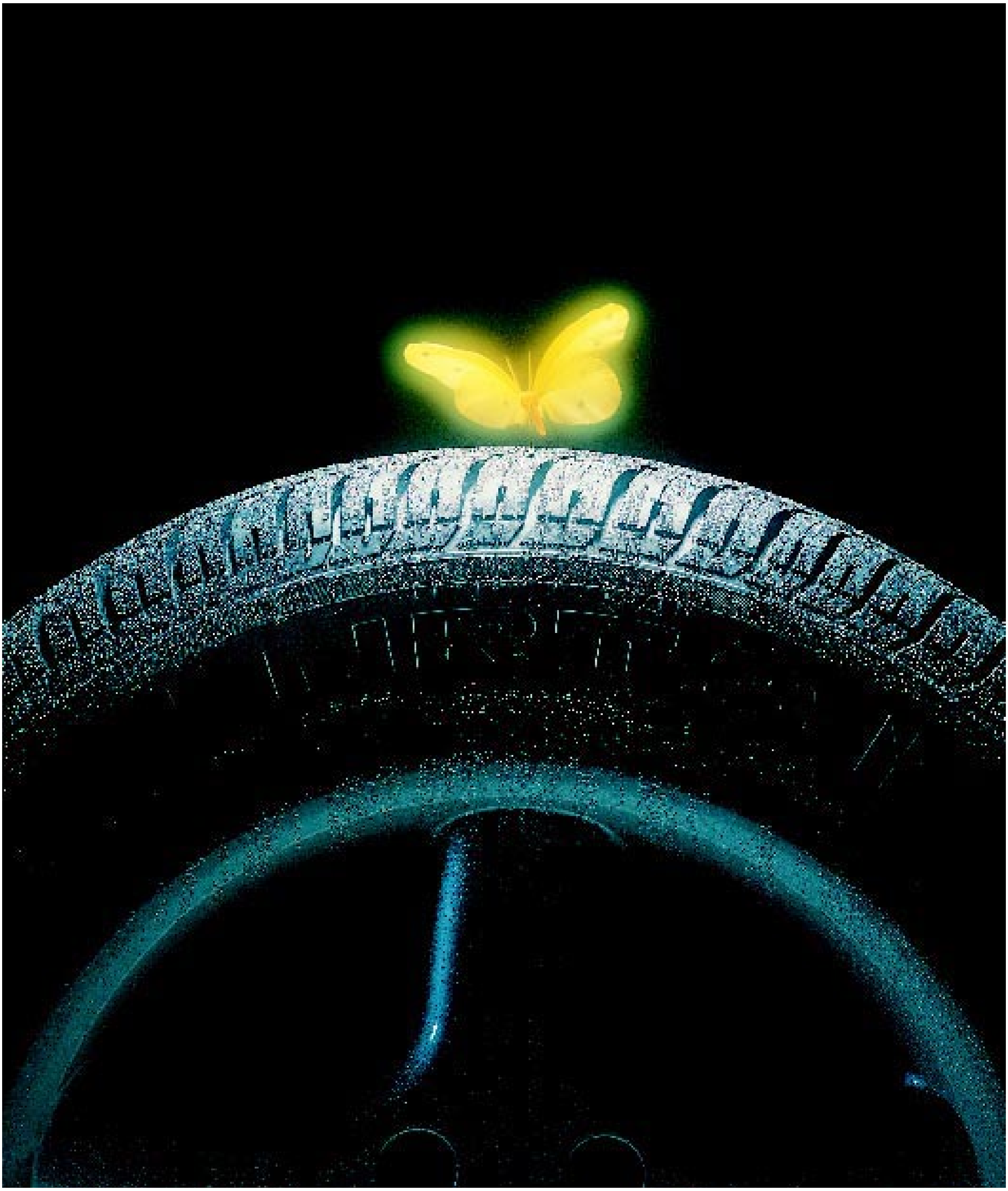
A more detailed account of environmental issues will be published in 1997 in Nokian Tyres Environmental Statement.



# Car tyres



Nokian Tyres develops and produces studless and studded winter tyres, and summer tyres for passenger cars and delivery vans. 95 % of the products are sold to replacement markets, i.e. tyre retailers, car dealers, and petrol stations. The remaining 5 % is sold to car manufacturers for original equipment installation. Summer tyres amount to a little under half of the sales in the product area. Approximately 75 % of the Nokian car and van tyres are exported. The most important market areas are the home market, Finland, Sweden, Norway, Russia, and the Baltic States; the Alpine region and North America.

Winter tyres are compulsory during winter time in Finland and Norway. Hence, in these countries the amount of new cars registered directly affects the sales of winter tyres. In Sweden, a proposal has been made to make winter tyres compulsory starting from 1997. Studded tyres comprise approximately 80 % of the winter tyres sold in the Nordic countries. During the latest years, the amount of studless winter tyres has gradually increased.

## DESIGN BASED ON SAFETY AND ECONOMY

Nokian Tyres uses approximately 2.5 % of its net sales in product development. The focus is on strong special fields, like winter tyres. Tens of product development projects are constantly underway to renew and improve the product range. It takes 2 - 4 years to develop a completely new product.

During the last two years, Nokian Car Tyres product area has introduced three new summer and winter tyre models. The new summer tyre Nokian NRH was introduced in autumn 1994, as was a new family of delivery van tyres, Nokian NRC. In September 1996, Nokian Tyres introduced a new passenger car summer tyre, Nokian NRT2, with sales begining in spring 1997. ‘Responsible Safety’ is the basis for the design principle, where safety, economy and environmental friendliness are equally important.

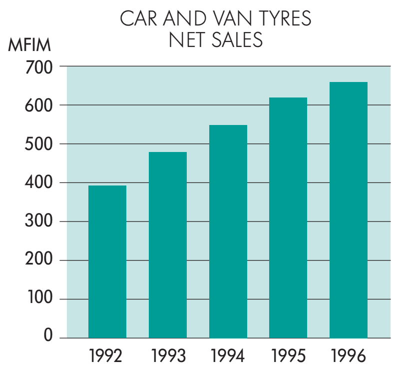
The latest development in Nokian winter tyres is the winter tyre family introduced in early 1996; the studded Nokian Hakkapeliitta 1 and the studless Nokian Hakkapeliitta NRW that is manufactured both in T (190 km/h) and H (210 km/h) speed classes. All the safety factors of a tyre have been systematically improved in Nokian Hakkapeliitta 1, i.e. improved grip in all conditions, wear resistance, reliability and durability of the studding, and driving characteristics. An entirely new stud technology, Nokian Eco Stud System, has been developed for this tyre. The tyre wears the road less than other studded tyres, there is less noise from the studding and there are fewer damages to the studs. Additionally, the studs also stay in the tyre longer than before.

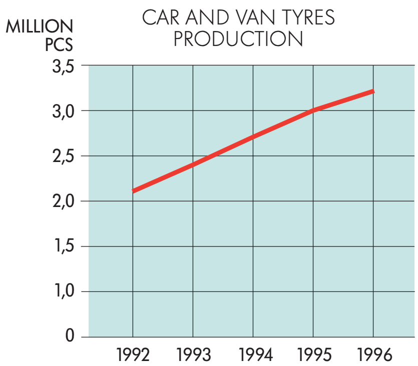
The studless Nokian Hakkapeliitta NRW utilises the latest rubber technology, which improves both wet and ice grip simultaneously, and makes the tyre more wear resistant.

The company has clearly differentiated the winter tyres by market areas. For each main market, there is a winter tyre of its own: the new H speed class Nokian NRW for the Alpine region, and the T class studless NRW tyre for the Scandinavian market. The studded Hakkapeliitta 1 is aimed at Nordic countries and other northern markets.

## INVESTMENTS IN BUILDING A BRAND

Nokian Hakkapeliitta is a well known and valued brand name in its main market area, and large advertisement campaigns took place in winter 1996-1997 to improve the visibility of the brand. The most important campaigns were a Nordic TV and press campaign, and a retailer and consumer advertisement campaign that was far more extensive than any of the earlier campaigns in Nordic countries. The first extensive campaign in Russia took place in 1996. Brand campaigns will continue in the main export countries.



# Heavy tyres

The products of the Nokian Heavy Tyres product area are forestry tyres, tyres for agricultural machinery, harbour and mining machinery tyres, industrial tyres, and truck tyres. Forestry tyres are the strongest speciality of the product area.

Nokian heavy tyres are sold in approximately 30 countries, and exports amount to 60 % of the entire net sales of the product area. In addition to the Nordic countries, the main export areas are Middle and South Europe, the United States and Canada. Countries in Africa, South America and the Far East represent new market areas. During 1996, the sales to the Far East developed favourable and a permanent replacement market contract was made in this area.

Nokian Heavy Tyres product development co-operates extensively with machinery and equipment manufacturers, and original equipment installations amount to approximately 50 % of the net sales of the product area. The largest original equipment installation customers in the Nordic countries are Ponsse Oy, Sisu Group (now Partek Oy), and Timberjack Group.

## SPECIALISATION IS THE KEY

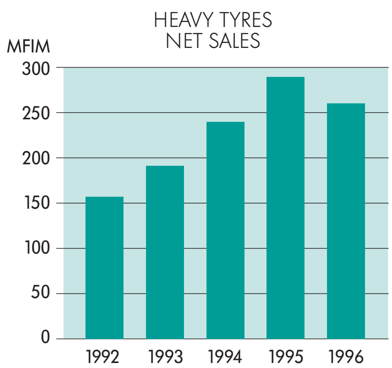
One of the major factors for success in the Nokian Heavy Tyres product area, is that the product area is a very specialised one. As a manufacturer of forestry tyres, Nokian Tyres is important globally with a one third share of the entire market. The other segments, like harbour and mining machinery tyres, are very limited, and for the time being their relative market shares are rather narrow.

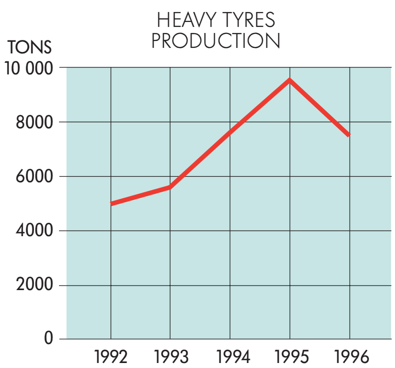
The development and manufacturing of the European forestry machines is mainly concentrated in Scandinavia, which has given Nokian Tyres an excellent opportunity to develop this product group. Close long-term co-operation with forestry machinery manufacturers has resulted in a constantly renewed and evolving range of forestry tyres. Customer requirements and tyre usage conditions and feedback from the customers have always been guidelines for the development of Nokian heavy tyres. In practise this has signified that Nokian Tyres has developed structurally strong, enduring forestry tyres by taking into account the features of the machines and market area specific requirements without forgetting the viewpoint of environmentally sound forestry. Thus the company has developed the world's most comprehensive and extensive range of forestry machinery tyres.

Nokian Tyres has a long history of developing and manufacturing tyres for agricultural machinery and various other types of machinery. The products of this area are also continuously subjected to driving tests, and the experiences from these tests, combined with technological excellence, give the company considerable technical strength. Grip, driving comfort, ability to function in demanding and changing conditions, and most importantly, durability are emphasised in product development. In 1996, radial tyres were launched in the above mentioned product areas.

During the last few years, Nokian Tyres has extended its product range to harbour and mining machinery tyres. The emphasis of the product development of heavy machinery tyres is on durability and functionality in extreme conditions, and the retreading qualities of the tyres.

The development of bus and truck tyres is based on the demanding requirements of professional use. The emphasis is on functionality in difficult weather conditions, steadiness, casing structure, and durability of the rubber compound.



# Bicycle tyres

Nokian Tyres is one of the nine bicycle tyre manufacturers in Europe and the only one in the Nordic countries. The company has manufactured bicycle tyres since 1925, first in the Nokia factory, and from 1974 onwards, in its Lieksa factory. The speciality of Nokian Bicycle Tyres product area is the studded winter tyre, which Nokian Tyres has been manufacturing for 25 years. At first the tyres were made only for standard bicycles, but currently also for MTB bikes. Nokian Tyres is the only large-scale manufacturer for studded bicycle tyres in the world. The amount of MTB tyres has increased during the last few years, and is now almost 50 % of the production.

30 % of the bicycle tyre sales goes to original equipment installations for the Finnish companies Helkama Bica Oy and Tunturipyörä Oy, and to other European bicycle manufacturers, and 70 % is sold to replacement markets. More than half of the sales is exported, mainly to Sweden, Norway, Denmark, Germany, England, Switzerland and Austria. Sales to international replacement markets is handled through agents and importers.

Tough price competition is characteristic for the bicycle tyre market, and the unfavourable economic situation in Central Europe has increased the competition during the last few years. The strategy of Nokian Tyres is to concentrate on modern, high quality, and specialised high price products, to avoid direct competition with the cheap Far East imports.

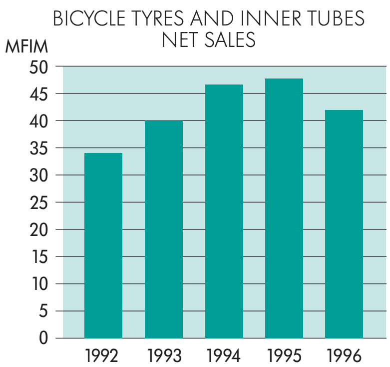
## CLOSE CO-OPERATION IN PRODUCT DEVELOPMENT

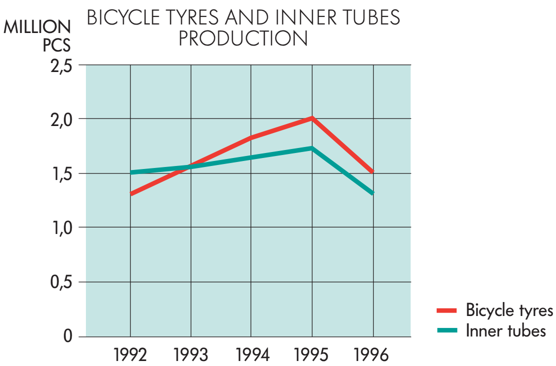
The amount of bicycle types and models increases constantly, and product development is fast and product life-cycles are short. Requirements for the properties of the bikes and the sports itself keep on increasing. Also the tyres must possess better driving qualities: good grip, better safety and driving comfort in even the most difficult of terrain. Additionally, people today pay attention to the appearance of the tyre.

Nokian Tyres develops its bicycle tyres mainly in close co-operation with the European bicycle manufacturers, but also with sports cyclists and cycling contestants, to be always able to offer the consumers products that fulfil the latest requirements. The Nokian Bicycle Tyres development concentrates on MTB bike tyres for street and rough terrain use. Knowledge of northern conditions is an important product development asset for the company. The two main areas in bicycle tyre development are tread pattern design and material development. Attention is also paid to the rolling qualities and durability of the tyres.

The Nokian bicycle tyres product range includes over 180 bicycle tyres. Both standard and MTB bike tyres are included.

In 1996 Nokian Tyres launched 9 new bicycle tyre sizes and tread patterns, 3 of which for MTB bikes.



# Retreading materials

Nokian Tyres manufactures materials for different methods of retreading car, heavy-duty vehicle, and industrial machinery tyres. Additionally Nokian Tyres researches and develops rubber compounds for different uses, and utilises its know-how to produce compounds and tread patterns for extreme conditions.

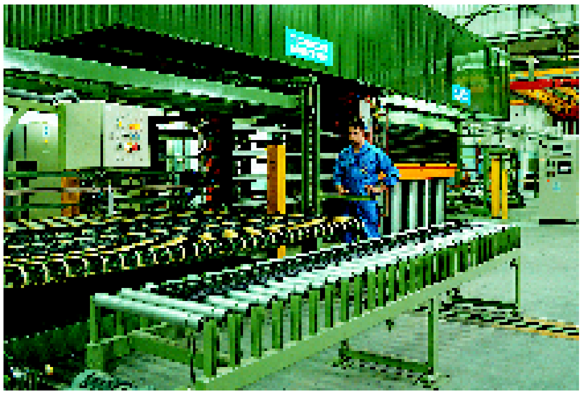
The tread of a truck or bus tyre can be retreaded 3-4 times. For the bus and truck owners this presents a considerable cut in tyre expenses. In Finland and Sweden over 90 % of the tyres used by the retreading industry are precured. The demand for them has risen also elsewhere in Europe. Nokian Tyres intends to strengthen its market position with its new production, and to be among the five most important European retreading material producers.

High-quality car tyres can be retreaded once, and in Finland most of the retreading material comes from Nokian Tyres. In Sweden, retreading car tyres is more common than in Finland.

Nokian Tyres has started deliveries of entirely new high-aromatic oil free compounds to the Swedish retreading market.

## EXTENSIVE PRODUCT RANGE FOR PROFESSIONAL USE

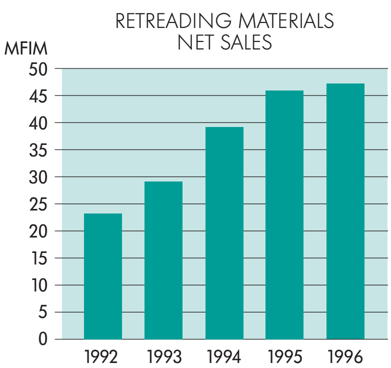
The extensive range of Nokian Noktop retreading materials covers all needs of professional use from delivery vans to trucks and buses and earth moving machinery. The product area utilises the company's material development common for all product areas, and thus possesses all the latest know-how in the field of rubber technology. The technology is applied especially to producing heavy-duty tyre retreading materials. Additionally, the product area has the company's rubber technology expertise at its disposal, allowing to continuously develop new, improved, increasingly durable products for different uses.

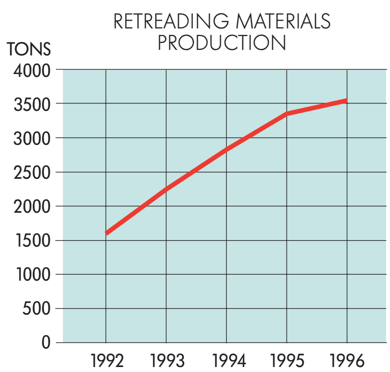


The new cap and base materials which are to be developed enable producing the best possible treads for winter/summer. The cap and base structure also makes it possible to manufacture treads with low rolling resistance. The best known Nokian retreading materials are marketed under the Nokian Noktop brand. Particularly Nokian Noktop 21 has become a widely used winter tread in Finland, Sweden and Norway. It combines an excellent tread pattern and rubber compound into a successful product. The product has been so successful that several retreading material producers have imitated it.

Nokian Tyres offers a full range of Noktop 21 treads. The product range includes widths for nearly all professional vehicles. The smaller widths are suitable for delivery vans, and the widest ones for industrial machinery and road graders.

Several leading Scandinavian retreading companies have chosen Nokian Tyres to be their retreading material supplier, as Nokian Tyres treads correspond to both retreading company and consumer requirements.



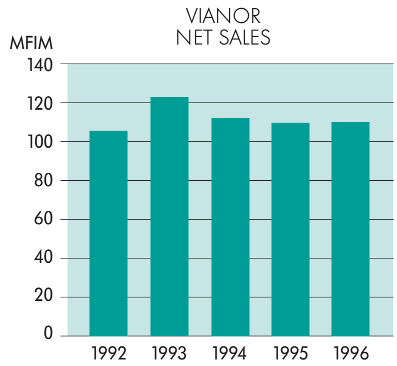
# Retail

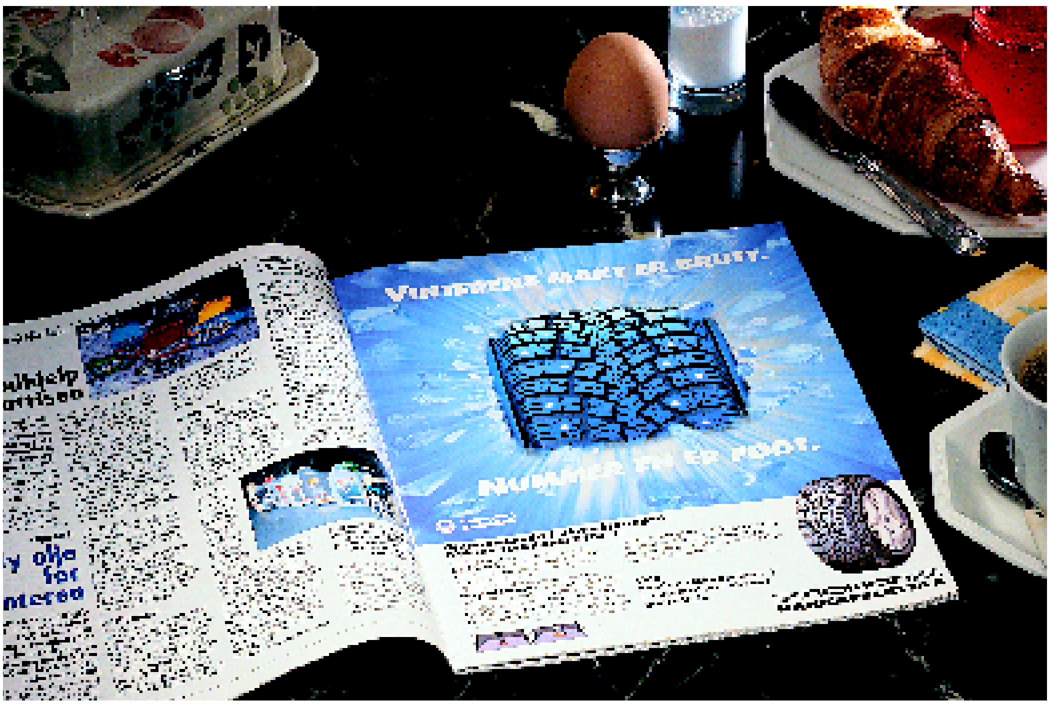
## VIANOR

Vianor AS is a Norwegian tyre retailer company owned by Nokian Tyres. Vianor has 18 tyre retail outlets of its own, and it forms a majority of the Dekk Partner retail chain. This chain has expanded rapidly, and is now the largest tyre retail chain in Norway. Its share of the Norwegian tyre market is approximately 20 %.

Nokian Tyres started tyre retail in Norway during late 1980s, when the competition of sales channels became increasingly intense. Nokian Tyres bought the most important tyre retail companies at that time, and built a purchase, co-operation, and marketing chain around these independent companies.

During the latest years, several different restructuring measures have been taken to standardise and improve the efficiency of the operations. 1996 was a year when special attention was paid to improving internal efficiency. The main objective was to generate a plan for running a profitable and successful tyre business. Practical measures were taken to achieve the goals presented in the model, and these measures will be continued.



# NOKIAN TYRES 1992-1996

## KEY FINANCIAL INDICATORS

| Figures in FIM million unless otherwise indicated | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| Net sales | 1,144.9 | 1,113.2 | 976.5 | 853.0 | 720.8 |
| growth, % | 2.9 | 14.0 | 14.5 | 18.3 | 18.9 |
| Operating profit before depreciation | 194.5 | 167.9 | 148.0 | 134.9 | 133.5 |
| Depreciation according to plan | 54.7 | 47.8 | 46.0 | 43.0 | 39.5 |
| Operating profit | 139.8 | 120.2 | 102.0 | 91.9 | 93.9 |
| % of net sales | 12.2 | 10.8 | 10.4 | 10.8 | 13.0 |
| Profit before extraordinary items and tax | 119.2 | 96.4 | 79.0 | 64.4 | 60.5 |
| % of net sales | 10.4 | 8.7 | 8.1 | 7.6 | 8.4 |
| Profit before tax | 119.2 | 90.1 | 79.0 | 72.4 | 59.4 |
| % of net sales | 10.4 | 8.1 | 8.1 | 8.5 | 8.2 |
| Return on equity, % | 21.3 | 20.5 | 19.5 | 18.7 | 19.2 |
| Return on capital employed, % | 20.8 | 20.2 | 18.1 | 17.7 | 19.5 |
| Total assets | 1,016.6 | 915.7 | 863.3 | 767.1 | 738.3 |
| Interest bearing net debt | 210.4 | 191.2 | 267.1 | 250.5 | 267.4 |
| Equity ratio, % | 41.9 | 39.6 | 36.5 | 36.4 | 32.5 |
| Gearing, % | 49.4 | 52.8 | 84.7 | 89.7 | 111.3 |
| Cash flow from operations | 101.3 | 114.9 | 126.2 | 59.4 | 117.1 |
| Gross investments | 105.0 | 77.1 | 85.6 | 52.6 | 64.6 |
| % of net sales | 9.2 | 6.9 | 8.8 | 6.2 | 9.0 |
| R & D expenditure | 29.8 | 25.9 | 23.9 | 20.2 | 15.9 |
| % of net sales | 2.6 | 2.3 | 2.5 | 2.4 | 2.2 |
| Dividends | (prop.) 29.4 | 24.2 | 20.0 | 20.0 | 15.0 |
| Personnel, average during the year | 1,329 | 1,350 | 1,240 | 1,126 | 1,064 |

## PER SHARE DATA

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| Earnings per share, FIM | 8.30 | 6.93 | 5.79 | 4.85 | 4.28 |
| Dividend per share, FIM | (prop.) 2.90 | 2.40 | 2.00 | 2.00 | 1.50 |
| Dividend pay-out ratio, % | (prop.) 35.1 | 34.8 | 34.5 | 41.3 | 35.0 |
| Shareholder's equity per share, FIM | 42.00 | 35.90 | 31.53 | 27.92 | 24.03 |
| P/E-ratio | 11.8 | 6.4 | – | – | – |
| Dividend yield, % | (prop.) 3.0 | 5.5 | – | – | – |
| Market capitalisation, MFIM | 996.2 | 444.1 | – | – | – |
| Average number of shares during the year | 10,093,831 | 10,049,303 | 10,000,000 | 10,000,000 | 10,000,000 |
| Number of shares at year-end | 10,139,286 | 10,092,286 | 10,000,000 | 10,000,000 | 10,000,000 |

**Definitions**

Return on equity, % = $\frac{\text{Profit after financial items – taxes x 100}}{\text{Shareholders' equity + minority interests (average)}}$

Return on capital employed, % = $\frac{\text{Profit after financial items + interest and other financial expenses x 100}}{\text{Total assets – interest-free debt (average)}}$

Equity ratio, % = $\frac{\text{Shareholders' equity + minority interests x 100}}{\text{Total assets – advances received}}$

Earnings per share, FIM = $\frac{\text{Profit after financial items – taxes}}{\text{Average adjusted number of shares during the year}}$

Dividend per share, FIM = $\frac{\text{Dividend for the year}}{\text{Adjusted number of shares on the balance sheet date}}$

Dividend pay-out ratio, % = $\frac{\text{Dividend for the year x 100}}{\text{Profit after financial items – taxes}}$

Shareholders' equity per share = $\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares on the balance sheet date}}$

P/E ratio = $\frac{\text{Share price, 30 December}}{\text{Earnings per share}}$

Dividend yield, % = $\frac{\text{Dividend per share}}{\text{Share price, 30 December}}$

Gearing, % = $\frac{\text{Interest bearing net debt x 100}}{\text{Shareholders' equity + minority interests}}$

# FINANCIAL STATEMENTS
# REPORT BY THE BOARD OF DIRECTORS

## CHALLENGING MARKET SITUATION

In 1996 tyre market sales decreased in all product areas and main market areas, except passenger car winter tyres, where demand started earlier than usual, and exceeded supply. Depending on the product and market area, the tyre sales dropped generally by 10-30 %, but for example, in Northern America, the demand for forestry tyres decreased 40 % from the previous year.

In Nokian Tyres, the difficult market situation was reflected especially in the sales of heavy tyres. The company made a decision to cut production of heavy tyres approximately by the amount of four weeks labor at the end of the year, to adjust to this situation.

The cold and rainy spring and early summer in Europe adversely affected the sale of bicycle tyres.

The raw material situation was good, and the price level was stable.

In relation to Nokian Tyres' main export currencies, the value of Finnish Markka decreased by 4.2 % from last year.

In 1996, the main function of Nokian Tyres was to strengthen its market position with the introduction of new products. Improving quality and increasing productivity were other focus areas. The production volume was increased, and the emphasis of the product selection was on high quality and high price tyres.

## NET SALES INCREASED 3 %

Even though there was a declining trend in the tyre market as a whole, the net sales of Nokian Tyres increased by 3 % from the previous year, and was FIM 1.145 million (FIM 1.113 million). The positive trend was primarily attained by the sales of passenger car winter tyres. In addition to Finland the best sales figures came from Germany, Switzerland, Norway, and Russia. The sales figures in Finland increased by 6.3 %. The share of foreign invoicing was 70 % (71 %) of net sales.

The net sales of Nokian car and van tyres were increased by 10 % to FIM 680 million (FIM 618 million), due to a substantial demand for passenger car winter tyres that exceeded supply capacity. Sales figures were boosted by the introduction of a new winter tyre family – the studded Nokian Hakkapeliitta 1 and the studless Nokian Hakkapeliitta NRW, in the beginning of the year, and by their excellent ratings in tyre comparisons of motor magazines in Nordic countries and in Europe.

Also the early arrival of winter in Nordic countries and Central Europe had a favourable impact on the sales of winter tyres.

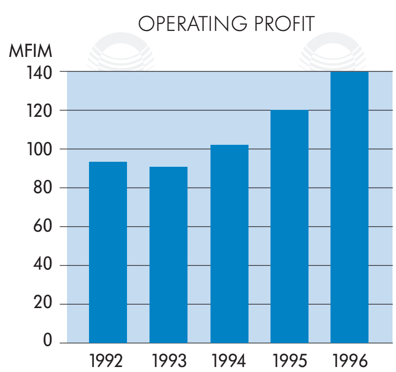
The new passenger car summer tyre - the Nokian NRT 2 - was introduced in 1996. Sales of this new tyre will commence in the spring of 1997, and is expected to improve Nokian Tyres market position.

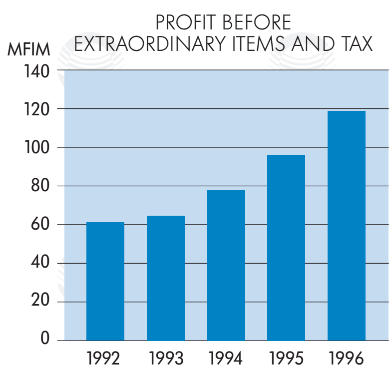
Because of a declining trend in market demand, 1996 was a difficult year for the Heavy Tyres product area. Net sales for the product area stood at FIM 258 million (FIM 291 million), 11 % less than in the previous year. Decline in the sales figures can be mainly attributed to business cycles negatively affecting the demand for forestry tyres.

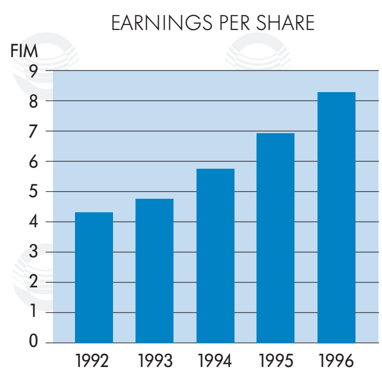
The net sales for bicycle tyres was FIM 42 million (FIM 48 million), which is 13 % less than in 1995.

The net sales of Retreading Materials product area remained level to the previous year, totaling FIM 47 million (FIM 46 million).

Net sales for the Norwegian retail chain, Vianor AS, increased 5 % in Finnish marks to FIM 115 million (FIM 109 million).



## PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX INCREASED 24 %

Profit before extraordinary items and tax, was FIM 119 million (FIM 96 million), that is, 24 % more than in the previous year or 10.4 % (8.7 %) of net sales.

Because of the emphasis on winter tyre sales, a stable cost of raw materials, and a decrease in the value of the Finnish markka, and despite the increased fixed expenses, the operating profit percentage was 1.4 percentage units better than in 1995. Fixed expenses increased by 13 %, mainly because of increased marketing efforts.

The Group's net financial expenses amounted to FIM 20.6 million (FIM 23.8 million), i.e. 1.8 % (2.1 %) of net sales. The net financial expenses decreased from the previous year, because of the lower interest rates.

Profit per share was FIM 8.30 (FIM 6.93) i.e. 19.8 % more than in the previous year. The net profit of the Group was FIM 83.8 million (FIM 63.3 million) that is 32 % more than in 1995.

The return on capital employed was 20.8 % (20.2 %).

## EQUITY RATIO WAS 41.9 %

The equity ratio for the Group including deferred tax liability further improved, and was 41.9 % (39.6 %). Net debt to equity was 49.4 % (52.8 %).

The Nokian Tyres Board of Directors decided on October 1, 1996 to issue two FIM 50 million bonds directed to institutional investors. The terms of the bonds are three years and five years. The bonds were fully subscribed, and with this capital the company will attend to its loan portfolio and prepare for future investments.

## INVESTMENTS INCREASED

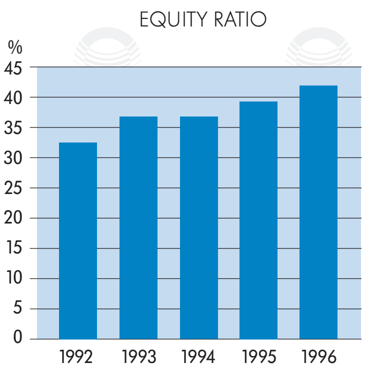
Gross investments in fixed assets amounted to FIM 105 million (FIM 77.1 million), which is 36.2 % more than in 1995. The cash flow from operating activities, before investments, was FIM 101 million (FIM 115 million). Research and development expenses increased 15 %, and amounted to FIM 30 million (FIM 26 million), which is 2.6 % of net sales.

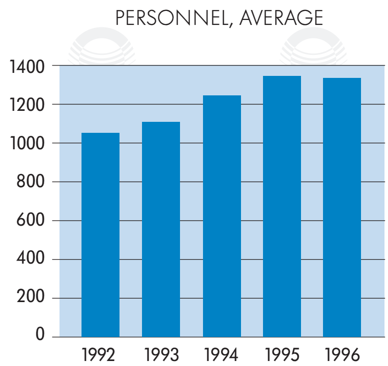
The main factory, located in the town of Nokia, was expanded by 4,000 square metres in August as planned. Machinery installations have been started and will be completed in three phases. The new Retreading Materials factory unit will start production in February 1997. The tread extrusion line will be completed during 1997, and the mixing line machinery will be installed by summer 1998.

On 1 October 1996 the Company Board of Directors approved a factory building expansion of another 3,800 square metres. The aim of the expansion is to increase the curing capacity of passenger car tyres.

The construction work for the expansion will begin in March 1997, and is scheduled to be completed in spring 1998.

These investments will increase the production of retreading materials and high performance tyres, the curing capacity of passenger car tyres, and productivity and product quality. The capacity of the Retreading Material factory unit will be doubled. The production rates for passenger car tyres can be increased from the current three million to four million tyres a year in a period of two years.




## NUMBER OF PERSONNEL DECREASED

During the fiscal year the Group employed an average of 1,329 people (1,350). The corresponding figure within the Parent Company was 1,165 (1,192) people.

At the end of the fiscal year, the Group employed 1,279 (1,328) people, and the Parent Company 1,112 (1,169).

The amount of personnel decreased mainly due to more efficient operations and premature pension scheme.

## CHANGES IN OWNERSHIP

In 8 May 1996 Henderson Financial Management Limited announced that it held 1,033,800 shares of Nokian Tyres, which amounted to 10.24 % of Nokian Tyres share capital and votes.

Henderson Financial Management became the third largest shareholder of Nokian Tyres after Nokia Corporation and SP Tyres UK Limited.

On 16 August 1996 the Nokia Corporation ownership of Nokian Tyres went below one third of the company votes and share capital. Nokia Corporation held 31.20 % of the entire votes and share capital of Nokian Tyres.

At the end of 1996 the foreign ownership of Nokian Tyres was 44.10 %.

In December 47,000 new shares were subscribed with the warrants pertaining to the year 1995 management bonds, which increased the share capital by FIM 470,000. The increase in share capital was declared on 20 December 1996.
After the increase the share capital of the company was FIM 101,392,860.00.

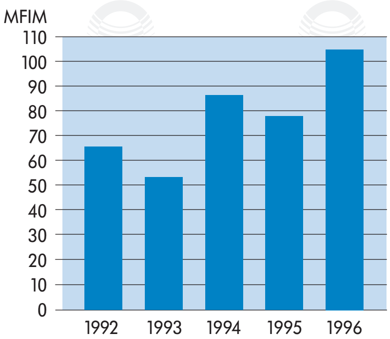
The members of the Board of Directors and the President of Nokian Tyres owned 3,000 shares, i.e. 0.03 % of the share capital.

## GROUP MANAGEMENT AND AUDITORS

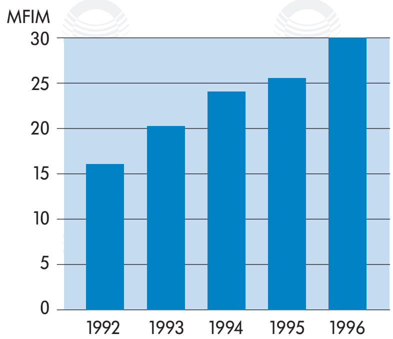
In 1996 Lasse Kurkilahti was the President of Nokian Tyres.
The following people have comprised the Board of Directors since 28 March 1996:
Chairman: Olli-Pekka Kallasvuo, Director, Nokia Corporation
Members:
James Fraser, Director, SP Tyres UK Limited
Tapio Hintikka, President, Oy Hackman Ab (since 1 Jan 1997)
Lasse Kurkilahti, President, Nokian Tyres Limited
Heikki Niskakangas, Professor, Helsinki School of Economics and Business Administration
David Powell, President, SP Tyres UK Limited
Jarmo Rytilahti, President, Asko Group

The auditors were authorised public accountants KPMG Wideri Oy.

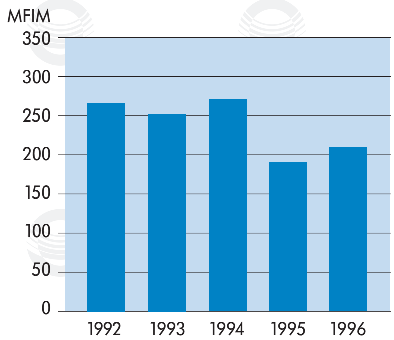
CAPITAL EXPENDITURE




R&D EXPENDITURE




INTEREST BEARING NET DEBT



## MANAGEMENT BONDS WITH WARRANTS

The Annual General Meeting of Shareholders, held on 28 March 1996, concluded that bonds with warrants were to be issued to the management of Nokian Tyres, as part of a management incentive scheme. The aggregate nominal value of the bonds should not exceed FIM 20,000. The term of the bonds is four years. There is no interest paid on the bonds. The bonds were subscribed by 14 people. Each FIM 100 bond includes one thousand warrants, of which 500 are marked with "A" and 500 with "B". Each warrant entitles its bearer to subscribe to one Nokian Tyres Limited share with a par value of FIM 10 at an excercise price of FIM 45.30.

The warrants pertaining to the bonds confer the right to subscribe to a maximum 200,000 new shares between 1 December 1997-31 January 1999 (A) and 1 December 1999-31 January 2001 (B). 200,000 shares represents 1.98 % of the company's number of shares and voting rights. Additionally the company had issued management bonds with warrants in the Annual General Meeting of Shareholders held on 15 March 1995 according to which the management of Nokian Tyres has the right to subscribe to 300,000 new shares.

## DIVIDEND PROPOSAL OF THE BOARD

The Board of Directors proposes that a dividend be distributed for 35 % of the profit per share, that is FIM 2.90 (FIM 2.40) per share.

## OUTLOOK FOR 1997

The economic outlook for the tyre market in 1997 seems to be better than in 1996. A slow recovery is expected in the heavy tyres area, as the amount of transportation increases and the outlook for the forest industry improves.

The price of raw materials is likely to remain stable.

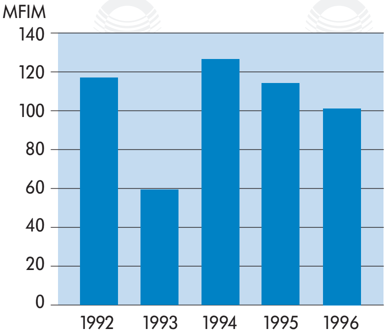
The market prospects for the year to come are more positive than those of the last year despite the continuing price competition, and Nokian Tyres is believed to continue its positive development.

Nokian Tyres will continue to further increase productivity and expand sales to export markets. The new products that enter the market in 1997 are expected to improve both the competitiveness and the position of the company in the market. The objective of the company is to continue its growth and to preserve the good profitability of previous years.

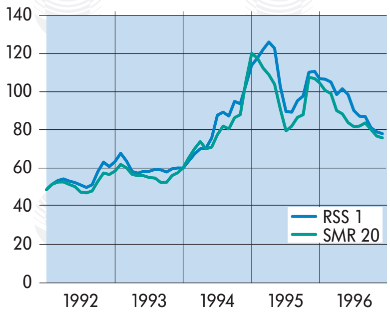
Nokia, 12 February 1997

Board of Directors

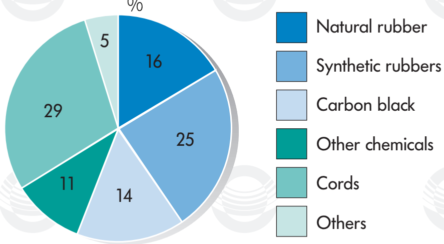
CASH FLOW FROM OPERATIONS




NATURAL RUBBER PRICE
GBP, pence/KG




CONSUMPTION OF RAW MATERIALS 1996
(based on consumption in FIM)
%



# CONSOLIDATED PROFIT AND LOSS ACCOUNTS

| FIM'000 | Notes | 1.1.-31.12.1996 | 1.1.-31.12.1995 |
|---|---|---|---|
| **Net Sales** | (1) | 1 144 894 | 1 113 156 |
| Total cost of goods sold | (2)(3)(4) | -773 794 | -787 981 |
| **Gross margin** | | 371 100 | 325 175 |
| Selling and marketing expenses | (3)(4) | -168 122 | -146 873 |
| Administration expenses | (3)(4) | -22 607 | -23 309 |
| Other operating expenses | (4) | -39 239 | -34 017 |
| Other operating income | | 247 | 489 |
| Goodwill depreciation | (4) | -1 604 | -1 292 |
| | | -231 325 | -205 002 |
| **Operating profit** | | 139 775 | 120 173 |
| Dividend income | (5) | 27 | 0 |
| Interest income | (5) | 2 522 | 4 268 |
| Interest expenses | (5) | -19 086 | -23 207 |
| Other financial income and expenses | (5) | -4 063 | -4 821 |
| Financial income and expenses | (5) | -20 600 | -23 760 |
| **Profit before extraordinary items and tax** | | 119 175 | 96 413 |
| **Extraordinary items** | (6) | 0 | -6 305 |
| **Profit before tax for the year** | | 119 175 | 90 108 |
| **Direct tax** | | | |
| Direct tax for the year | | -35 418 | -26 787 |
| **Net profit** | | 83 757 | 63 321 |

# CONSOLIDATED BALANCE SHEETS

| FIM'000 | Notes | 31.12.1996 | 31.12.1995 |
|---|---|---|---|
| **ASSETS** | | | |
| **FIXED ASSETS, INVESTMENTS AND OTHER LONG-TERM ASSETS** | | | |
| **Intagible fixed assets** | (8) | | |
| Intangible assets | | 712 | 578 |
| Goodwill | | 2 690 | 4 296 |
| | | 3 402 | 4 874 |
| **Tangible fixed assets** | (8)(9) | | |
| Land and water property | | 8 467 | 8 122 |
| Buildings and constructions | | 130 532 | 114 497 |
| Machinery and equipment | | 237 357 | 219 832 |
| Other tangible assets | | 6 473 | 5 538 |
| Advance payments and fixed assets under construction | | 39 869 | 27 172 |
| | | 422 698 | 375 161 |
| **Shares and other long-term investments** | (7)(9) | | |
| Shares in associated companies | | 240 | 240 |
| Shares in other companies | | 813 | 814 |
| | | 1 053 | 1 054 |
| **INVENTORIES AND FINANCIAL ASSETS** | (10)(11)(12) | | |
| **Inventories** | | | |
| Raw materials and supplies | | 37 858 | 38 788 |
| Work-in-progress | | 14 977 | 17 825 |
| Finished goods | | 142 606 | 122 334 |
| | | 195 441 | 178 947 |
| **Current trade and loan receivables** | | | |
| Trade debtors | | 262 428 | 265 599 |
| Loan receivables | | 6 496 | 6 998 |
| Accrued revenues and deferred expenses | | 7 085 | 8 402 |
| Other financial assets | | 10 398 | 5 247 |
| | | 286 407 | 286 246 |
| **Cash in hand and at bank** | | 107 620 | 69 369 |
| | | 1 016 621 | 915 651 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | (13) | | |
| **Restricted equity** | | | |
| Share capital | | 101 393 | 100 923 |
| Additional paid in capital | | 18 289 | 17 067 |
| | | 119 682 | 117 990 |
| **Distributable reserves** | | | |
| Retained earnings | | 222 401 | 181 041 |
| Net profit for the year | | 83 757 | 63 321 |
| | | 306 158 | 244 362 |
| **LIABILITIES** | (14) | | |
| **Long-term liabilities** | | | |
| Bonds | | 100 000 | 0 |
| Loans from financial institutions | | 153 935 | 159 512 |
| Pension premium loans | | 63 851 | 68 657 |
| Provision for deferred tax | | 58 667 | 58 166 |
| Other long-term finance loans | | 1 195 | 1 378 |
| Current maturities of long term loans | | -21 925 | -16 545 |
| | | 355 723 | 271 168 |
| **Current liabilities** | | | |
| Current maturities of long term loans | | 21 925 | 16 545 |
| Trade creditors | | 103 312 | 120 925 |
| Accrued expenses and deferred revenues | | 89 377 | 94 561 |
| Other current liabilities | | 20 444 | 50 100 |
| | | 235 058 | 282 131 |
| | | 1 016 621 | 915 651 |

# CONSOLIDATED CASH FLOW STATEMENTS

| FIM'000 | 1.1.-31.12.1996 | 1.1.-31.12.1995 |
|---|---|---|
| **Income finance** | | |
| Operating profit | 139 775 | 120 173 |
| Depreciation | 54 729 | 47 752 |
| Financial income and expenses | -20 600 | -23 760 |
| Other extraordinary items | 0 | -6 305 |
| Direct tax | -35 418 | -26 787 |
| | 138 486 | 111 073 |
| **Change in net working capital** | | |
| Inventories, increase | -16 494 | -11 834 |
| Short-term trade receivables, increase (-), decrease (+) | 559 | -19 968 |
| Interest-free short-term liabilities, increase (+), decrease (-) | -21 727 | 28 087 |
| Provision for tax, increase | 501 | 7 570 |
| | -37 161 | 3 855 |
| **Cash flow from operations** | 101 325 | 114 928 |
| **Change in fixed assets and other investments** | | |
| Capital expenditure | -105 014 | -77 108 |
| Sales of fixed assets | 4 223 | 3 295 |
| | -100 791 | -73 813 |
| **Cash flow before financing** | 534 | 41 115 |
| **Financing activities** | | |
| Dividends to shareholders | -24 221 | -20 000 |
| Long-term interest bearing financing, net | 88 856 | 8 574 |
| Short-term interest bearing financing, net | -30 870 | 12 207 |
| Share issue | 1 692 | 2 990 |
| | 35 457 | 3 771 |
| **Increase/decrease in liquid assets** | 35 991 | 44 886 |
| Currency difference of shareholders' equity | 2 260 | 697 |
| **Corrected change in liquid assets** | 38 251 | 45 583 |
| **Increase/decrease in liquid assets** | | |
| Liquid assets 31.12. | 107 620 | 69 369 |
| Liquid assets 1.1. | -69 369 | -23 786 |
| | 38 251 | 45 583 |

The items in the Cash Flow Statement are not directly derivable from the Income Statement and the Balance Sheets due to the changes in accounting principles.

# Profit and Loss Accounts, Parent Company

| FIM'000 | Notes | 1.1.-31.12.1996 | 1.1.-31.12.1995 |
|---|---|---|---|
| **Net Sales** | (1) | 961 196 | 925 424 |
| Total cost of goods sold | (2)(3)(4) | -684 017 | -693 153 |
| **Gross margin** | | 277 179 | 232 271 |
| Selling and marketing expenses | (3)(4) | -84 678 | -67 154 |
| Administration expenses | (3)(4) | -22 607 | -23 309 |
| Other operating expenses | (4) | -39 184 | -33 992 |
| Other operating income | | 120 | 319 |
| | | -146 349 | -124 136 |
| **Operating profit** | | 130 830 | 108 135 |
| Dividend income | (5) | 5 603 | 0 |
| Interest income | (5) | 5 258 | 5 091 |
| Interest expenses | (5) | -18 767 | -17 827 |
| Other financial income and expenses | (5) | -3 876 | -3 840 |
| Financial income and expenses | (5) | -11 782 | -16 576 |
| **Profit before extraordinary items, appropriations and tax** | | 119 048 | 91 559 |
| **Extraordinary items** | (6) | 0 | -5 265 |
| **Profit before appropriations and tax** | | 119 048 | 86 294 |
| Increase in accumulated depreciation in excess of plan | | -23 041 | -2 970 |
| Decrease in untaxed reserves | | 21 438 | 3 096 |
| Direct tax | | | |
| Direct tax for the year | | -31 470 | -21 753 |
| Direct tax from previous years | | 18 | -210 |
| | | -33 055 | -21 837 |
| **Net profit** | | 85 993 | 64 457 |

# BALANCE SHEETS, PARENT COMPANY

| FIM'000 | Notes | 31.12.1996 | 31.12.1995 |
|---|---|---|---|
| **ASSETS** | | | |
| **FIXED ASSETS, INVESTMENTS AND OTHER LONG-TERM ASSETS** | | | |
| **Intangible fixed assets** | (8) | 625 | 578 |
| | | 625 | 578 |
| **Tangible fixed assets** | (8)(9) | | |
| Land and water property | | 4 556 | 4 379 |
| Buildings and constructions | | 111 505 | 94 882 |
| Machinery and equipment | | 228 886 | 212 199 |
| Other tangible assets | | 6 402 | 5 455 |
| Advance payments and fixed assets under construction | | 39 869 | 27 172 |
| | | 391 218 | 344 087 |
| **Shares and other long-term investments** | (7)(9) | | |
| Shares in associated companies | | 77 628 | 77 628 |
| Other investments | | 791 | 761 |
| | | 78 419 | 78 389 |
| **INVENTORIES AND FINANCIAL ASSETS** | (10)(11)(12) | | |
| **Inventories** | | | |
| Raw materials and supplies | | 37 858 | 38 788 |
| Work-in-progress | | 14 977 | 17 825 |
| Finished goods | | 72 370 | 58 238 |
| | | 125 205 | 114 851 |
| **Current trade and loan receivables** | | | |
| Trade debtors | | 234 240 | 238 953 |
| Loan receivables | | 62 169 | 63 841 |
| Accrued revenues and deferred expenses | | 3 744 | 6 203 |
| Other financial assets | | 8 838 | 4 146 |
| | | 308 991 | 313 143 |
| **Cash in hand and at bank** | | 70 426 | 17 679 |
| | | 974 884 | 868 727 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | (13) | | |
| **Restricted equity** | | | |
| Share capital | | 101 393 | 100 923 |
| Additional paid in capital | | 18 289 | 17 067 |
| | | 119 682 | 117 990 |
| **Distributable reserves** | | | |
| Retained earnings | | 86 482 | 46 246 |
| Net profit for the year | | 85 993 | 64 457 |
| | | 172 475 | 110 703 |
| **UNTAXED RESERVES AND PROVISIONS** | (8) | | |
| Accumulated depreciation in excess of plan | | 169 100 | 146 059 |
| Reserves | | 32 455 | 53 893 |
| **LIABILITIES** | (14) | | |
| **Long-term liabilities** | | | |
| Bonds | | 100 000 | 0 |
| Loans from financial institutions | | 150 311 | 156 025 |
| Pension premium loans | | 63 851 | 68 657 |
| Other long-term finance loans | | 50 | 300 |
| Current maturities of long term loans | | -21 498 | -16 545 |
| | | 292 714 | 208 437 |
| **Current liabilities** | | | |
| Current maturities of long term loans | | 21 498 | 16 545 |
| Trade creditors | | 81 708 | 97 035 |
| Accrued expenses and deferred revenues | | 73 865 | 77 243 |
| Other current liabilities | | 11 387 | 40 822 |
| | | 188 458 | 231 645 |
| | | 974 884 | 868 727 |

# CASH FLOW STATEMENTS, PARENT COMPANY

| FIM'000 | 1.1.-31.12.1996 | 1.1.-31.12.1995 |
|---|---|---|
| **Income finance** | | |
| Operating profit | 130 830 | 108 136 |
| Depreciation | 48 593 | 41 063 |
| Financial income and expenses | -11 782 | -16 576 |
| Other extraordinary items | 0 | -5 265 |
| Direct tax | -31 452 | -21 963 |
| | 136 189 | 105 395 |
| **Change in net working capital** | | |
| Inventories, increase | -10 354 | -13 774 |
| Short-term trade receivables, decrease | 2 567 | 19 642 |
| Interest-free short-term liabilities, increase (+), decrease (-) | -18 018 | 4 496 |
| | -25 805 | 10 364 |
| **Cash flow from operations** | 110 384 | 115 759 |
| **Change in fixed assets and other investments** | | |
| Capital expenditure | -100 864 | -179 018 |
| Sales of fixed assets | 5 061 | 2 731 |
| | -95 803 | -176 287 |
| **Cash flow before financing** | 14 581 | -60 528 |
| **Financing activities** | | |
| Dividends to shareholders | -24 221 | -20 000 |
| Long-term interest bearing financing, net | 82 702 | 118 249 |
| Short-term interest bearing financing, net | -22 007 | -24 446 |
| Share issue | 1 692 | 2 990 |
| | 38 166 | 76 793 |
| **Increase/decrease in liquid assets** | 52 747 | 16 265 |
| **Increase/decrease in liquid assets** | | |
| Liquid assets 31.12. | 70 426 | 17 679 |
| Liquid assets 1.1. | -17 679 | -1 414 |
| | 52 747 | 16 265 |

The items in the Cash Flow Statement are exceptional due to the mergers of the real estate companies in 1995.

# ACCOUNTING PRINCIPLES

### 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of companies in which Nokian Tyres owns, directly or indirectly through subsidiaries, over 50 % of the voting rights. Companies acquired during the financial year are consolidated into the profit and loss account from the date the responsibility for their operations was transferred to the Group.

The consolidation has been prepared by combining profit and loss accounts and balance sheets of the Parent Company and the subsidiaries. All inter-company transactions are eliminated as part of the consolidation process. Minority interests are presented as separate items in the consolidated profit and loss accounts and balance sheets.

Acquisitions of companies are accounted for using the purchase method. The Group's share of the net assets of the company acquired is deducted from the acquisition cost. From this difference, the amount by which the fair value of the assets and liabilities of the acquired company exceeds its balance sheet values is allocated to the Company's assets and liabilities. The balance is treated as goodwill and is amortised over a period not exceeding ten years. The same principles are followed, where applicable, when companies within the Group are merged or liquidated.

Investments in associated companies, where Nokian Tyres owns between 20 % and 50 % of the voting rights are reported according to the equity method of accounting.

All items in the balance sheets of foreign subsidiaries are converted into Finnish marks using the exchange rates ruling at the financial statement date and in the profit and loss accounts, using average rates for the year. Conversion differences arising from the application of the purchase method in the consolidation of companies acquired are treated as part of consolidated shareholders' equity.

### 2. 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. Both direct costs and its share of fixed production costs are included in the value of finished goods.

### 3. FIXED ASSETS AND DEPRECIATION

Fixed assets are stated in the balance sheets at cost less depreciation according to plan. In the Parent Company, the accumulated difference between the total depreciation charged to the profit and loss account and depreciation according to plan is shown as a separate item in untaxed reserves.

Depreciation according to plan is calculated on the basis of the estimated useful life of the assets using the straight line method. The depreciation times are generally as follows:

| | |
|---|---|
| Buildings and constructions | 20 - 40 years |
| Machinery and equipment | 4 - 20 years |
| Other tangible assets | 10 - 40 years |
| Intangible assets | 5 - 10 years |

Land and water areas, as well as investments in shares, are not regularly depreciated.

### 4. RESEARCH AND DEVELOPMENT

Research and Development costs are charged to the profit and loss account in the year in which they are incurred.

### 5. PENSIONS AND COVERAGE OF PENSION LIABILITIES

Pension contributions are based on local, periodic actuarial calculations and are charged to the profit and loss account.

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

Foreign subsidiaries operate pension schemes for their employees in accordance with their local conditions and practices.

### 6. DIRECT TAXES

The consolidated profit and loss statement include the change in deferred tax liability and the direct taxes which are based on taxable profit of each company. These direct taxes are calculated according to local tax rules. The deferred tax liability is recorded in long-term liabilities and is based on the prevailing corporate tax rate.

The profit and loss statement of the parent company include direct taxes based on the taxable profit. The untaxed reserves of the parent company are shown in full in the balance sheet, and the deferred tax liability is not recorded.

### 7. FOREIGN CURRENCY ITEMS

Transactions in foreign currencies are recorded at the rates of exchange 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 Bank of Finland as at the financial statement date. Foreign exchange gains and losses relating to normal business operations and hedging gains and losses are treated as adjustments to sales and purchases, while those gains and losses associated with financial transactions and hedging are entered under financial income and expenses.

# NOTES TO THE FINANCIAL STATEMENTS

| FIM'000 | | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|---|
| **1. NET SALES BY PRODUCT AND MARKET AREAS** | Car and Van tyres | 680 257 | 617 826 | 633 978 | 569 013 |
| | Heavy tyres | 258 191 | 290 849 | 217 387 | 251 162 |
| | Bicycle tyres and inner tubes | 42 070 | 48 260 | 42 041 | 48 264 |
| | Retreading materials | 46 553 | 46 114 | 44 949 | 43 942 |
| | Retail | 115 019 | 109 419 | | |
| | Others | 2 804 | 688 | 22 841 | 13 043 |
| | Total | 1 144 894 | 1 113 156 | 961 196 | 925 424 |
| | Others contain the elimination of intra-group net sales. | | | | |
| | Finland | 340 481 | 320 275 | 340 481 | 320 275 |
| | Other Nordic countries | 357 079 | 352 386 | 201 905 | 196 033 |
| | Baltic States and Russia | 90 833 | 90 339 | 90 833 | 90 339 |
| | Other European countries | 278 126 | 271 167 | 264 366 | 256 955 |
| | North America | 64 623 | 65 376 | 49 859 | 48 209 |
| | Other countries | 13 752 | 13 613 | 13 752 | 13 613 |
| | Total | 1 144 894 | 1 113 156 | 961 196 | 925 424 |
| **2. TOTAL COST OF GOODS SOLD** | Raw materials | -322 829 | -353 500 | -322 829 | -353 500 |
| | Goods purchased for resale | -156 187 | -153 894 | -73 294 | -69 441 |
| | Wages and social costs of goods sold | -126 500 | -116 980 | -126 500 | -116 980 |
| | Other costs | -103 634 | -98 387 | -101 763 | -96 376 |
| | Depreciation of production | -40 793 | -34 940 | -40 793 | -34 940 |
| | Sales freights | -40 595 | -42 093 | -30 974 | -34 199 |
| | Change in inventories | 16 744 | 11 813 | 12 135 | 12 283 |
| | Total | -773 794 | -787 981 | -684 018 | -693 153 |
| **3. WAGES, SALARIES AND SOCIAL EXPENSES** | All personnel | | | | |
| | Wages and salaries | 197 827 | 185 013 | 161 709 | 154 680 |
| | Fringe benefits | 2 028 | 1 784 | 976 | 846 |
| | Pensions contributions | 34 658 | 28 840 | 31 394 | 26 653 |
| | Other social security costs | 50 895 | 47 151 | 46 830 | 43 193 |
| | Total | 285 408 | 262 788 | 240 909 | 225 372 |
| | Renumeration of the members of the Boards, President, and Managing Directors on accrual basis* | 4 715 | 4 251 | 1 119 | 885 |
| | *of which incentives | 169 | 149 | 0 | 0 |
| | Personnel 31 December | | | | |
| | Production | 828 | 874 | 828 | 874 |
| | Sales and marketing | 300 | 298 | 133 | 139 |
| | Others | 151 | 156 | 151 | 156 |
| | Total | 1 279 | 1 328 | 1 112 | 1 169 |
| **4. DEPRECIATION** | **Depreciation according to plan** | | | | |
| | Intangible assets | 227 | 249 | 215 | 248 |
| | Buildings and constructions | 5 907 | 6 461 | 4 816 | 3 757 |
| | Machinery and equipment | 46 287 | 39 165 | 42 875 | 36 488 |
| | Other tangible assets | 704 | 585 | 687 | 569 |
| | Total | 53 125 | 46 460 | 48 593 | 41 062 |
| | Goodwill | 1 604 | 1 292 | | |
| | Total | 54 729 | 47 752 | | |

| | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|
| **Change in accumulated depreciation in excess of plan** | | | | |
| Intangible assets | | | 29 | -57 |
| Buildings and constructions | | | 171 | 1 605 |
| Utilisation of transitional reserve on building investment | | | 21 438 | 0 |
| Machinery and equipment | | | 1 276 | 1 342 |
| Other tangible assets | | | 126 | 80 |
| Total | | | 23 040 | 2 970 |

Depreciation according to plan is calculated on the basis of the estimated useful life of the assets using the straight line mehod. The planned depreciation times are generally as follows:

| | |
|---|---|
| Buildings and constructions | 20-40 yrs |
| Machinery and equipment | 4-20 yrs |
| Other tangible assets | 10-40 yrs |
| Intangible assets | 5-10 yrs |

| **Activity-based depreciation** | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|
| Production | 40 851 | 34 940 | 40 851 | 34 939 |
| Sales and marketing | 7 851 | 8 106 | 3 319 | 2 709 |
| Administration | 1 005 | 915 | 1 005 | 915 |
| Other operating depreciation | 3 418 | 2 499 | 3 418 | 2 499 |
| Total | 53 125 | 46 460 | 48 593 | 41 062 |
| | | | | |
| Goodwill depreciation | 1 604 | 1 292 | | |
| Total | 54 729 | 47 752 | | |

## 5. FINANCIAL EXPENSES AND INCOME

| | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|
| Divided income | 27 | 0 | 5 603 | 0 |
| Interest income, short-term | 0 | 248 | 3 243 | 2 897 |
| Other financial income | 2 522 | 4 020 | 2 015 | 2 194 |
| Exchange rate differentials | -2 112 | 869 | -2 112 | 869 |
| | | | | |
| Interest expense | -19 086 | -23 207 | -18 767 | -17 827 |
| Stamp duty | 0 | -3 524 | 0 | -3 524 |
| Other financial expense | -1 951 | -2 166 | -1 764 | -1 185 |
| Total | -20 600 | -23 760 | -11 782 | -16 576 |

| **Internal financial expenses and income** | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|
| Interest income from the Group companies | | |
| Dividends | 5 576 | 0 |
| Interest income, short-term | 3 243 | 2 897 |
| Interest income, long-term | 300 | 0 |
| Financial expenses paid to the Group companies | | |
| Interest expenses | 161 | 4 |

## 6. EXTRAORDINARY ITEMS

Extraordinary items of the Group in 1995 include FIM 6,305,000 expense relating to increase in deferred tax liability caused by the rise of the corporate tax rate wheras the parent Company has FIM 5,265,000 expense due to mergers of the real estate companies.

## 7. COMPANIES OWNED BY THE GROUP AND THE PARENT COMPANY

| | Group share ownership % | Group voting ownership % | Parent Company holding % | Number of shares owned by Parent Company | Nominal value currency | Book value | Share holders' equity | Net profit/loss for the last financial year |
|---|---|---|---|---|---|---|---|---|
| Nokian Däck AB | 100 | 100 | 100 | 7 000 | 4 742 | 5 375 | 13 561 | +3 417 |
| Nokian Dekk A/S | 100 | 100 | 100 | 23 700 | 29 480 | 23 270 | 30 271 | +3 860 |
| Nokian Reifen GmbH | 100 | 100 | 100 | 500 | 500 | 1 128 | -266 | -2 143 |
| Nokian Reifen AG | 100 | 100 | 100 | 200 | 200 | 497 | 3 195 | +30 |
| Nokian Tyres (North America) Ltd. | 100 | 100 | 100 | 500 | 500 | 1 822 | 4 719 | +252 |
| Vianor AS | 100 | 100 | 100 | 10 200 | 2 550 | 45 296 | 16 376 | +1 437 |
| Elverum Vulk AS | 100 | 100 | 0 | | | | 43 | +332 |
| | | | | | | | | |
| **Associated company** | | | | | | | | |
| Sammaliston Sauna Oy | 33 | 33 | | | | 240 | | 0 |
| | | | | | | | | |
| Total | | | | | | 77 628 | | |

## 8. INTANGIBLE AND TANGIBLE FIXED ASSETS

| | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|
| **Intangible assets** | | | | |
| Accumulated cost, 1 Jan | 2 996 | 2 996 | 2 996 | 2 996 |
| Decrease/Increase | 360 | 0 | 259 | 0 |
| Accumulated cost, 31 Dec | 3 356 | 2 996 | 3 255 | 2 996 |
| Translation adjustment | -2 | 0 | | |
| Accumulated depr. according to plan, 31 Dec | -2 642 | -2 418 | -2 630 | -2 418 |
| Book value, 31 Dec | 712 | 578 | 625 | 578 |
| | | | | |
| Accumulated depreciation in excess of plan, 31 Dec | | | 224 | 194 |
| **Goodwill** | | | | |
| Accumulated cost, 1 Jan | 34 863 | 41 177 | | |
| Decrease/Increase | 0 | -6 314 | | |
| Accumulated cost, 31 Dec | 34 863 | 34 863 | | |
| Accumulated depr. according to plan, 31 Dec | -32 173 | -30 567 | | |
| Book value, 31 Dec | 2 690 | 4 296 | | |
| **Buildings and constructions** | | | | |
| Accumulated cost, 1 Jan | 166 373 | 166 373 | 126 255 | 21 665 |
| Decrease/Increase (Merger) | 21 440 | 0 | 21 440 | 104 590 |
| Accumulated cost, 31 Dec | 187 813 | 166 373 | 147 695 | 126 255 |
| Translation adjustment | 1 514 | 697 | | |
| Accumulated depr. according to plan, 31 Dec | -58 795 | -52 573 | -36 190 | -5 101 |
| Merger | 0 | 0 | 0 | -26 272 |
| Book value, 31 Dec | 130 532 | 114 497 | 111 505 | 94 882 |
| | | | | |
| Accumulated depreciation in excess of plan, 31 Dec | | | 44 768 | 23 159 |
| **Machinery and equipment** | | | | |
| Accumulated cost, 1 Jan | 439 391 | 384 495 | 411 294 | 360 847 |
| Decrease/Increase | 53 550 | 54 896 | 53 550 | 50 447 |
| Accumulated cost, 31 Dec | 492 941 | 439 391 | 464 844 | 411 294 |
| Translation adjustment | 1 027 | -1 276 | | |
| Accumulated depr. according to plan, 31 Dec | -256 611 | -218 283 | -235 958 | -199 095 |
| Book value, 31 Dec | 237 357 | 219 832 | 228 886 | 212 199 |
| | | | | |
| Accumulated depreciation in excess of plan, 31 Dec | | | 122 927 | 121 651 |

| | | GROUP 1996 | GROUP 1995 | PARENT COMPANY 1996 | PARENT COMPANY 1995 |
|---|---|---|---|---|---|
| | **Other tangible assets** | | | | |
| | Accumulated cost, 1 Jan | 6 993 | 5 990 | 6 693 | 5 696 |
| | Decrease/ Increase | 1 634 | 1 003 | 1 634 | 997 |
| | Accumulated cost, 31 Dec | 8 627 | 6 993 | 8 327 | 6 693 |
| | Translation adjustment | -173 | -178 | | |
| | Accumulated depr. according to plan, 31 Dec | -1 981 | -1 277 | -1 925 | -1 238 |
| | Book value, 31 Dec | 6 473 | 5 538 | 6 402 | 5 455 |
| | Accumulated depreciation in excess of plan, 31 Dec | | | 1 182 | 1 056 |
| **9. TAXABLE VALUES OF REAL ESTATES AND SHARES** | Land areas | 8 467* | 8 122* | 3 686 | 3 100 |
| | Buildings and constructions | 130 532* | 114 497* | 69 297 | 71 398 |
| | Shares | 1 053* | 1 054* | 77 628* | 77 628* |

*) Book value

| | | | | | |
|---|---|---|---|---|---|
| **10. LOAN RECEIVABLES** | Long-term receivables | | | | |
| | Loan receivables | 6 354 | 5 778 | 10 345 | 3 817 |
| **11. CURRENT RECEIVABLES AND LIABILITIES/GROUP AND ASSOCIATED COMPANIES** | Trade debtors | | | 84 932 | 62 925 |
| | Loan receivables | | | 59 286 | 59 938 |
| | Accrued revenues and deferred expenses | | | 614 | 392 |
| | Trade creditors | | | 136 | 398 |
| | Accrued expenses and deferred revenues | | | 0 | 660 |

**12. LOANS TO DIRECTORS**

Managing Directors of the Group and the members of the Boards have been granted loans, totalling FIM 144,180.

| | | | | | |
|---|---|---|---|---|---|
| **13. SHAREHOLDER'S EQUITY** | Share capital, 1 Jan | 100 923 | 100 000 | 100 923 | 100 000 |
| | Share issue | 470 | 923 | 470 | 923 |
| | Share capital, 31 Dec | 101 393 | 100 923 | 101 393 | 100 923 |
| | Additional paid in capital, 1 Jan | 17 067 | 15 000 | 17 067 | 15 000 |
| | Share issue | 1 222 | 2 067 | 1 222 | 2 067 |
| | Additional paid in capital, 31 Dec | 18 289 | 17 067 | 18 289 | 17 067 |
| | Unappropriated equity, 1 Jan | 244 362 | 200 344 | 110 703 | 66 246 |
| | Dividends to shareholders | -24 221 | -20 000 | -24 221 | -20 000 |
| | Elimination of the currency difference of shareholders' equity in consolidation | 2 260 | 697 | | |
| | Net profit for the year | 83 757 | 63 321 | 85 993 | 64 457 |
| | Unappropriated equity, 31 Dec | 306 158 | 244 362 | 172 475 | 110 703 |
| | Distributable equity, 31 Dec | 149 556 | 94 792 | | |
| **14. LIABILITIES** | Liabilities maturing after five years | | | | |
| | Bonds | 0 | 0 | 0 | 0 |
| | Loans from financial institutions | 38 815 | 62 720 | 36 743 | 59 372 |
| | Pension premiun loans | 44 421 | 47 763 | 44 421 | 47 764 |
| | Other long-term finance loans | 0 | 0 | 0 | 0 |
| | Total | 83 236 | 110 483 | 81 164 | 107 136 |

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| Maturing of long-term liabilities | | | | |
| Maturity | | | | |
| 1998 | 27 192 | 27 175 | 26 785 | 26 785 |
| 1999 | 82 758 | 27 023 | 82 519 | 26 794 |
| 2000 | 26 463 | 26 415 | 26 224 | 26 224 |
| 2001 | 76 211 | 26 163 | 75 972 | 25 972 |
| 2002 and later | 83 236 | 84 320 | 81 164 | 81 164 |
| Total | 295 861 | 191 096 | 292 664 | 186 939 |
| | | | | |
| Interest-free debts | 272 721 | 292 752 | 167 011 | 184 980 |

**15. CONTINGENT LIABILITIES**

| | 1996 | 1995 | 1996 | 1995 |
|---|---|---|---|---|
| As security for own commitments | | | | |
| Mortgages | 3 625 | 3 895 | 0 | 0 |
| Guarantees | 7 000 | 7 000 | 7 000 | 7 000 |
| | | | | |
| As security for Group company | | | | |
| Guarantees | | | 16 632 | 9 900 |
| | | | | |
| On behalf of other companies | | | | |
| Guarantees | 36 | 0 | 0 | 0 |
| | | | | |
| Other own commitments | | | | |
| Leasing commitments | 7 934 | 6 311 | 5 179 | 6 311 |

**16. DERIVATIVE CONTRACTS AND FOREIGN EXCHANGE RISK MANAGEMENT**

| | 1996 | 1995 | 1996 | 1995 |
|---|---|---|---|---|
| Interest rate derivatives, underlying value | | | | |
| Interest rate swaps | 50 000 | 0 | 50 000 | 0 |
| | | | | |
| Currency derivatives, underlying value | | | | |
| Forward contracts | 123 762 | 153 190 | 123 762 | 153 190 |
| | | | | |
| Options | | | | |
| Purchased | 27 428 | 228 080 | 27 428 | 228 080 |
| Written | 156 803 | 297 924 | 156 803 | 297 924 |

Fair value of interest rate swaps defined by present value of cash flows due to contracts is FIM 6,158,000.
Fair value of exchange forward contracts is FIM -375,000 calculated by cash flows due to contracts.
Fair value of purchased currency options is FIM 453,000 and written options FIM -803,000 calculated by option pricing model.

The Group enters into various types of foreign exchange derivative contracts to hedge its transaction risk in various currencies, primarily using internal hedging methods, e.g. by applying matching principle. The Group does not hold or issue derivatives for trading purposes.

Foreign exchange exposure is calculated in each foreign currency and includes currency denominated assets and liabilities and certain off balance sheet items such as firm and probable purchase and sale commitments. The Group's policy is to hedge currency risk based on net foreign exchange position.

# THE BOARD'S PROPOSAL FOR THE USE OF PROFIT

The distributable reserves of the Group on 31 December 1996 total FIM 306,158,000, of which FIM 149,556,000 can be distributed as dividends. The distributable reserves of the Parent Company total FIM 172,474,599.71. There are 10,139,286 shares entitled to a dividend.

The Board of Directors proposes that a dividend of FIM 2.90 (a total of FIM 29,403,929.40) be paid out for the 1996 fiscal year.

Nokia, 12 February 1997

Olli-Pekka Kallasvuo David Powell James Fraser

Jarmo Rytilahti Heikki Niskakangas Tapio Hintikka Lasse Kurkilahti

# AUDITORS' REPORT

### TO THE SHAREHOLDERS OF NOKIAN TYRES LIMITED

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President of Nokian Tyres Limited for the period ending 31 December 1996. The financial statements, which include the Report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit, we express our opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President have complied with the rules of the Finnish Companies′ Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the handling of profit is in compliance with the Finnish Companies' Act.

We have reviewed the interim reports published during the financial year. The interim reports have been prepared in accordance with applicable regulations.

Nokia, 13 February 1997

KPMG WIDERI OY AB

Matti Sulander
KHT

# 1996 PRESS RELEASES AND STOCK EXCHANGE BULLETINS

**23 JANUARY** Nokian Tyres Hakkapeliitta product family is renewed. The company introduces two entirely new passenger car tyres: a studded winter tyre and a studless winter tyre.

**19 FEBRUARY** Nokian Tyres Limited Annual Report 1995. Profit before extraordinary items and tax increased by 22 % to FIM 96 million (FIM 79 million in 1994), and was 8.7 % of net sales. Profit per share was FIM 6.93 (FIM 5.79). Net sales increased by 14 %, and was FIM 1,113 million (FIM 976 million). The Board of Directors proposes that a dividend of 35 % from net profit is distributed, i.e. FIM 2.40 (FIM 2.00) per share.

**29 MARCH** Nokian Tyres Limited Annual General Meeting is held on 28 March 1996. The company accounts for 1995 are closed, and the members of the Board of Directors and the President of the company are discharged from liability. A dividend of FIM 2.40 per share is decided to be paid. It is resolved that bonds with warrants be issued. Members of the Board of Directors and the auditor are selected.

**10 MAY** Henderson Financial Management Limited has on 8 May 1996 announced that it holds 1,033,800 shares of Nokian Tyres, which represents 10.24 % of Nokian Tyres number of shares and voting rights.

**6 JUNE** Interim Report January - April 1996. Profit before tax increased 31 % from the previous year, and was FIM 28 million (FIM 21 million for the corresponding period in 1995). Net sales amounted to FIM 340 million, which is 6 % more than in 1995. The four-month period earnings per share were FIM 1.87 (FIM 1.59).

**12 AUGUST** Nokian Tyres Ltd. is planning to decrease the production of heavy tyres, due to the low demand of heavy machinery tyres. The company will cut down the production of heavy tyres by approximately a four-week volume over the next five months. This will not affect the 1996 profit projection published in June.

**22 AUGUST** Nokia Corporation ownership of Nokian Tyres Limited was on 16 August 1996 reduced to less than one third of the company's total number of voting rights and issued share capital. The current Nokia Corporation ownership percentage represents 31.20 % of voting rights and share capital.

**2 OCTOBER** Interim Report January - August 1996. Profit before tax increased 29 % from the previous year, and amounted to FIM 52 million (FIM 41 million for the corresponding period in 1995). Net sales amounted to FIM 652 million, which is 3.4 % more than in 1995. Earnings per share increased by 9 %, and were FIM 3.38 (FIM 3.11).

Nokian Tyres expands its factory building in Nokia. The Nokian Tyres Board of Directors has on 1 October 1996 decided on a FIM 10 million and 3,800 square metre factory expansion as part of the expansion programme for passenger car tyre production. The goal is to increase the curing capacity for passenger car tyres. The construction work will start in March 1997, and it is expected to be completed in spring 1998.

Nokian Tyres issues two bonds. On 1 October the Nokian Tyres Board of Directors decided to issue two bonds directed to institutional investors. Both of the bonds are FIM 50 million at maximum.

**17 OCTOBER** Nokian Tyres introduces a new T speed class passenger car summer tyre. It is expected to significantly strengthen the position of the company as a manufacturer of summer tyres in all important market areas, especially in the Nordic countries.

**20 DECEMBER** 10 December 1996 47.000 Nokian Tyres shares had been subscribed with warrants pertaining to the 1995 bonds. An increase in share capital was registered in trade register on 20 December 1996. After the increase, the company's own share capital amounted to FIM 101,392,860.00.

# INFORMATION ON NOKIAN TYRES SHARE

## SHARE CAPITAL AND SHARE

The minimum share capital stipulated in Nokian Tyres Limited Articles of Association is FIM 80,000,000 and the authorised share capital is FIM 320,000,00. The share capital may be increased or reduced within these limits without amending the Articles of Association.
The company has only one class of shares with a par value of FIM 10. On 31 December 1996 the company's own registered share capital was FIM 101,392,860. A total of 10,139,286 shares have been issued.

The shares are recorded in the book-entry securities system, and they were quoted in Helsinki Stock Exchange for the first time on 1 June 1995.

## DIVIDEND POLICY

The dividend policy of the Board of Directors has been to propose an annual dividend that reflects the profit development of the company.
The dividends declared and paid in the last four years correspond to approximately 35 % of the net profit of the year in question. The Nokian Tyres Board of Directors will continue its policy to propose an annual dividend of approximately 35 % of net profit.

## EXCHANGE RATES FOR NOKIAN TYRES SHARE

The exchange rates for Nokian Tyres share have risen since the share was floated in Helsinki Stock Exchange. The quotation for the Nokian Tyres share was FIM 37 on 2 June 1995, and FIM 100 on 30 December 1996, which makes a 170 % value increase. The HEX index of Helsinki Stock Exchange rose 33 % during the same period of time. The exchange rate of Nokian Tyres share rose 120 % during 1996, whereas the HEX index rose by 46 %.

## TRADING IN HELSINKI STOCK EXCHANGE

Altogether 2,778,039 Nokian Tyres shares were traded between 1 January 1996 and 30 December 1996.

## BOARD OF DIRECTORS RIGHTS

At the end of 1996 the Board of Directors did not have unused rights to raise the share capital, nor rights to issue convertible bonds or bonds with warrants.

## MANAGEMENT BONDS AND SHARES

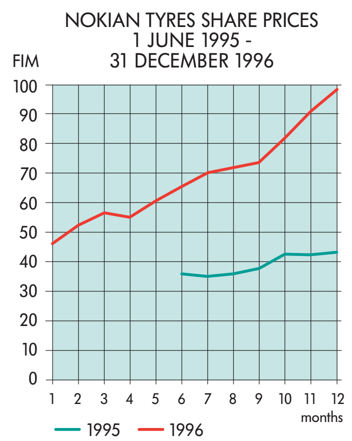
Bonds with warrants
A decision at Nokian Tyres Annual General Meeting on 15 March 1995 was made to issue bonds with warrants with an aggregate nominal value of FIM 300,000 to the management of the company, as part of the management incentive scheme. The term of the bonds is 4 years. No interest is paid on the bonds.

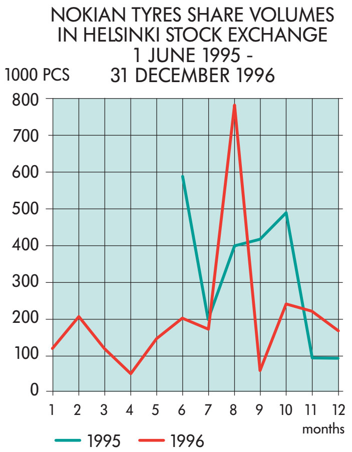
On 16 February 1996 the Board of Directors changed the amount to FIM 30,000 which all the subscribers approved. Each FIM 1,000 bond includes one thousand warrants, of which 500 are marked as "A" and 500 as "B". Each warrant entitles its bearer the right to subscribe one Nokian Tyres share with a par value of FIM 10, at an exercise price of FIM 36. The warrants pertaining to the bonds confer the right to subscribe to shares between 1 December 1996-31 January 1998 (A) or 1 December 1998-31 January 2000 (B).
A maximum of 300,000 new shares can be subscribed, which represents 2.9 % of the company's current number of shares and voting rights. The bonds were subscribed by 15 persons. 47,000 shares were subscribed on 10 December 1996 with warrants pertaining to the year 1995 management bonds. After the increase, the share capital of the company was FIM 101,392,860.

The Annual General Meeting, held on 28 March 1996, decided to issue bonds with warrants with an aggregate value of FIM 20.000 to Nokian Tyres management. The subscription price of a share is FIM 45.30, which represents the average value of the share between 15 December 1995 and 15 February 1996.
The warrants confer the right to subscribe a maximum of 200,000 Nokian Tyres shares between 1 December 1997-31 January 1999, and 1 December 1999-31 January 2001. The 200,000 shares represent 1.98 % of the company number of shares and voting rights. The bonds were subscribed by 14 persons.

There were no other bonds with warrants or convertible bonds outstanding in 1996.

Share ownership
On 31 December 1996 Nokian Tyres Board of Directors and President owned altogether 3,000 Nokian Tyres shares. This represents 0.03 % of the total voting rights.



## SHARE ISSUES 1992 - 1996

| Method of share capital increace | Subscription period | Exercise price in FIM | New shares thousand FIM | Payment date | New capital thousand FIM | New share capital thousand FIM | Share capital after issue in FIM |
|---|---|---|---|---|---|---|---|
| Personnel issue | 29.5.1995-2.6.1995 | 32,40 | 92.286 | 19.6.1996 | 2.990 | 923 | 100.922.860 |
| Management bonds 1/95 | 1.12.1996-31.1.1998 | 36,00 | 47.000 | 10.12.1996 | 1.692 | 470 | 101.392.860 |

## MAJOR SHAREHOLDERS ON 31 DECEMBER 1996

| | Total number of shares | % of share capital and votes |
|---|---|---|
| 1. Nokia Corporation | 3 118 800 | 30,76 |
| 2. SP Tyres UK Limited | 2 000 000 | 19,73 |
| 3. Henderson Financial Management Ltd | 1 036 300 | 10,22* |
| 4. Pension Insurance Company Ilmarinen Ltd | 366 400 | 3,61 |
| 5. The Finnish Local Government Pensions Institution | 301 000 | 2,97 |
| 6. Pension Varma Mutual Insurance Company | 147 500 | 1,45 |
| 7. Suomi Mutual Life Assurance Company | 130 000 | 1,28 |
| 8. Salama Life Assurance Company Ltd. | 106 000 | 1,04 |
| 9. Industrial Insurance Company Ltd | 100 000 | 0,99 |
| 10. Tapiola General Mutual Insurance Company | 87 000 | 0,86 |
| Total | 7 393 000 | 72,91 |
| | | % of shares |
| Shares registered in the name of a nominee | 2 470 931 | 24,37 |
| (*Henderson Financial Management Ltd is included) | | |

## SHARE OWNERSHIP BREAKDOWN, 31 DECEMBER 1996

**By Number of Shares Owned**

| Number of shares | Number of shareholders | % of shareholders | Total number of shares | % of share capital |
|---|---|---|---|---|
| 1 - 100 | 291 | 34,77 | 22 089 | 0,22 |
| 101 - 1 000 | 440 | 52,57 | 188 028 | 1,85 |
| 1 001 - 10 000 | 70 | 8,36 | 204 038 | 2,01 |
| 10 001 - 100 000 | 28 | 3,35 | 1 084 500 | 10,70 |
| 100 001 - | 8 | 0,95 | 8 640 631 | 85,22 |
| Total | 837 | 100,00 | 10 139 286 | 100,00 |

**By Shareholder Category**

| | % of share capital |
|---|---|
| Corporations | 32,02 |
| Financial institutions | 8,81 |
| Public organisations | 9,94 |
| Non-profit organisations | 2,04 |
| Private individuals | 3,09 |
| Foreign shareholders* | 44,10 |
| Total | 100,00 |

* Includes also shares registered in the name of a nominee

# Board of directors

OLLI-PEKKA KALLASVUO, 43
Chief Financial Officer,
Nokia Corporation
Master of Law
Member of the Board since 1992
Chairman of the Board since 1992

LASSE KURKILAHTI, 48
President, Nokian Tyres Limited
M.Sc. (Econ.)
Member of the Board since 1988

JAMES FRASER, 49
B.Sc (Econ.)
Fellow of the Institute of Chartered Accountants
Director, SP Tyres UK Limited
Member of the Board since 1996

DAVID POWELL, 56
President, SP Tyres UK Limited
Fellow of Chartered Institute of Management Accountants
Member of the Board since 1988

JARMO RYTILAHTI, 52
President of Asko Group
M.Sc. (Econ.)
Member of the Board since 1 May, 1995

HEIKKI NISKAKANGAS, 49
Professor, Helsinki School of Economics
LLD, M.Sc. (Econ.)
Member of the Board since 1 May, 1995

TAPIO HINTIKKA, 54
President of Oy Hackman Ab
(since Jan, 1997)
M.Sc. (Eng.)
Chairman of the Board during 1990-1992
Member of the Board as from 15 March, 1995

*In front row from left to right: Tapio Hintikka, Olli-Pekka Kallasvuo, James Fraser*
*In back row from left to right: David Powell, Lasse Kurkilahti, Heikki Niskakangas, Jarmo Rytilahti*

# NOKIAN TYRES LIMITED, ORGANISATION

| | |
|---|---|
| President | Lasse Kurkilahti, 48 |
| Car tyres | Kim Gran, 42 |
| Heavy tyres | Antero Turunen, 51 |
| Bicycle tyres | Hannu Hemánus, 57 |
| Retreading materials | Keijo Vikman, 57 |
| | |
| Finance and Control | Jukka Lahti, 46 |
| Marketing | Pentti Rantala, 49 |
| Production | Reijo Korpela, 48 |
| Research and Development | Antero Juopperi, 42 |
| Quality | Ari J. Arvio, 45 |
| Purchasing | Vesa Rantanen, 55 |
| Personnel | Sirkka Hagman, 39 |
| Public Information | Raila Hietala-Hellman, 44 |

MANAGING DIRECTORS OF SUBSIDIARIES

| | |
|---|---|
| Nokian Däck Ab, Sweden | Per-Åke Beijersten, 45 |
| Nokian Dekk A/S, Norway | Rolf Erik Andersen, 58 |
| Nokian Reifen GmbH, Germany | Dieter Köppner, 44 |
| Nokian Reifen AG, Switzerland | Jakob Wanner, 58 |
| Nokian Tyres North America Ltd., Canada | Dennis Gaede, 53 |
| Vianor AS, Norway | Tor O. Dahle, 41 |

# CONTACT INFORMATION

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