

# DIRECTORS REMUNERATION POLICY 2020

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## DIRECTORS' REMUNERATION POLICY

This Policy presents the governance and principles of Directors' remuneration at Finnair Group. This Policy has been approved by the Board of Directors of Finnair Plc and is subject to advisory vote by the Annual General Meeting (AGM) in March 2020. The Shareholders' Nomination Board has reviewed this Policy.

**Purpose:** Remuneration at Finnair is based on the principles of performance, fairness and competitiveness. Remuneration shall support the achievement of Finnair's strategic goals and sustainability strategy, align the management's priorities with the interests of Finnair's shareholders, encourage behaviour consistent with Finnair's values, and reward for excellent performance. These principles apply to the CEO as well as the rest of the personnel (as stated in the internal Compensation Policy for the personnel).

Remuneration is designed to attract and retain the desired talent and to motivate the employees to deliver the strategy and

to maximize shareholder value creation. The targets and rewards in the incentive systems are balanced between long-term value creation and efficient achievement of short-term goals.

**Scope:** This Policy describes the principles and governance of the remuneration paid to the Company's Board of Directors and to the CEO. In the event that a Deputy was appointed to the CEO, the same principles would apply to the Deputy CEO.

**Minor amendments:** The Board of Directors may make minor amendments to the remuneration arrangements regarding the CEO described in the Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation.

**Discretion:** The Board of Directors has certain discretion defined in the terms of the various incentive plans to set, change, postpone or cancel the incentives and related payments.





**Remuneration Governance:**

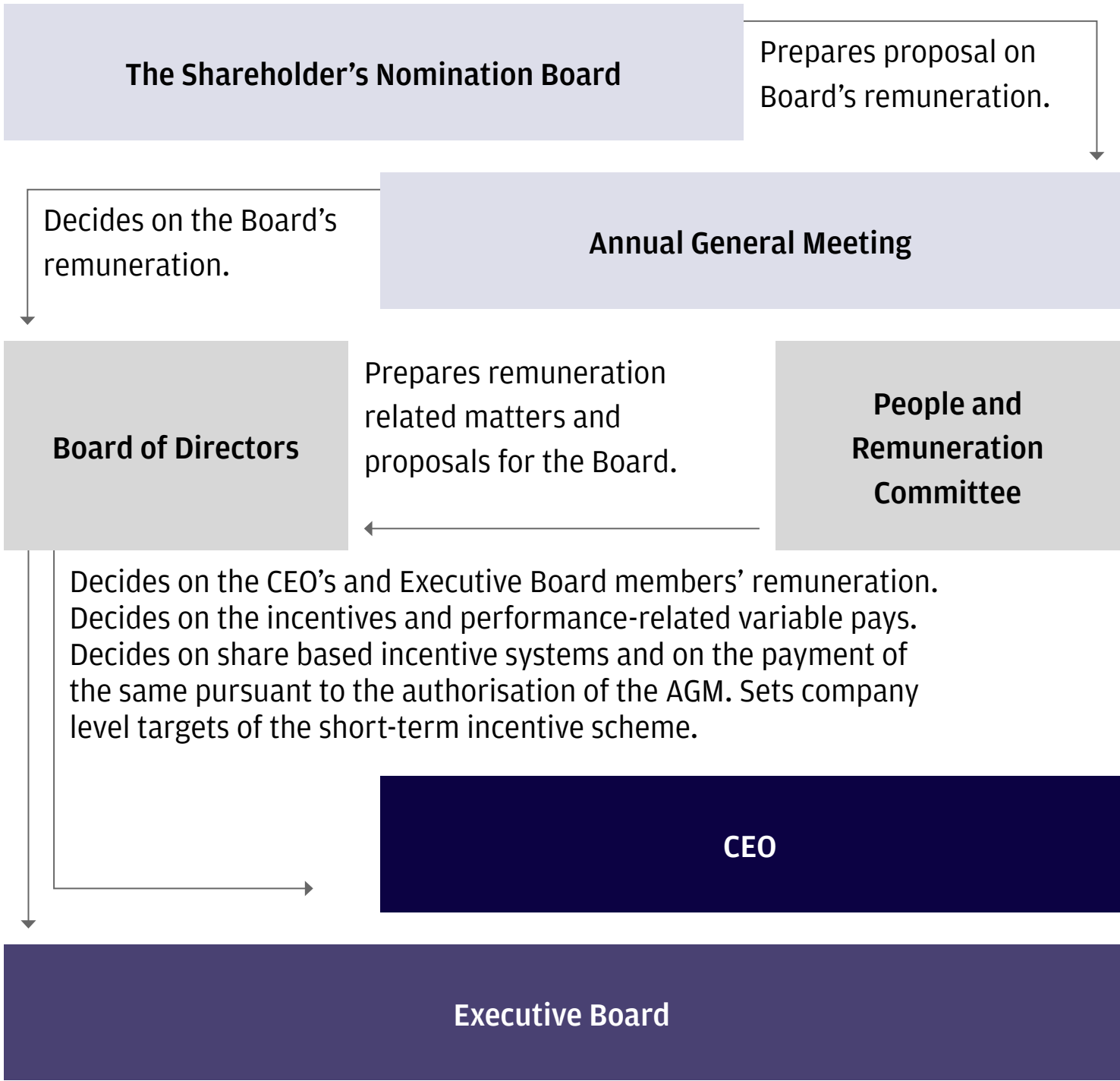
**The Board of Directors’ remuneration:**

The Board of Directors, with the assistance of its People and Remuneration Committee, reviews and prepares the remuneration principles for the members of the Board of Directors as defined in this Policy. The Shareholders’ Nomination Board is tasked to make its proposal to the AGM on the remuneration of the members of the Board of Directors. The proposal shall be based on the principles defined in this Policy. The AGM makes the final decision on the Board of Directors’ remuneration. According to the decision of the AGM, the Chairman of the Board of Directors is a member of the Shareholders’ Nomination Board as his/her role in providing insight regarding the Board of Directors’ work and composition is crucial. The Chairman of the Board of Directors is allowed to take part in all discussions and decisions of the Shareholders’ Nomination Board. To avoid conflict of interest, the Chairman of the Board of Directors cannot suggest to the Shareholders’ Nomination Board changes to the then current remuneration of the Chairman of the Board of Directors.

**The remuneration of the CEO:** The Board of Directors, with the assistance of its People and Remuneration Committee, reviews and approves the remuneration principles for the CEO as defined in this Policy. The Board of Directors also decides on the salary, incentive schemes and associated targets of the CEO based on preparatory work carried out by the Board of Directors’ People and Remuneration Committee.

The CEO normally participates in the People and Remuneration Committee’s meetings, except for matters relating to the CEO’s service terms and remuneration.

**REMUNERATION DECISION-MAKING PROCEDURE**





# REMUNERATION PRINCIPLES REGARDING THE CEO

Finnair’s approach to the CEO’s remuneration is that the remuneration should align the interest of the CEO with those of the company’s shareholders. Finnair uses various remuneration elements to attract, motivate and retain high performing individual with the right skills, capabilities and mindset. Performance correlates with the reward level, which promotes sustained high performance and focus to business targets and strategy execution. The remuneration structure and level should be comparable to the relevant national and industry benchmarks. The CEO is encouraged to accumulate and maintain a personal shareholding in Finnair.

## Fixed remuneration

Remuneration element	Purpose and link to strategy	Description
Base salary	The base salary should be sufficient to attract, retain and motivate a high-performing individual.	<p>Base salary is set by the Board of Directors, taking into account a number of factors, such as:</p> <ul style="list-style-type: none"><li>• recognition of the value of an individual’s personal performance and contribution to the business</li><li>• the individual’s skills and experience</li><li>• internal salary levels</li><li>• relevant external market conditions</li></ul> <p>Base salary is reviewed annually.</p>
Benefits and insurance coverage	Provides benefits and insurances in a cost-efficient way to attract and retain high-performance individual, and to familiarize him/her with Finnair’s products and services.	<p>Benefits include mobile phone benefit, staff ticket benefit and company car benefit in line with company policy.</p> <p>Insurances include free-time accident insurance, travel insurance, management liability insurance and the right to health insurance.</p> <p>Benefits are taxed according to applicable tax laws and regulations.</p> <p>No supplementary pension benefits are offered to the CEO.</p>





## Variable remuneration

Up-to-date descriptions of ongoing incentive plans are published on Finnair’s website at [finnair.com](https://finnair.com).

Remuneration element	Purpose and link to strategy	Description
Short Term Incentives (STI)	The STI is aimed at driving short-term (annual) performance against specific Group targets and individual objectives based on key strategic priorities for the year.	<p>The structure of the Short-term incentive plan is reviewed and decided annually by the Board of Directors. Performance is measured over a one-year period and potential rewards are paid in the following year.</p> <p>Performance criteria:</p> <ul style="list-style-type: none"><li>• Performance criteria is set annually by the Board based on the key priorities for the financial year. Criteria include both financial and non-financial criteria.</li><li>• The achievement of the criteria is confirmed by the Board of Directors after the end of the performance period.</li></ul> <p>Incentive opportunity for CEO:</p> <ul style="list-style-type: none"><li>• 30% of the base salary at the target level performance</li><li>• 60% of the base salary at maximum level performance</li></ul> <p>The variable pay is calculated from the base salary of the earning period</p>
Long Term Incentives (LTI)	The LTI is aimed at driving long-term (>1 year) performance against specific Group targets, as well as committing the CEO to the company and aligning the CEO’s interests with the interests of the shareholders.	<p>The terms and conditions for each Long-Term Incentive plan are decided annually by the Board of Directors.</p> <p>Performance criteria:</p> <ul style="list-style-type: none"><li>• Performance criteria for each plan are set by the Board of Directors based on the key priorities for the performance period.</li><li>• The achievement of the criteria is confirmed by the Board of Directors after the end of the performance period.</li></ul> <p>Incentive opportunity:</p> <ul style="list-style-type: none"><li>• The incentive opportunity at target level performance is 20% of the base salary</li><li>• The maximum combined value of STI and LTI paid in a year is limited to 120% of the annual base salary</li></ul> <p>Discretion and claw-back:</p> <ul style="list-style-type: none"><li>• The Board of Directors is entitled, subject to a particularly weighty reason, to change or cancel the incentive or to postpone its payment. The Board of Directors is entitled to remove a participant from the share plan if the person has committed a significant offence or acted in a manner detrimental to the company or contrary to the company’s interests. If a participant has committed a misconduct, the Company is, in addition, entitled to recover and collect from any reward already paid.</li></ul>
FlyShare – Employee Share Savings Plan	Encourages participant to become shareholder in the company, and thereby strengthens the individual’s interest in the development of Finnair’s shareholder value and rewards them in the long-term. FlyShare is available also to the CEO.	<p>The terms and conditions for each Employee Share Savings Plan are decided each year by the Board of Directors. The terms of the plan are described on <a href="https://finnair.com">finnair.com</a> website. Participation in the plan is voluntary. Through the plan, each Participant (including the CEO) is offered the opportunity to designate a part of his or her salary to be invested in Finnair shares.</p> <p>Incentive opportunity:</p> <ul style="list-style-type: none"><li>• After the shareholding period, Finnair will award each Participant matching shares in a defined relation to the number of shares purchased by the Participants during the savings period.</li></ul> <p>Discretion and clawback</p> <ul style="list-style-type: none"><li>• The Board of Directors has the right to postpone the transfer of Matching Shares or the right to cancel a Participant’s right to Matching Shares according to the rules of the Fly Share program.</li></ul>



**Termination of the service contract and severance pay**

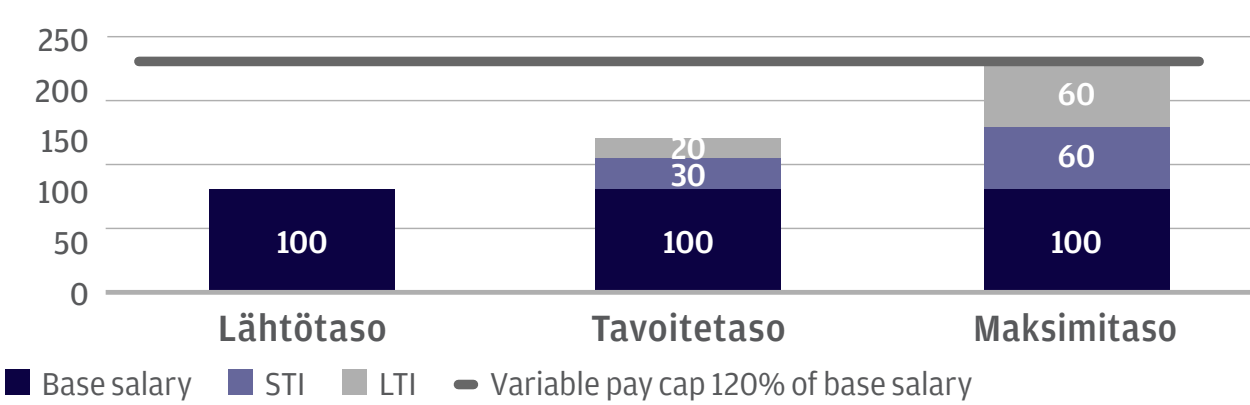
The notice period is six months for the Company and for the CEO. In the event that the Company terminates the service contract, the CEO is entitled to a severance pay corresponding to total salary for six months (base salary + fringe benefits) in addition to the salary for the notice period.

**Proportion of CEO remuneration elements**

The remuneration of the CEO is defined to be competitive with a significant part of the remuneration being performance-based.

- At target level performance, variable pay (STI + LTI) amount to 50% of CEO’s base salary.
- At maximum performance level, variable pay can amount to 120% of CEO’s base salary.

Proportion of CEO remuneration elements





# REMUNERATION PRINCIPLES REGARDING THE BOARD OF DIRECTORS

The purpose of the Board of Directors remuneration is to ensure that Finnair has an efficient and high performing Board consisting on highly competent professionals representing a diverse and relevant mix of skills, capabilities and experience. The Board of Directors’ remuneration should be transparent, reasonable and comparable to market levels. The members of the Board of Directors are not eligible for the company’s share incentive plans or other incentive plans. The remuneration can consist of annual fees and meeting fees. The members of the Board of Directors may be entitled to staff flight tickets. The AGM has the competence to deviate from the remuneration principles set out in this Policy.

Remuneration element	Purpose and link to strategy	Description
Annual remuneration	The annual remuneration should be sufficient to attract, retain and motivate high-performing individuals.	The Shareholders’ Nomination Board prepares and presents to the AGM its proposal on the remuneration of the members of the Board of Directors. The proposal should take into account the relevant market level and the time and effort required from the members of the Board of Directors, as well as additional responsibilities assigned to the members, such as chairmanship of the Board of Directors or its Committees.
Meeting fees	The meeting fees are intended to link part of the remuneration to the time and effort required from the members of the Board of Directors in respect of the meetings.	<p>The annual remuneration can be paid as a combination of Finnair’s shares and cash. Meeting fees are paid in cash. Different meeting fees can apply in case the meeting is participated by phone or other teleconferencing system, or if the meeting takes place elsewhere than in the participant’s country of residence.</p> <p>The latest Board fees are described on Finnair’s website at <a href="http://www.finnairgroup.com">www.finnairgroup.com</a>.</p>
Travel expenses	Intended to reimburse the members of the Board of Directors for reasonable costs and expenses related to their work.	The members of the Board are entitled to compensation for travel expenses in accordance with Finnair’s general travel rules.
Discount tickets	Intended to attract and retain the members of the Board of Directors and to familiarize them with Finnair’s products and services.	The members of the Board of Directors have a limited right to use discount tickets in accordance with Finnair’s staff ticket rules. Under the current rules, the members of the Board of Directors and their spouses are entitled to 4 return or 8 one-way tickets on Finnair flights per calendar year in Economy or Business Class. The fare of these tickets is zero, exclusive of any airport taxes, fees and charges, which are payable by the Directors and their spouses. These tickets constitute taxable income in Finland.