

**FINNAIR**

**REMUNERATION STATEMENT  
1 JAN-31 DEC 2016**





# REMUNERATION STATEMENT 2016

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## Introduction

This remuneration statement describes Finnair's remuneration policies and the remuneration of the senior management, i.e. the Board of Directors, the CEO and the members of the Executive Board in 2016. Further information is available on the company website at <https://investors.finnair.com/en>. The remuneration statement has been prepared based on the 2015 Finnish Corporate Governance Code for Listed Companies published by the Finnish Securities Market Association, and it also covers other key components of remuneration that we believe the readers are interested in.

## Total Compensation at Finnair

Remuneration and incentive structures take into consideration the effectiveness and costs of different forms of remuneration. Finnair's remuneration policies are compliant with local legislation, regulations and practices. The overall remuneration of Finnair's different personnel groups are compared annually to the local pay levels in similar tasks in every country in which the company operates.

The salary and other incentive structures applicable to the CEO, the members of the Executive Board, senior salaried employees, engineers and personnel based in units abroad are as follows:

- I. **Fixed pay:** base salary
- II. **Variable pay:** short and long-term incentives linked to company and individual performance
- III. **Employee benefits:** perquisites and other personnel benefits

Salaries, addendums and other compensation components of personnel groups other than those mentioned above are, for the most part, defined in their respective Finnish collective agreements. Outside Finland, Finnair follows the pay practices and collective agreements of each country of operation.

Employment benefits for all personnel include a staff ticket benefit in line with company policy, as well as a Sickness Fund for employees based in Finland. Certain personnel groups also have a car benefit and mobile phone benefit in line with company policy.

Finnair aims to make work rewarding and interesting through not only monetary incentives, but also by offering opportunities for development and job rotation within the company. Employees are satisfied at Finnair, as evidenced by a high average duration of employment and a very low employee turnover. The average of service years of all employees was 16.5 at year-end 2016.

## Computational monthly earnings of Finnair's Finnish personnel groups in 2016<sup>1)</sup>

Personnel group	Median <sup>2)</sup>		
	2016	2015	2014
Executive Board	24,633	20,412	18,486
Management Positions	11,296	9,848	8,517
Pilots	10,952	10,719	10,216
White Collar Employees	5,651	5,424	5,241
Technical Employees	5,070	5,110	5,116
Technical Service Workers	4,857	4,810	4,777
Cabin Crew	3,837	4,015	4,207
Ground Service Workers	3,796	3,821	3,911
Aviation Employees	3,748	3,593	3,551

<sup>1)</sup> Computational monthly earnings: Taxable gross earnings divided by 12 months.

<sup>2)</sup> The median pay describes the average salary of each group, or the point where half of the employees in the group earn more than the amount, and half earn less.

The calculations only include employees who earned pay for the full year. Temporary layoffs have been eliminated from the calculations. The calculations do not include tax exempt benefits or other untaxed forms of compensation, such as daily allowances. The data does not include pilots in supervisor roles. Long-term incentives are not included. The difference in the salary and remuneration of the Executive Board in 2015 and 2016 is explained by the larger composition of the Executive Board, which better supports the growth and strategy of the company. In addition, it was impacted by the STIs materialising at a higher level than previously due to the company's financial result.

Median earnings describe the average pay level of each personnel group, and are not indicative of the total personnel costs of that group. The median pay of pilots increased in 2016 reflecting among other things compensation for working on vacation days. The median earnings of white collar employees and management increased in 2016 due to higher short-term incentives based on company result. In addition, there were changes in management affecting the median pay: the size of the Executive Board increased to support the company's growth and strategy, and on the other hand, the number of other managerial personnel has decreased by about a third in recent years.

### Average years of service in Finnair's different personnel groups on 31 Dec 2016

Personnel group	Average years of service
Executive Board	6,0
Pilots	14,7
Management Positions	15,1
White Collar Employees	16,1
Technical Employees	24,8
Technical Service Workers	19,8
Cabin Crew	18,4
Ground Service Workers	18,9
Aviation Employees	20,5
Tour Operator Employees	14,7
Tour Operator Travel Guides	6,5
Tour Operator Professionals	10,9
Abroad Employees	7,4
<b>Average of personnel groups</b>	<b>16,5</b>

### Compensation is based on job grading

Finnair uses job grading as the basis for determining the compensation of the CEO, members of the Executive Board, white collar employees and personnel based in units abroad. Job grading is based on the significance of the job and responsibility within the organisation, rather than hierarchical reporting relationships. Job grading is tied to the job, and if a person changes from one job to another, his or her job grade may change. Job grading enables consistency in compensation-related decisions both internally and compared to the market.

### Variable pay

The aim of variable pay is to achieve a flexible and incentivising pay structure that is linked to the company's success and the individual's own performance. In addition, long-term incentives are aimed at committing the personnel and management to the company and to bringing their interests in line with the interests of shareholders. Performance targets are set by Finnair's Board of Directors.

## Short-term incentives

### Short-term incentive scheme

Finnair utilises performance-driven short-term incentives throughout its management. The incentive scheme comprises a process of target setting, performance evaluation and performance review. At the target level, the short-term variable pay ranges from 2.5-30 per cent of base salary, depending on the job grade. If an individual exceeds his or her targets substantially, the variable pay may, at a maximum, reach 5-60 per cent of the annual base salary. The short-term incentive scheme is based on the company's six-month budgeting period and the variable pay is paid semi-annually. The variable pay is calculated based on the individual's base salary for the period in question.

The short-term incentives for the CEO and other members of the Executive Board are determined on the basis of the half-yearly targets set by the Board of Directors. The targets are based on the company's business targets set by the Board of Directors for the period in question and on the targets set for the business area for which the individual in question is responsible. The targets are mainly based on financial measures but also on operative and quality KPIs, such as customer satisfaction.

The short-term incentive for the CEO and the members of the Executive Board corresponds to 30 per cent of the base salary at the target level and 60 per cent of the base salary at the maximum level

According to the government guidelines issued by the Finnish Cabinet Committee on Economic Policy on 13 August 2012, the short-term incentive for an individual may not exceed 60 per cent of the annual base salary in any given year. Respectively, according to guidelines issued on 13 May 2016, total incentives (includes both short-term, and long-term incentives) may not exceed 120 per cent of the annual base salary in any given year.

### Personnel fund

Finnair has a Personnel Fund owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined on the basis of targets set by the Board of Directors. The CEO, other members of the Executive Board and the participants of the performance share plan are not members of the Personnel Fund. Based on the comparable operating profit for 2016, 0.5 million euros will be transferred to the personnel fund.

## Long-term incentives

### Personnel share savings plan Fly Share

On 27 March 2013, Finnair's Board of Directors decided to launch Fly Share, an employee share savings plan. The plan encourages employees to become shareholders in the company, and thereby strengthens the employees' interest in the development of Finnair's shareholder value and rewards them in the long-term.



The plan consists of annually starting savings periods which are followed by a two-year shareholding period. Every new savings period is decided separately by the Finnair Board. The fourth savings period of the plan started on 1 July 2016.

Participation in the plan is voluntary. Through the plan, each eligible Finnair employee is offered the opportunity to save a part of his or her salary to be invested in Finnair shares. The amount of monthly savings can be 2-8 per cent of each participant's gross base salary per month, with the annual maximum savings set at 8,000 euros per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the publication dates of Finnair's interim results. Any dividends paid on purchased shares during the savings period will be automatically reinvested in Finnair shares on the next share purchase date following the payment of dividend.

After the two-year shareholding period, Finnair will award each participating employee one matching share for each two shares purchased. The awarded additional shares are taxable income for the recipient. In addition, employees participating in the plan for the first time are rewarded with 20 bonus shares after the first three months. Also the bonus shares are taxable income.

In 2016, the participants were awarded matching shares for the first time, as the two-year shareholding period of the first Fly Share plan ended in February, and Finnair delivered a total of 277,596 shares as awarded matching shares to the participants. On 20 December 2016, Finnair's Board of Directors decided on a new savings period to begin on 1 July 2017.

### **Performance-based long-term incentive plan for key personnel**

Finnair's Board of Directors approved on 7 February 2013 a new performance share plan for the key personnel of Finnair Group. The share plan replaced the previous program which expired at the end of 2012. The share plan encourages the management to work to increase long-term shareholder value. It has been designed in accordance with the principles of the statement by the Ministerial Committee on Economic Policy.

The share plan consists of annually commencing individual plans within which the participants have the opportunity to earn Finnair shares as a long-term incentive reward, if the performance targets set by the Board of Directors are achieved. The commencement of each new plan is subject to a separate approval of Finnair Board of Directors.

Each plan contains a three-year performance period which is followed by a restriction period, during which the participant may not sell or transfer the shares received as a reward. The restriction period is three years for the members of Finnair's Executive Board and one year for other participants. In addition, the CEO and members of Finnair's Executive Board are required to accumulate and once achieved, to maintain a share ownership in Finnair corresponding to his or her annual base salary as long as he or she holds a position as a member of Finnair's Executive Board.

The potential reward will be delivered in Finnair shares. The share delivery is split into two or three share tranches that will be delivered to participants during the three years following the performance period.

If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the CEO or other member of the Executive Board participating in the plan will be 30 per cent of his or her annual base salary. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60 per cent of the participant's annual base salary. For other key personnel, the target level for incentives is 20-25 per cent and maximum 40-50 per cent of the person's average annual base salary according to the job grade.

According to the rules of the share program, the maximum value of shares delivered to an individual participant based on the share program in any given year may not exceed 60 per cent of the person's annual base salary. Shares are taxable income for the recipient.

A person is not entitled to the incentive if he or she resigns or is dismissed before the date of payment. In addition, during the restriction period the Board of Directors is entitled, at its discretion, to reclaim already delivered shares from a person included in the share plan who resigns or whose service in the company is terminated.

The Board of Directors is also 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.

### **Performance criteria and realisation of the plans**

The performance criteria applied to the plan 2013-2015 were the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria were assigned weights of 60 per cent and 40 per cent, respectively. The achieved payout rate of the plan was 27 per cent of the maximum. The performance criterion for the share plan's bridge element was the operating EBIT margin. The targets of the supplementary plan were not achieved.

The performance criteria applied to the plans 2014-2016, 2015-2017 and 2016-2018 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). Both of these criteria had a weight of 50 per cent.

The target levels and maximum levels set for the criteria are based on long-term strategic objectives set by the company's Board of Directors. Performance against the criteria is monitored quarterly. On 20 December 2016, Finnair's Board of Directors decided on a new plan for years 2017-2019.

### Long-term incentive plan for pilots

Finnair's Board of Directors approved on 13 October 2014 a new long-term incentive plan for Finnair pilots. The plan is a part of the savings agreement between Finnair and the Finnish Airline Pilots' Association (SLL) that brings Finnair 17 million euros in permanent annual savings. The savings agreement was contingent on the realisation of the incentive plan.

The plan period is 2015-2018 and the prerequisite for rewarding pilots based on this plan is the achievement of the agreed cost savings over this time period. In addition, the company share price must be at least 4 euros at the end of the incentive plan. If these conditions are met, the pilots are entitled to a cash payment. The amount of the payment is based on the Finnair share price. The total payment is 12 million euros with a share price of 4 euros and 24 million euros with a share price of 8 euros, which is also the maximum earning of the plan. Divided over the four-year period, the annual earnings potential for one participant is equivalent to 5-10 per cent of the annual base salary.

There are approximately 700 pilots eligible to participate in the plan. The cash payment will be delivered in spring 2019, provided that the conditions stated above are met.

### Management remuneration decision-making procedure

**The Board of Directors' remuneration:** The Shareholders' Nomination Board prepares annually its proposal for the remuneration of the members of the Board of Directors. The Annual General Meeting of shareholders makes the final decision on the Board's remuneration.

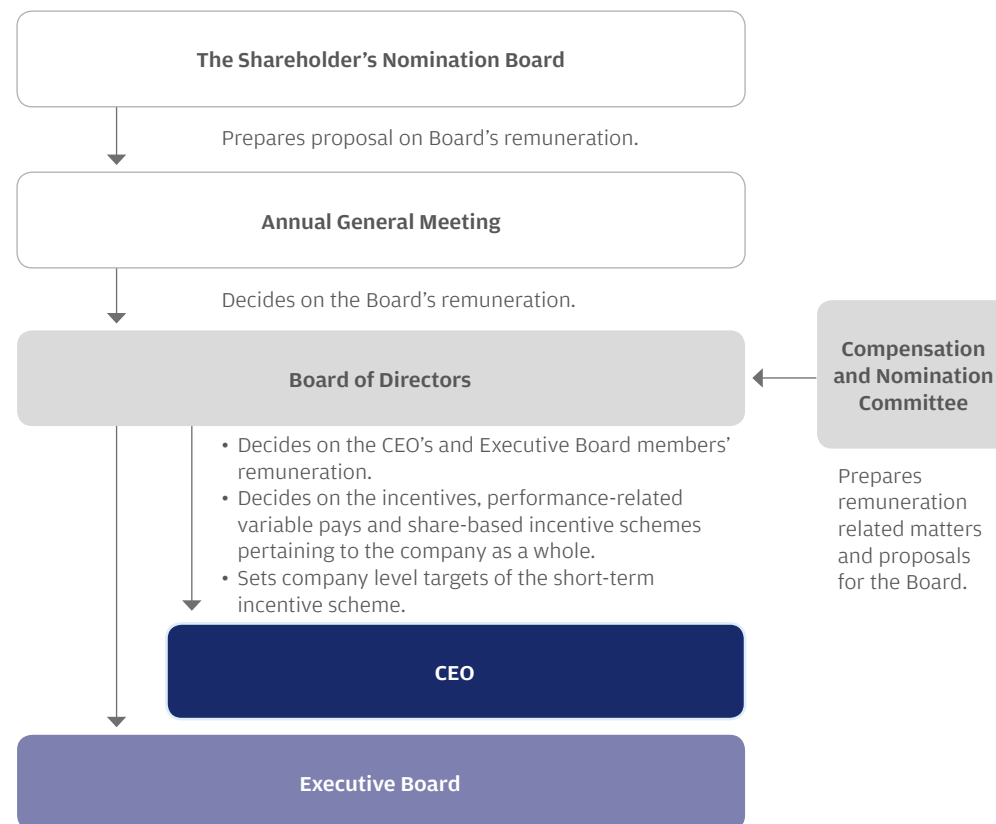
**The remuneration of the CEO and the Executive Board:** The Board decides on the salary, incentive schemes and associated targets of the CEO and other members of the Executive Board based on preparatory work carried out by the Board's Compensation and Nomination Committee. Decisions on remuneration have been made with consideration of the government guidelines.

### Remuneration of the Board of Directors in 2016

The Annual General Meeting (AGM) decides annually on the remuneration and other financial benefits of the members of the Board of Directors and its committees. The election and remuneration of the members of the Board are prepared by the Nomination Board formed by the representatives of the company's largest shareholders. The remuneration of the Board of Directors and its committees is paid in cash.

The members of the Board of Directors are not covered by the company's share incentive scheme or other incentive schemes.

### Remuneration decision-making procedure



The annual remuneration and meeting compensation decided by the 2016 AGM for the members of the Board of Directors are:

- Chairman's annual remuneration, 61,200 euros
- Deputy Chairman's annual remuneration, 32,400 euros
- Chairmen of the Audit Committee and Compensation and Nomination Committee, 32,400 euros, where these individuals are neither the Chairman nor the Deputy Chairman of the Board
- Other Board members' annual remuneration, 30,000 euros
- Meeting compensation paid per Board or committee meeting is 600 euros when the meeting takes place in the member's country of residence and 2,400 euros for other meetings. For telephone meetings, the fee is 600 euros.

The members of the Board of Directors are entitled to a compensation for travel expenses in accordance with Finnair's general travel rules. In addition, the members of the Board of Directors have a limited right to use staff tickets in accordance with Finnair's staff ticket rules. Under the current rules, the 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.

Annual remuneration for members of the Board of Directors has remained unchanged since 2008.

### Remuneration paid to Finnair Board of Directors in 2016

	Annual remuneration <sup>1)</sup>	Board meeting	Committee meetings	Meeting compensations in total	Taxable benefits <sup>2)</sup>	Total
<b>Members 1.1.-31.12.2016</b>						
Klaus Heinemann (chairman)	61,200	8/8	0/0	21,600	0	82,800
Maija-Liisa Friman	32,400	8/8	5/6	10,800	4,348	47,548
Gunvor Kronman	30,000	8/8	5/5	10,800	2,514	43,314
Jussi Itävuori	32,400	8/8	5/5	36,000	6,748	75,148
Jaana Tuominen	30,000	8/8	5/5	10,800	4,457	45,257
Nigel Turner	30,000	8/8	4/6	31,800	0	61,800
<b>Members 17.3.-31.12.2016</b>						
Jouko Karvinen (deputy chairman)	24,300	6/6	5/5	26,400	3,429	54,129
<b>Members 1.1.-17.3.2016</b>						
Harri Kerminen (deputy chairman)	8,100	2/2	3/3	4,800	0	12,900

Remuneration paid to the Board in 2016.

<sup>1)</sup> The remuneration is expressed at the annual level but paid in monthly instalments.

<sup>2)</sup> Taxable benefits include Finnair staff tickets. The members of the Board and their spouses have a right to use staff tickets in accordance with Finnair's staff ticket rule.

### Management remuneration in 2016

In 2016, Finnair's CEO was Pekka Vauramo. The Executive Board comprised nine members in addition to the CEO. In 2016, the Executive Board got three new members: Piia Karhu, Katri Harra-Salonen and Jaakko Schildt. Meanwhile Ville Iho left the Executive Board on 31st December 2016. The Executive Board members are presented on page 117.

In 2016, the long term incentives from the LTI program 2013-2015 were paid to the management, in two parts in June and December. The achieved payout of the program was 27 per cent of the maximum.

The differential between management remuneration in 2015 and 2016 is explained by the larger composition of the Executive Board in order to better support the company's growth and strategy, and the payment of the abovementioned LTI incentives for the first time in three years. Furthermore, it reflects the STI incentives being achieved at higher rates than previously due to the company's result.

### Supplementary pensions

#### The CEO

The CEO, Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. In addition, the CEO is entitled to defined-contribution pension insurance, where the contribution equals 20 per cent of the CEO's fixed annual salary (pension contribution under the supplementary scheme as of 2017). The supplementary pension includes vested rights. The pension age is the earliest possible retirement age under the Employees' Pension Act.

#### Executive Board

The members of the Executive Board accumulate pension in accordance with the Finnish Employees' Pensions Act. In addition, the company has a supplementary pension scheme that includes three members of the Executive Board. The supplementary pension arrangements for members of the Executive Board are collective within the meaning of Finnish tax laws. All supplementary pensions taken for the executives are defined contribution schemes. The annual contribution equals 10 per cent of the income for the year. The supplementary pension includes vested rights. The retirement age is 63 years. There are no Executive Board members with defined benefit supplementary agreements.

New Executive Board member service contracts concluded after 1 January 2013 do not include supplementary pension benefits.

### Termination of the service contract and severance pay

#### The CEO

According to Pekka Vauramo's service contract, both the CEO and the company have the right to terminate the service contract without a specific cause. The notice period is six months for both the company and the CEO.



In the event that the company terminates the service contract or the CEO resigns in connection with a transfer of control over the company, the CEO is entitled to a severance pay corresponding to monthly salary for twelve months in addition to the salary for the notice period. The severance pay does not apply if the CEO resigns or retires.

#### Executive Board

According to the service agreements of the Executive Board, both parties have the right to terminate the service contract without a specific cause. The maximum notice period is six months for both parties. In the event that the company terminates the agreement, the member of the Executive Board is entitled to a severance pay corresponding to the base salary of maximum of twelve months in addition to the salary for the notice period. This severance pay does not apply if the contract of employment is cancelled, if the executive terminates the contract or retires.

#### Other benefits

##### The CEO

CEO Pekka Vauramo's benefits include life insurance, free-time accident insurance, travel insurance, management liability insurance and medical insurance. The life insurance coverage starts at 20 per cent of annual pay and increases each year. The total sum may not, however, exceed 500,000 euros. The CEO also has a mobile phone benefit in line with company policy.

##### Executive Board

The benefits of the members of the Executive Board include free-time accident insurance, travel insurance, management liability insurance and the right to medical insurance. They also have a car benefit and mobile phone benefit in line with company policy.

Management remuneration, the company's long-term incentive plan and pension contributions are also described in Finnair Financial Statements in note 1.3.7 Employee benefits.

Salary and other remuneration paid, euros per year	CEO 2016 Pekka Vauramo	CEO 2015 Pekka Vauramo	Executive Board <sup>1)</sup> 2016	Executive Board <sup>1)</sup> 2015
<b>Base Salary<sup>2)</sup></b>				
The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors.	<b>In total, euros</b>	<b>648,912</b>	<b>648,948</b>	<b>1,686,867</b>
<b>Employee benefits</b>				
Employee benefits are described on page 113				
Car benefit, taxable value	0	0	60,201	47,025
Phone benefit, taxable value	240	240	1,887	1,370
Other taxable benefits <sup>3)</sup>	2,052	2,304	17,145	12,281
<b>In total, euros</b>	<b>2,292</b>	<b>2,544</b>	<b>79,234</b>	<b>60,676</b>
<b>Short-term incentives<sup>4)</sup></b>				
The principles are described on page 117	<b>In total, euros</b>	<b>260,889</b>	<b>215,252</b>	<b>588,791</b>
<b>Long-term incentives<sup>5)</sup></b>				
Key personnel LTI, monetary and share reward, total	80,793	0	76,383	0
Fly Share, monetary and share reward, total	0	0	13,552	0
<b>In total, euros</b>	<b>80,793</b>	<b>0</b>	<b>89,935</b>	<b>0</b>
<b>SALARY AND OTHER REMUNERATION PAID IN TOTAL</b>	<b>992,885</b>	<b>866,744</b>	<b>2,444,827</b>	<b>1,458,152</b>

<sup>1)</sup>Salary and remuneration included for Executive Board membership period only.

<sup>2)</sup>Base salary includes holiday bonus.

<sup>3)</sup>Other taxable benefits include health insurances and staff tickets.

<sup>4)</sup>Earning period for incentives paid in 2015 was 1 Jul 2014 - 30 Jun 2015 and for incentives paid in 2016 1 Jul 2015 - 30 Jun 2016.

<sup>5)</sup>No long-term incentives were paid in 2015.

The difference in the median pay of the Executive Board in 2015 and 2016 is explained by the larger composition of the Executive Board, which better supports the growth and strategy of the company. In addition, it was impacted by the STIs materialising at a higher level than previously due to the company's financial result.