

Minister of Economic Affairs
Mika Lintilä
PO Box 32
00023 Government

Dear Minister Lintilä,

As agreed, I am now returning to the question posed by you in our telephone conversation on 2 August 2017 regarding the decision made by the Finnair Board of Directors on 21 June 2016 on the defined-contribution supplementary pension granted to Finnair's CEO.

I would like to provide the following justifications to the decision taken in summer 2016 unanimously by the Board of Directors at that time:

As stated in Finnair's 2016 Remuneration Statement, the company's 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 is compared annually to the local pay levels in similar tasks in every country in which the company operates.

As part of this review, Finnair's Board of Directors conducts a comparison of overall management compensation on an annual basis. In addition, the Compensation and Nomination Committee of the Board made a separate survey in January-February 2016 specifically on the compensation of the Chief Executive Officer in comparison with a group of Finnish listed companies – including both companies where the government is one of the shareholders and those involving no government holding.

When the decision was made, Finnair's CEO already had a solid track record over three years on the implementation of the company's reform and growth strategy. At present, the results of the strategy implementation, the changes executed and the establishment of a strong corporate culture are evidenced even more clearly by the growth of the company, customer satisfaction, recruitments and a strong growth of shareholder value.

In its meeting on 7 March 2016, the Compensation and Nomination Committee of the Board discussed the overall compensation of the Chief Executive Officer, and started to prepare a proposal of a revision of the overall compensation to the Finnair Board of Directors. The revision was the first of its kind over the three years of the CEO's service by that date. The CEO compensation was reviewed both from the perspective of the general interests of the company and an appropriate and engaging overall compensation structure, and facts from the abovementioned comparison of CEO compensation in Finnish listed companies were used in the preparation.

Approximately 70% of listed companies covered by the comparison included supplementary pension as part of the overall compensation, including also those listed companies where the government is one of the shareholder. The Compensation and Nomination Committee considered including a supplementary pension into the overall compensation the most appropriate solution also for Finnair, as this was the compensation item where the difference to the comparison group was the largest.



The overall remuneration package of Finnair's CEO is in line with common market practices, and even based on statistics recently reported by Helsingin Sanomat, it does not represent the top levels among listed companies.

In making this decision and thereafter, Finnair has acted transparently: the company's Compensation and Nomination Committee informed the Ownership Steering Department of its future plans on 17 March 2016, i.e. approximately three months before the unanimous decision by the Board. On 21 June 2016, the Committee made a proposal for a decision to the Board of Directors of the company, which was adopted by the Board. The company disclosed the matter on its website on 9 August 2016. Finally, the Chairman of the Compensation and Nomination Committee discussed the matter as part of his presentation at Finnair's Annual General Meeting on 16 March 2017. Finnair did not receive feedback on the decision from the representatives of the government or any other shareholders in connection with the publication of the decision or in the Annual General Meeting.

In my view, Finnair's Board of Directors acted in the best interest of its shareholders, complied with existing legislation as well as other explicit obligations.

I started my service on Finnair's Board of Directors as a member in March 2016 and as Chairman this spring 2017. Hence, I was one of the members supporting the unanimous decision on 21 June 2016. I have verified the facts presented above with those concerned, since I was not yet a member of the Board when the preparations were made.

I respect the Minister's view that in your opinion the decision was not in line with the will of the government as a shareholder. I am also deeply sorry that, despite our clear objective and measures taken to keep the Ownership Steering well informed of our plans, it now appears that you as the responsible minister were only informed of the matter through the media. That must not happen in the future.

The Finnair team – lead by the Chief Executive Officer – is doing a magnificent job which is also widely reflected in the Finnish economy. In a difficult market environment, the people at Finnair have achieved great results that benefit the entire country. All shareholders have also clearly benefitted from these accomplishments.

We continue to need the support of our owners in these challenging conditions, in order to keep up the good performance.

Respectfully,

Jouko Karvinen
Chairman of Finnair's Board of Directors

