

**FINNAIR**

# Remuneration Statement 2014



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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 2014. Further information is also available on the company website at [www.finnairgroup.com](http://www.finnairgroup.com). We have prepared this remuneration statement based on Recommendation 47 of the 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

Finnair's aim is to recruit, motivate and develop employees to allow them to successfully implement the company's strategy. A motivating, fair, competitive and transparent remuneration structure has a significant effect on the company's ability to achieve this aim. Remuneration must also be competitive in terms of its costs. From the perspective of the competitive situation in the aviation industry and the implementation of Finnair's strategy, it is essential that the labour costs for all personnel groups are in line with the market level.

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. Collective labour agreements are available on the company website at [www.finnairgroup.com](http://www.finnairgroup.com).

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. Finnair systematically develops the competencies of employees and aims to create opportunities for promotions according to employees' development. Employees are satisfied at Finnair, as evidenced by a high average duration of employment and a very low employee turnover. The average service years of all employees was 17.4 at year-end 2014.

*Variable pay is linked to company and individual performance.*



#### Computational monthly earnings of Finnair's major Finnish personnel groups in 2014\*

Personnel Group	Median**	
	2014	2013
Executive Board	18,486	18,998
Pilots (SLL)	10,216	10,469
Management positions	8,517	9,004
White Collar Employees (FYT)	5,253	5,333
Engineers (FIRY)	5,154	5,305
Technical Employees (FT)	5,116	4,877
Technical Services (IAU)	4,777	4,577
Cabin Crew (SLSY)	4,207	4,152
Ground Services (IAU)	3,911	3,825
Aviation Employees (SLV)	3,551	3,486

\* Computational monthly earnings: Taxable gross earnings divided by 12 months. The calculations only include employees who earned pay for the full year. Temporary cabin crew 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 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.

#### Average years of service in Finnair's major Finnish personnel groups on 31 Dec 2014

Personnel Group	Average years of service
Executive Board	6.3
Pilots (SLL)	14.5
Management positions	15.7
White Collar Employees (FYT)	16.6
Engineers (FIRY)	21.7
Technical Employees (FT)	26.4
Technical Services (IAU)	19.9
Cabin Crew (SLSY)	20.7
Ground Services (IAU)	18.7
Aviation Employees (SLV)	21.9
Average of major Finnish personnel groups	19.2

#### 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, senior salaried employees, engineers 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. If a person changes from one job to another, his or her job grade may change. Job grading enables uniformity in compensation related decisions both internally and compared to the market.

#### Variable pay

Variable pay is linked to company and individual performance. The aim of variable pay in the form of short and long-term incentives 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 personnel and management to the company and to bring 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 is comprised of 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-year 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 and employee satisfaction.

In 2014, the short-term incentive for members of the Executive Board corresponded to 20 per cent of the base salary at the target level and 40 per cent of the base salary at the maximum level. The corresponding figures for the CEO were 30 per cent at the target level and 60 per cent 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.

#### **Personnel Fund**

Finnair has a Personnel Fund that is owned and controlled by 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 the 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. In 2014, the targets of the personnel fund were not reached.

#### **Long-term Incentives**

##### **Personnel share savings plan FlyShare**

On 27 March 2013, Finnair's Board of Directors decided to launch FlyShare, an employee share savings plan. The objective of the plan is to encourage employees to become shareholders in the company, and to thereby strengthen the employees' interest in the development of Finnair's shareholder value and reward them in the long-term.

The plan consists of annually starting savings periods which are followed by a two-year shareholding period. Of all employees invited to participate, approximately 20 per cent participated in the first savings period, which commenced on 1 July 2013. The second savings period commenced on 1 July 2014 and about 700 employees, or 15 per cent of those invited, enrolled for this period. Every new savings period is decided separately by the Finnair Board.

Participation in the plan is voluntary. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8 per cent and the minimum 2 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 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. The matching shares for the first FlyShare savings period 2013–2014 will be delivered in February 2016 and the matching shares for the second savings period 2014–2015 in February 2017. In addition, employees participating in the plan for the first time are rewarded with 20 bonus shares after the first three months.

##### **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 the Finnair Group. The share plan replaced the previous program which expired at the end of 2012. The purpose of the share plan is to encourage the management to work to increase long-term shareholder value. The share plan is in line with the government guidelines regarding the remuneration of executive management and key individuals.

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. For members of the Executive Board, the share delivery is split into three share tranches that will be delivered during the three years following the performance period (50 per cent, 30 per cent and 20 per cent). For other participants, the shares will be delivered in two tranches, 50 per cent each, during the two years following the performance period.

As a consequence of the transfer from the previous fixed three-year structure to a rolling structure, the new plan will not be in full effect until 2018. Because of this, a one-off bridge element has been added to the plan to supplement payments in 2016 and 2017, if a separate performance target is reached. No shares will be delivered under the long-term incentive plan in 2014 and 2015.

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.

The amounts of shares above are stated before tax. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the incentive at the time of payment.

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.

#### **2013–2015 share plan**

Finnair's Board of Directors approved the 2013–2015 share plan on 7 February 2013. The general terms of the performance share plan described above apply to this plan. On 31 December 2014, the number of employees eligible to participate in this plan was approximately 40.

The performance criteria applied to the plan for 2013–2015 are the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria are assigned weights of 60 per cent and 40 per cent, respectively. The performance criterion for the share plan's bridge element is the operating EBIT margin.

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.

#### **2014–2016 share plan**

Finnair's Board of Directors approved 2014–2016 share plan on 10 February 2014. The general terms of the performance share plan described above apply to this plan. On 31 December 2014, the number of employees eligible to participate in this plan was approximately 50.

The performance criteria applied to the plan for 2014–2016 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). These criteria are weighted equally (50 per cent and 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.

#### **2015–2017 share plan**

Finnair Board of Directors approved 2015–2017 share plan on 16 December 2014. The general terms of the performance share plan described above apply to this plan. The number of employees eligible to participate in this plan is approximately 60 persons.

The performance criteria applied to the plan for 2015–2017 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). These two criteria are assigned weights of 50% and 50%.

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.

#### **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 Air Line Pilots' Association (SLL) that brings Finnair 17 million euros in permanent annual savings. The savings agreement was contingent on the realization of the incentive plan.

The plan period is 2015–2018 and the prerequisite for rewarding pilots based on this plan is the materialization 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 23 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.

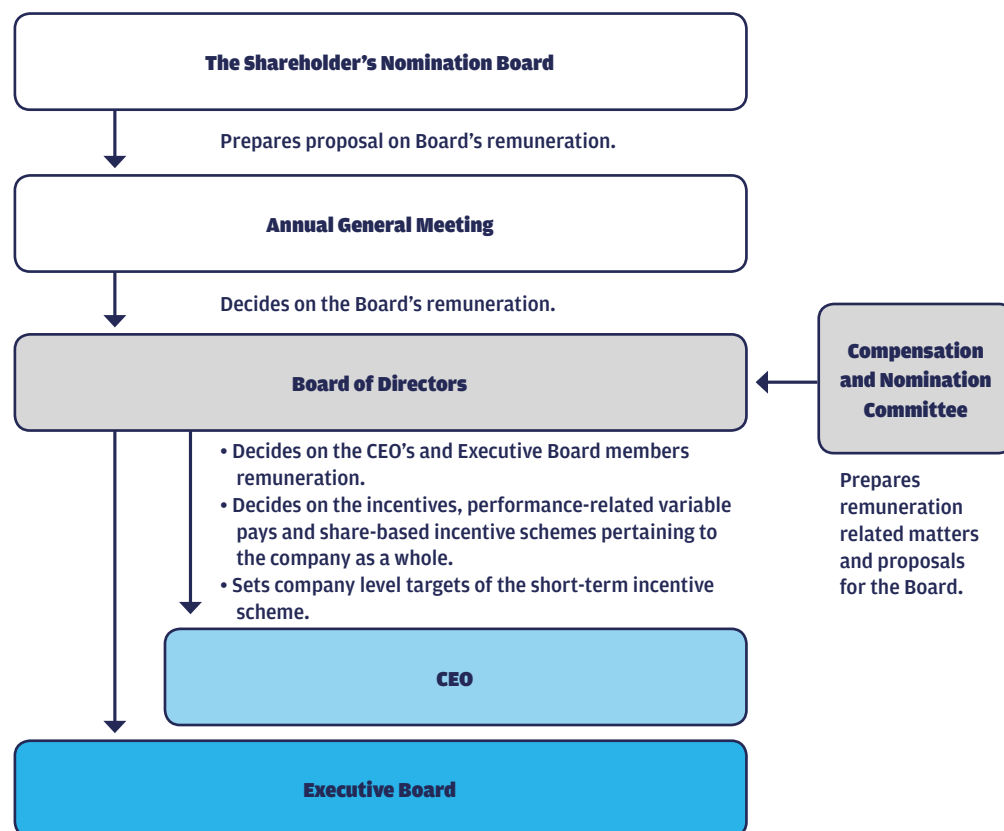
There are approximately 700 pilots eligible to participate in the plan. The cash payment will be delivered in spring 2019, provided that the conditions mentioned above are met.

## 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 decision-making procedure



## Remuneration of the Board of Directors in 2014

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. The annual remuneration and meeting compensation decided by the 2014 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
- Other Board members' annual remuneration, 30,000 euros
- Meeting compensation paid to members residing in Finland, 600 euros per Board or committee meeting
- Meeting compensation paid to members residing abroad, 2,400 euros per Board or committee meeting.

### Remuneration paid to Board of Directors in 2014

	Annual remuneration*	Board meetings	Committee meetings	Meeting compensation	Meeting compensations in total	Taxable benefits**	Total
<b>Members 1.1.-31.12.2014</b>							
<b>Klaus Heinemann (chairman)</b>	61,200.00	9/9	1/1	1,200.00	10,800.00	0.00	72,000.00
<b>Harri Kerminen (deputy chairman)</b>	32,400.00	9/9	10/11	600.00	9,600.00	1,465.72	43,465.72
<b>Maija-Liisa Friman</b>	30,000.00	9/9	6/6	600.00	7,800.00	9,466.19	47,266.19
<b>Gunvor Kronman</b>	30,000.00	8/9	5/5	600.00	6,600.00	3,538.39	40,138.39
<b>Jussi Itävuori</b>	30,000.00	9/9	5/5	2,400.00	24,000.00	6,361.26	60,361.26
<b>Members 27.3.-31.12.2014</b>							
<b>Jaana Tuominen</b>	22,500.00	7/7	3/3	600.00	4,800.00	0.00	27,300.00
<b>Nigel Turner</b>	22,500.00	7/7	5/5	2,400.00	26,400.00	1,395.40	50,295.40
<b>Members 1.1.-27.3.2014</b>							
<b>Merja Karhapää</b>	7,500.00	2/2	1/1	600.00	1,800.00	0.00	9,300.00
<b>Antti Kuosmanen</b>	7,500.00	0/2	1/2	600.00	600.00	0.00	8,100.00

Remunerations paid to the Board in 2014.

\* The remuneration is expressed at the annual level but paid in monthly instalments.

\*\* 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.

The members of the Board of Directors are entitled to a daily allowance and 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.

Finnair's remuneration for members of the Board of Directors has remained unchanged since 2008.

### **Management remuneration in 2014**

In 2014, Finnair's CEO was Pekka Vauramo. The Executive Board comprised seven members in addition to the CEO. SVP HR Manne Tiensuu and Chief Commercial Officer Allister Paterson resigned from the Executive Board during 2014. New SVP HR Eija Hakakari started on 1 October 2014 and new Chief Commercial Officer Juha Järvinen on 1 November 2014. In addition, on 31 December 2014 SVP Resource Management Gregory Kaldahl left Finnair. The Executive Board's salary and other remuneration paid in 2014 is presented on page 8.

In 2014, no long-term incentives were paid to management. Executive Board short-time incentives decreased from 2013 substantially due to financial performance of the company.

The long-term incentives paid to management and other key individuals in spring 2013 were based on the three-year share-based bonus scheme that started in 2010 and ended in 2012. The scheme is described in more detail in the remuneration statements for 2011 and 2012 as well as in the Financial Reports for 2010, 2011 and 2012, under Note 26, Share based payments. The Board of Directors approved the scheme on 4 February 2010, and its terms took into account the government guidelines regarding the remuneration of executive management and key individuals valid at the time. The long-term incentive payout for the three-year period was 43 per cent of the maximum level. The shares paid in spring 2013 are subject to a restriction on their sale until the end of 2015. In addition, the shares for which incentive based on the purchase of shares were paid in 2011 and 2013 were subject to an embargo on their sale until the end of 2013.

### **Supplementary pensions**

#### **The CEO**

The CEO, Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. The CEO does not have a supplementary pension benefit.

#### **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 some of the members of the Executive Board.

All 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 supplementary defined contribution pension arrangement applies to four members of the Executive Board. The annual contribution equals 10 per cent of the income for the year (income being defined in accordance with the Finnish Employees' Pensions Act). The supplementary pension includes vested rights. The retirement age is 63 years. There are no Executive Board members with defined benefit supplementary agreements.

New CEO and Executive Board member service contracts concluded after 1 January 2013 will 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, the CEO is entitled to a severance pay corresponding to total salary for twelve months (base salary + taxable value of benefits) 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 service agreements, 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 EUR 500,000. 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 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 2014 in note 3.8 Employee benefits.

Salary and other remuneration paid, euros per year	CEO 2014		CEOs 2013		Executive Board 2014 <sup>1)</sup>	Executive Board 2013 <sup>1)</sup>
		Pekka Vauramo	Mika Vehviläinen (CEO until 28.2.2013)	Ville Iho (Acting CEO 27.1.-31.5.2013) <sup>2)</sup>	Pekka Vauramo (CEO from 1.6.2013)	
<b>Base Salary<sup>3)</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>638,600</b>	<b>178,039</b>	<b>225,040</b>	<b>360,500</b>	<b>1,614,461</b>
<b>Employee benefits</b>						
Employee benefits are described on page 7.	Car benefit, taxable value	0	1,890	12,540	0	60,999
	Phone benefit, taxable value	240	40	240	140	1,720
	Housing benefit, taxable value	0	4,699	0	0	0
	Other taxable benefits <sup>8)</sup>	3,695	-	-	-	2,916
	<b>In total, euros</b>	<b>3,935</b>	<b>6,629</b>	<b>12,780</b>	<b>140</b>	<b>65,635</b>
<b>Short-term incentives<sup>4)</sup></b>						
Principles are described on pages 2–3.	Target payout, %	30%	20%	20%	30%	20%
	Payout, % of base salary <sup>5)</sup>	18%	53%	19%	0%	10%
	<b>In total, euros</b>	<b>117,508</b>	<b>94,382</b>	<b>43,299</b>	<b>0</b>	<b>163,104</b>
<b>Long-term incentives</b>						
<b>Long-term incentive plan 2010–2012</b>						
A three-year share plan. Principles are described on page 5.	Share-based incentive, paid in cash	0	0	102,850	0	0
	Share-based incentive, paid in shares, in euros <sup>6)</sup>	0	0	68,567	0	0
	Purchasing incentive, in euros <sup>7)</sup>	0	150,147	49,572	0	0
	<b>In total, euros</b>	<b>0</b>	<b>150,147</b>	<b>220,989</b>	<b>0</b>	<b>0</b>
<b>Salary and other remuneration paid in total</b>		<b>760,042</b>	<b>429,197</b>	<b>502,108</b>	<b>360,640</b>	<b>1,843,200</b>
						<b>3,304,017</b>

<sup>1)</sup> Salary and remuneration of Acting CEO Ville Iho for 2013 not included. Salary and remuneration included for Executive Board membership period only.

<sup>2)</sup> Ville Iho's salary and other remuneration for the full year 2013.

<sup>3)</sup> Base salary includes holiday bonus.

<sup>4)</sup> Earnings period for incentives paid in 2013 was 1 Jul 2012–30 Jun 2013 and for incentives paid in 2014 1 Jul 2013–30 Jun 2014.

<sup>5)</sup> Short-term incentives compared to base salaries.

<sup>6)</sup> The value determined by the share price (EUR 2,5337) at the time of payment.

<sup>7)</sup> Earnings period for purchasing incentives is the previous year.

<sup>8)</sup> Other taxable benefits include health insurances and staff tickets.