

# REMUNERATION STATEMENT

1.1.-31.12.2017



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## Introduction

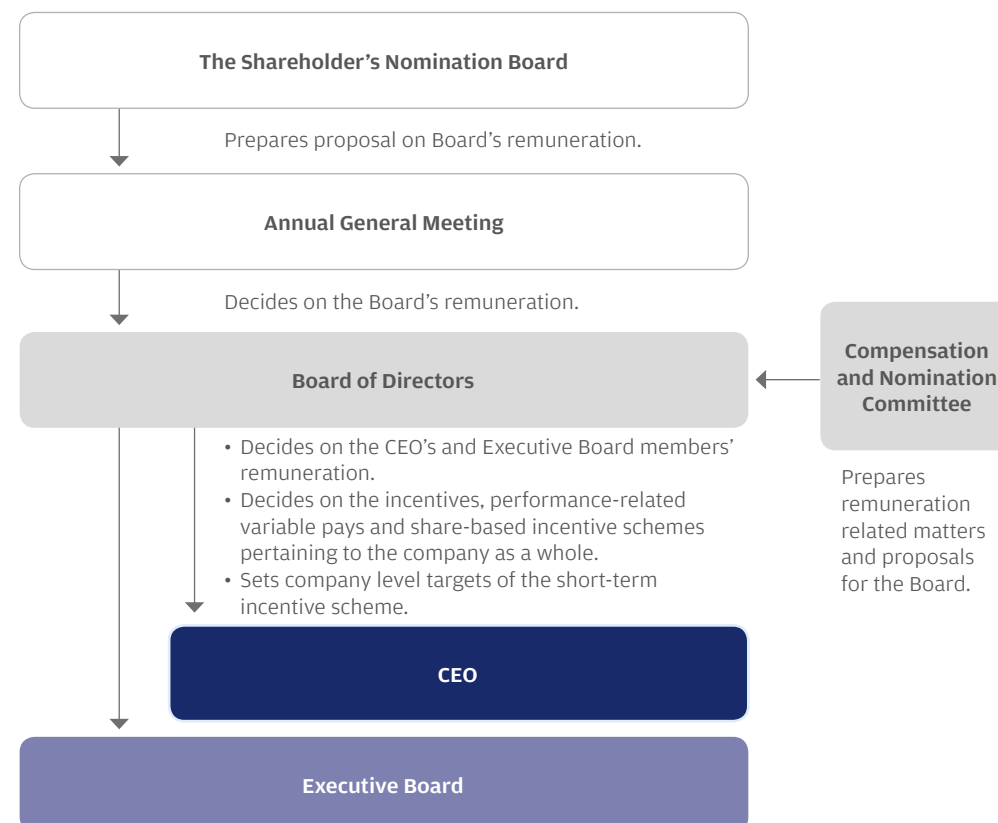
This remuneration statement describes Finnair's remuneration principles and the remuneration of the Board of Directors, the CEO and the members of the Executive Board in 2017. Further information is available on the company website at [www.finnairgroup.com](http://www.finnairgroup.com). This remuneration 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.

## Remuneration governance

**The Board of Directors' remuneration:** The Shareholders' Nomination Board annually prepares 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 of Directors 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 are made with consideration of the government guidelines on management remuneration.

## Remuneration decision-making procedure



## Remuneration principles at Finnair

Finnair's aim is to recruit, motivate and develop employees to enable 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.

Finnair's remuneration practices follow local legislation as well as guidelines regarding remuneration for the management of state-owned companies. The remuneration of Finnair's different personnel groups are compared annually to the local remuneration practices in each country where the company operates.

The remuneration applicable to the CEO, the members of the Executive Board, senior salaried employees and personnel based in units abroad are based on the following main elements:

**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

Finnair uses job grading as the basis for determining the compensation structure of the CEO, members of the Executive Board, senior salaried employees and personnel based in units abroad. Job grading is based on the significance of the job and responsibility within the organization, and it brings structure and enables uniformity in compensation-related decisions both internally and compared to the market.

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 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 number of service years of all employees was 15.0 at year-end 2017.

## Average years of service in Finnair's different personnel groups on 31 Dec 2017

Personnel group	Average years of service
Executive Board	5.6
Pilots	12.8
Management Positions	13.9
White Collar Employees	13.9
Technical Employees	24.7
Technical Service Workers	18.8
Cabin Crew	16.3
Ground Service Workers	15.0
Aviation Employees	19.5
Travel Agency Employees	14.6
Travel Guides	5.5
Travel Agency Professionals	9.5
Abroad Employees	10.9
<b>Average of personnel groups</b>	<b>15.0</b>

## Variable pay

The aim of variable pay is to drive performance to support the achievement of Finnair's strategic targets. Long-term incentives are also aimed at committing the personnel and management to the company and aligning their interests to the interests of shareholders. Performance targets for the CEO and members of the Executive Board are set by Finnair's Board of Directors.

### Short-term incentives (STI)

The purpose of the short-term incentive (STI) plan is to drive individual and organizational performance and support rapid implementation of strategic initiatives. When target level performance is achieved, the STI payout 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 payout may, at a maximum, reach 5–60 per cent of base salary. The variable pay is calculated based on the individual's base salary for the period in question.

To support rapid implementation of strategic initiatives and to help react to the fast changing market environment, Finnair operates a bi-annual (six-month) performance period. As of 2018, the CEO and members of the Executive Board will change to an annual (twelve-month) performance period while other employees eligible for the STI plan will continue with the bi-annual performance period.

The STI for the CEO and other members of the Executive Board is determined based on financial, operative and quality measures as set by the Board of Directors.

The STI 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. The combined value of short-term and long-term incentives paid out during any calendar year may not exceed 120 per cent of the annual gross base salary.

### 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 eligible for the Personnel Fund payout. In 2017, 116 per cent of the targets of the personnel fund were reached based on company performance. As a result, 6.7 million euros will be transferred to the fund.

### Employee 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. In December 2017, Finnair's Board of Directors decided to continue the plan with a new savings period that starts on 1 July 2018.

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. 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. The bonus shares are also taxable income.

In 2017, Finnair delivered a total of 167,353 shares as awarded matching shares to the participants for the 2014–2015 saving period.

### Performance share plan for key personnel

Finnair operates a performance share plan which is aimed at a limited amount of key personnel. The purpose of the arrangement is to motivate the management to work to increase the shareholder value in the long-term and to commit the management to the company.

The Board of Directors decided in December 2016 upon a new performance share plan structure, with the first period covering the years 2017–2019. In December 2017, Finnair's Board of Directors decided on a new period covering the years 2018–2020. In the revised structure, the annually commencing performance share plans include a three-year performance period as before. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the free disposal of the participants after delivery.

The members of Finnair's Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the Executive Board.

The maximum combined value of all variable compensation paid to an individual participant in any given calendar year may not exceed 120 per cent of the participant's annual gross base salary.

Within the plan, the participants have the opportunity to earn Finnair shares, if the performance targets set by the Board of Directors for the plan are achieved. The potential share rewards for the period 2018-2020 will be delivered to the participants in the spring 2021.

If the targets set for the plan for years 2018-2020 are fully achieved, the maximum number of shares to be delivered based on this plan is approximately 370,000 shares. This number of shares represents a gross earning, from which applicable payroll tax is deducted and the remaining net-value is delivered to the participants in shares.

The number of employees eligible to participate in the plan 2018-2020 is approximately 70 persons.

A person is not entitled to the incentive if he or she resigns or is dismissed before the date of payment. The Board of Directors is also entitled, for 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 payout of the performance share plans**

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). These criteria are weighted equally (50 per cent and 50 per cent).

The achieved payout rate was 118 per cent of the 2014-2016 plan, while the target was 100 per cent and the maximum 200 per cent.

The performance criteria applied to the plans 2017-2019 and 2018-2020 are earnings per share (EPS) and revenue growth.

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 Airline 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 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.

#### **Extra reward 2017**

The year was a great success for Finnair, and it was decided to reward Finnair employees with an extra reward of up to 2,000 euros per employee in January 2018 payroll. The CEO and members of the Executive Board are excluded from the reward.

## Other remuneration and terms of employment for the CEO and members of the Executive Board

### Supplementary pensions

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 a 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 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 two members of the Executive Board. 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.

### Termination of the service contract and severance pay

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 the 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.

According to the service agreements of the Executive Board members, 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

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.

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.

### Remuneration of the CEO and members of the Executive Board in 2017

In 2017, Finnair's CEO was Pekka Vauramo. The Executive Board comprised eight members in addition to the CEO. The Executive Board members are presented on page 119 in the Annual Report 2017.

In 2017, the rewards from the Performance share plan 2014–2016 were paid to the management in one batch in March. The targets of the program were achieved by 118 per cent, while the target was 100 percent and the maximum 200 per cent.

The differences between management remuneration in 2016 and 2017 are mainly due to the 2014–2016 LTI incentives being achieved at higher rate than in the previous year due to the company's result.



Salary and other remuneration paid, euros per year		CEO 2017	CEO 2016	Executive Board <sup>1</sup> 2017	Executive Board <sup>1</sup> 2016
		Pekka Vauramo	Pekka Vauramo		
<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>648,964</b>	<b>648,912</b>	<b>1,764,987</b>	<b>1,686,867</b>
<b>Employee benefits</b>					
Employee benefits are described on page 112					
	Car benefit, taxable value	0	0	54,234	60,201
	Phone benefit, taxable value	240	240	1,920	1,887
	Other taxable benefits <sup>3</sup>	2,297	2,052	16,674	17,145
	<b>In total, euros</b>	<b>2,537</b>	<b>2,292</b>	<b>72,828</b>	<b>79,234</b>
<b>Short-term incentives<sup>4</sup></b>					
The principles are described on page 113					
	<b>In total, euros</b>	<b>236,070</b>	<b>260,889</b>	<b>621,394</b>	<b>588,791</b>
<b>Long-term incentives</b>					
	Key personnel LTI, monetary and share reward, total	224,851	80,793	326,057	76,383
	Fly Share, monetary and share reward, total	5,888	0	6,563	13,552
	<b>In total, euros</b>	<b>230,739</b>	<b>80,793</b>	<b>332,620</b>	<b>89,935</b>
<b>Supplementary pensions (defined contribution)</b>					
	<b>In total, euros</b>	<b>123,600</b>	<b>0</b>	<b>57,150</b>	<b>78,155</b>
<b>SALARY AND OTHER REMUNERATION PAID IN TOTAL</b>		<b>1,241,910</b>	<b>992,886</b>	<b>2,848,979</b>	<b>2,522,982</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 2016 was 1 Jul 2015–30 Jun 2016 and for incentives paid in 2017 1 Jul 2016–30 Jun 2017.

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.

## Remuneration of the Board of Directors in 2017

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 2017 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 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.

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

## Remuneration paid to Finnair Board of Directors in 2017

	Annual remuneration <sup>1)</sup>	Board meetings	Committee meetings	Meeting compensations in total	Taxable benefits <sup>2)</sup>	Total
<b>Members 1.1.-31.12.2017</b>						
Jouko Karvinen (deputy chairman until 16.3. and chairman from 16.3.)	54,000	8/8	1/1	15,600	3,156	72,756
Maija-Liisa Friman	33,750	8/8	7/7	9,600	8,910	52,260
Jussi Itävuori	33,750	8/8	5/5	13,200	462	47,412
Jaana Tuominen	30,000	8/8	5/5	7,800	1,808	39,608
<b>Members 16.3.-31.12.2017</b>						
Colm Barrington (deputy chairman)	22,800	7/7	6/6	15,600	1,834	40,234
Mengmeng Du	22,500	7/7	6/6	19,200	3,139	44,839
Jonas Mårtensson	22,500	7/7	3/4	11,400	0	33,900
<b>Members 1.1.-16.3.2017</b>						
Klaus Heinemann (chairman)	15,300	2/2	0/0	4,800	0	20,100
Nigel Turner	7,500	2/2	1/1	7,200	0	14,700
Gunvor Kronman	7,500	2/2	1/1	1,800	389	9,689

Remuneration paid to the Board in 2017.

<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.