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**LETTER FROM  
PEOPLE AND  
REMUNERATION  
COMMITTEE CHAIR**

Dear Shareholders,  
It's all about people. We see that the Five-star customer experience can be made real by committed, talented and wellbeing employees. The success of our people enables our growth and transformation. Therefore, our people is the starting point of everything.

For the People and Remuneration Committee, 2018 was an eventful year where the CEO change and incentive plan developments were key focus areas. In addition, the committee charter and committee name were updated during the year to further emphasize and support Finnair's People Strategy.

After the announcement by CEO Pekka Vauramo that he will leave Finnair, the Board formed a task group to lead the search for a successor. In September, it was announced that Topi Manner had been appointed to become new CEO and that CFO Pekka Vähähyyppä would act as interim CEO until the end of 2018. The new CEO's terms of employment are presented on [page 7](#) of this statement.

The incentives paid in 2018 both for personnel and management increased significantly due to the strong financial results in 2017. Remuneration practices are evalu-

**"THE SUCCESS OF OUR  
PEOPLE ENABLES OUR  
GROWTH AND  
TRANSFORMATION."**

ated and developed on an ongoing basis and during 2018 it was decided that the Personnel Fund will, as of 2019, be expanded to cover the remaining units that have so far not been covered by the plan. This will support Finnair's desire to share its success with all employees. Another decision was to move all Short-Term Incentive (STI) eligible employees to a 12-month measurement period as of 2019, which aligns it with the company's annual financial results and the corresponding measurement period for the management.

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 may be interesting.

**Jaana Tuominen**  
**Chair of the People and**  
**Remuneration Committee**



# REMUNERATION GOVERNANCE AND PRINCIPLES

## Remuneration Governance

**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 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 People and Remuneration Committee. Decisions on remuneration are made with consideration of the government guidelines on management remuneration.

## 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.

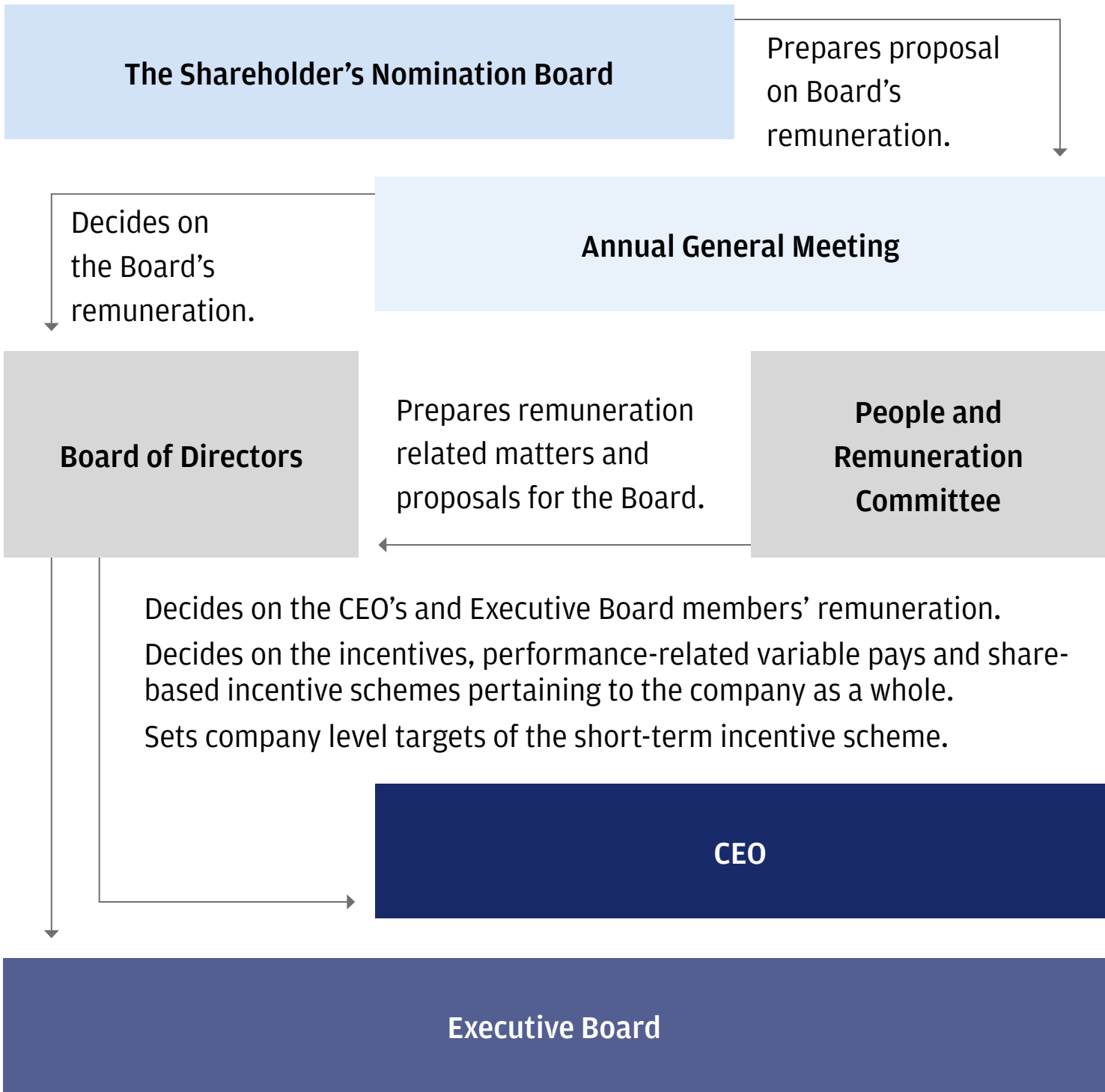
Finnair’s remuneration practices follow local legislation as well as guidelines regarding remuneration for the management of state-owned companies. The remuneration of Finnair’s different personnel groups are compared regularly to the local remuneration practices in each country where the company operates.

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 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.

## REMUNERATION DECISION-MAKING PROCEDURE



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 mobile phone benefit and a staff ticket benefit in line with company policy. Certain personnel groups also have a car 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 positive WeTogether employee survey results where the overall index was 3,77 and there was a significant improvement in the leadership index, which was 3,94. Finnair also has a high average duration of employment and a very low employee turnover (4%). The average of service years of all employees was 13,8 at year-end 2018.

### Incentive plans

The aim of Finnair's incentive plans 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 align 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 position. 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.

During 2018, the CEO and members of the Executive Board had an annual (twelve-month) and other eligible had a bi-annual (six-month) performance period. As of 2019, also other eligible employees will have the same annual performance period instead of the previous bi-annual. This change will simplify and align the incentive with the

company's annual results and with the Executive Boards corresponding 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.

### 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. In 2018, 100% per cent of the targets of the personnel fund were reached based on company performance. As a result, 6.8 million euros will be transferred to the fund. As of 2019, the Personnel Fund will be expanded to those units that so far have not been part of the Personnel Fund after which all employees will be covered by the Personnel Fund (excluding the CEO, other members of the Executive Board and the participants of the performance share plan).

### Extra reward

In January 2018, an extra reward of up to 2,000 euros per employee was paid to personnel based on the successful

**”THE AIM OF FINNAIR’S INCENTIVE PLANS IS TO DRIVE PERFORMANCE TO SUPPORT THE ACHIEVEMENT OF FINNAIR’S STRATEGIC TARGETS.”**



turnaround in the company. The CEO and members of the Executive Board were excluded from the reward.

**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. The sixth savings period of the plan started on 1 July 2018 with 21% of all personnel enrolling to the savings period.

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. Also the bonus shares are taxable income.

In 2018, Finnair delivered a total of 102,529 shares as awarded matching shares to the participants of the 2015-2016 saving period.

**Performance criteria and achievements**

LTI plan	Performance criteria	Achievement
2014-2016	Return on Capital Employed (ROCE), 50% weight Total Shareholder Return (TSR), 50% weight	118% of maximum 200%
2015-2017	Return on Capital Employed (ROCE), 50% weight Total Shareholder Return (TSR), 50% weight	192% of maximum 200%
2016-2018	Return on Capital Employed (ROCE), 50% weight Total Shareholder Return (TSR), 50% weight	period ongoing
2017-2019	Earnings Per Share (EPS), 50% weight Revenue growth, 50% weight	period ongoing
2018-2020	Earnings Per Share (EPS), 50% weight Revenue growth, 50% weight	period ongoing
2019-2021	Earnings Per Share (EPS), 50% weight Revenue growth, 50% weight	period ongoing

**Performance Share Plan for key personnel**

Finnair’s Board of Directors decided on 21 December 2016 to establish a new Performance Share Plan structure for top management and nominated key personnel. The purpose of the arrangement is to align the interest of participants with those of Finnair’s shareholders by creating a long-term equity interest for the participants.

The annually commencing plans include a three-year performance period and the potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the participants’ free disposal after delivery.

The latest LTI plan period covers years 2019-2021 and the potential share rewards will be delivered to the participants in

the spring 2022. If the targets are fully achieved, the maximum number of shares to be delivered based on this plan is approximately 590,000 shares. This number of shares represents a gross earning, from which the 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 2019-2021 is approximately 70 persons.

The members of Finnair’s Executive Board are expected to retain at least fifty per cent of the net shares received based on the arrangement until their share ownership in Finnair corresponds to at least their annual gross base salary.

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.

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. A person is not

entitled to the incentive if he or she resigns or is dismissed before the date of payment.

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 regularly.

**Long-term incentive plan for pilots**

Finnair’s Board of Directors approved a one-off long-term incentive plan for Finnair pilots in October 2014. The plan covered the years 2015–2018 and was a part of the savings agreement between Finnair and SLL in September 2014 that should bring Finnair 17 million euros in permanent annual savings in pilot costs. The prerequisite for rewarding pilots based on this plan was the materialization of the agreed cost savings over 2015–2018.

It was announced on 25 October 2018 that the long-term incentive plan for Finnair pilots is discontinued, because the saving targets set as a prerequisite for implementing the share-linked plan will not be reached over the agreed time period.

Remuneration and terms of employment for the CEO and members of the Executive Board

	CEO	Executive Board
Base Salary	Fixed monthly salary (including phone, car and medical insurance benefits). As of 1.1.2019, CEO's monthly base salary is 62,000 EUR.	Fixed monthly salary (including phone, car and medical insurance benefits).
Short Term Incentive (STI) plan	Performance period: 12 months Performance criteria defined annually by Board of Directors Incentive opportunities: Target 30% / maximum 60% of annual base salary	
Long Term Incentive (LTI) plan	Performance period: Annually commencing 3-year programs Performance criteria defined annually by Board of Directors Incentive opportunities: Target 20% / combined maximum STI and LTI payout limited to 120% of annual base salary	
Share ownership requirement	CEO and members of the Executive Board are expected to retain at least fifty per cent of the net shares received based on the LTI plans until their share ownership in Finnair corresponds to at least their annual gross base salary.	
Supplementary Pension	No supplementary pension benefit.	Two Executive Board members who have joined before 1 January 2013 have a defined contribution benefit (10% of TyEl salary). Executive Board member whose service contracts have been concluded after 1 January 2013 do not have supplementary pension benefits.
Insurances	Free-time accident insurance, travel insurance, management liability insurance and the right to medical insurance.	
Termination of the service contract and severance pay	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 six months (base salary + taxable value of benefits) in addition to the salary for the notice period.	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.

REMUNERATION  
OF THE CEO AND  
MEMBERS OF THE  
EXECUTIVE BOARD  
IN 2018

In 2018, Finnair’s CEO was Pekka Vauramo until 4 September when it was announced that Topi Manner has been appointed as CEO as of 1 January 2019. Finnair’s CFO Pekka Vähähyppä acted as interim CEO between 4 September and 31 December. Pekka Vauramo’s service term ended 31 October 2018.

The Executive Board comprised eight members in addition to the CEO. The Executive Board members are presented on Finnair’s [website](#).

In 2018, the rewards from the Performance share plan 2015–2017 were paid to the management in one batch in March. The targets of the program were achieved by 192 per cent, while the target was 100 percent and maximum 200 per cent.

The Executive Board moved in 2018 to an annual short term incentive period from the earlier bi-annual period in 2017. This change meant that only short term incentives paid during 2018 related to second half of 2017.

The differences between management remuneration in 2018 and 2017 reflect mainly the 2015–2017 LTI incentives, that were achieved at higher rates due to the company’s result than in the previous LTI incentives.

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 for the CEO and members of the Executive Board

Salary and other remuneration paid, euros per year	Interim CEO 2018	CEO 2018	CEO 2017	Executive Board 20185	Executive Board 2017
	(4.9.2018–31.12.2018) Pekka Vähähyppä5	Pekka Vauramo4	Pekka Vauramo		
Base Salary1					
The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors.					
In total, euros	118,687	681,925	648,964	1,720,375	1,764,987
Employee benefits					
Car benefit, taxable value	4,115	0	0	55,315	54,234
Phone benefit, taxable value	78	200	240	1,842	1,920
Other taxable benefits2	834	2,198	2,297	15,851	16,674
In total, euros	5,027	2,398	2,537	73,008	72,828
Short-term incentives3					
In total, euros	0	152,584	236,070	410,992	621,394
Long-term incentives					
Key personnel LTI, monetary and share reward, total	0	381,409	224,851	831,531	326,057
Fly Share, monetary and share reward, total	0	10,429	5,888	18,248	6,563
In total, euros	0	391,838	230,739	849,779	332,620
Supplementary pensions (defined contribution)					
In total, euros	0	227,904	123,600	56,543	57,150
Salary and other remuneration paid in total	123,714	1,456,648	1,241,910	3,110,696	2,848,979

1 Base salary includes holiday bonus.  
2 Other taxable benefits include health insurances and staff tickets.  
3 Earning period for incentives paid in 2018 was 1 Jul 2017–31 Dec 2017 and for incentives paid in 2017 1 Jul 2016–30 Jun 2017.  
4 Pekka Vauramo’s 2018 compensation includes all compensation paid until 31 October 2018 when his service contract ended. Base salary includes earned but unused holidays that was paid out. Pekka Vauramo’s supplementary pension includes besides the 2017 contribution, also the 2018 contribution which was paid already in 2018 due to the end of his service contract.  
5 Pekka Vähähyppä’s compensation is split into two parts based on the compensation paid during period he acted as interim CEO (4.9.2018–31.12.2018) and the period as member of the Executive Board (1.1.2018–3.9.2018).



REMUNERATION  
OF THE BOARD OF  
DIRECTORS IN 2018

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 2018 AGM for the members of the Board of Directors are:

- Chair of the Board’s annual remuneration, 61,200 euros
- Deputy Chair of the Board’s annual remuneration, 32,400 euros
- Chair’s of the Audit Committee and Compensation and Nomination Committee, 32,400 euros, where these individuals are neither the Chair nor the Deputy Chair 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 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 2018

Members 1.1.–31.12.2018	Annual remuneration <sup>1</sup>	Board meetings	Committee meetings	Meeting compensations in total	Taxable benefits <sup>2</sup>	Total
Jouko Karvinen (chair)	61,200	10/10	0/0	19,800	8,308	89,308
Colm Barrington (deputy chair)	35,700	10/10	6/6	34,800	0	70,500
Maija-Liisa Friman	32,850	10/10	6/6	11,400	6,950	51,200
Mengmeng Du	30,000	10/10	5/5	25,200	2,708	57,908
Jonas Mårtensson	30,000	8/10	4/5	22,200	0	52,200
Jaana Tuominen	31,800	10/10	5/5	10,800	4,676	47,276
Members 20.3.–31.12.2018						
Montie Brewer	22,500	9/9	5/5	19,200	0	41,700
Henrik Kjellberg	22,500	9/9	5/5	22,800	413	45,713
Members 1.1.–20.3.2018						
Jussi Itävuori	8,550	2/2	1/1	4,800	421	13,771

Remuneration paid to the Board in 2018.  
<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.



CONTACT  
INFORMATION

House of Travel and Transportation  
Finnair Oyj  
Tietotie 9 A (Helsinki Airport)  
01053 FINNAIR

Tel. +358 600 0 81881 (1,25 €/answered call + local charge)



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