



REMUNERATION STATEMENT 2019

2	Letter from People and Remuneration Committee chair	7	Remuneration of the CEO and members of the Executive Board in 2019
3	Remuneration governance and principles	8	Remuneration of the Board of Directors in 2019
3	Remuneration Governance		
3	Remuneration Principles		
3	Incentive plans		
6	Remuneration and terms of employment for the CEO and members of the Executive Board		



LETTER FROM PEOPLE AND REMUNERATION COMMITTEE CHAIR

”FINNAIR’S SUCCESS IS BASED
ON EMPLOYEE COMMITMENT,
TALENT AND WELLBEING.”

Dear Shareholders,
Employees make it happen. Finnair’s success is dependent on employee commitment, talent and wellbeing. The success of our employees enables our sustainable, profitable growth and our strategy emphasizes genuine collaboration, target oriented leadership and new ways of working.

During the year, there were several changes in the Executive Board during 2019 with five new Executive Board members in addition to CEO Topi Manner. We feel confident that the renewed management will deliver the strategy.

Finnair operates several incentive plans and they are reviewed annually to ensure they support the achievement of Finnair’s strategic goals and align the management’s priorities with the interests of Finnair’s shareholders. The criteria for Finnair’s short- and long-term incentive plan are set annually by the Board of Directors and are based on key targets for the performance periods in question. The short-term incentives paid during 2019 to the Executive Board members were on average 18% of annual salary (based on 2018 performance), which was lower than the previous year. The long-term incentives paid

during 2019 to the Executive Board members were on average 51% of annual salary (based on 2016–2018 performance) as a result of exceeding set targets during the performance period. CEO Topi Manner joined Finnair as of 1 January 2019 and hence did not receive any short- or long-term incentive payment during 2019 from previous years’ performance.

The People and Remuneration Committee also prepared the new Director’s Remuneration Policy for 2020 based on the new Finnish Corporate Governance Code 2020 for Listed Companies published by the Finnish Securities Market Association. The new Director’s Remuneration Policy will be presented to the Annual General Meeting and published on Finnair’s website. Based on the new Corporate Governance Code, also the annual remuneration report will be renewed in the future starting with the 2020 remuneration report. This remuneration statement has been prepared based on the 2015 Finnish Corporate Governance Code, 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 makes its proposal annually for the remuneration of the members of the Board of Directors. The AGM makes the final decision on the Board of Directors’ remuneration. According to the decision of the AGM, the Chairman of the Board of Directors is a member of the Shareholders’ Nomination Board as his/her role in providing insight regarding the Board of Directors’ work and composition is crucial. The Chairman of the Board of Directors is allowed to take part in all discussions and decisions of the Shareholders’ Nomination. To avoid conflict of interest, the Chairman of the Board of Directors cannot suggest to the Shareholders’ Nomination Board changes to the then current remuneration of the Chairman of the Board of Directors.

The remuneration of the CEO and Executive Board:

The Board of Directors, with the assistance of its People and Remuneration Committee, reviews and approves the remuneration principles for the CEO and Executive Board, based on preparatory work carried out by the Board of Directors’ People and Remuneration Committee.

The Board of Directors also decides on the salary, incentive schemes and associated targets of the CEO and the Executive Board based on preparatory work carried out by the Board of Directors’ People and Remuneration Committee.

The CEO normally participates in the People and Remuneration Committee’s meetings, except for matters relating to the CEO’s service terms and remuneration.

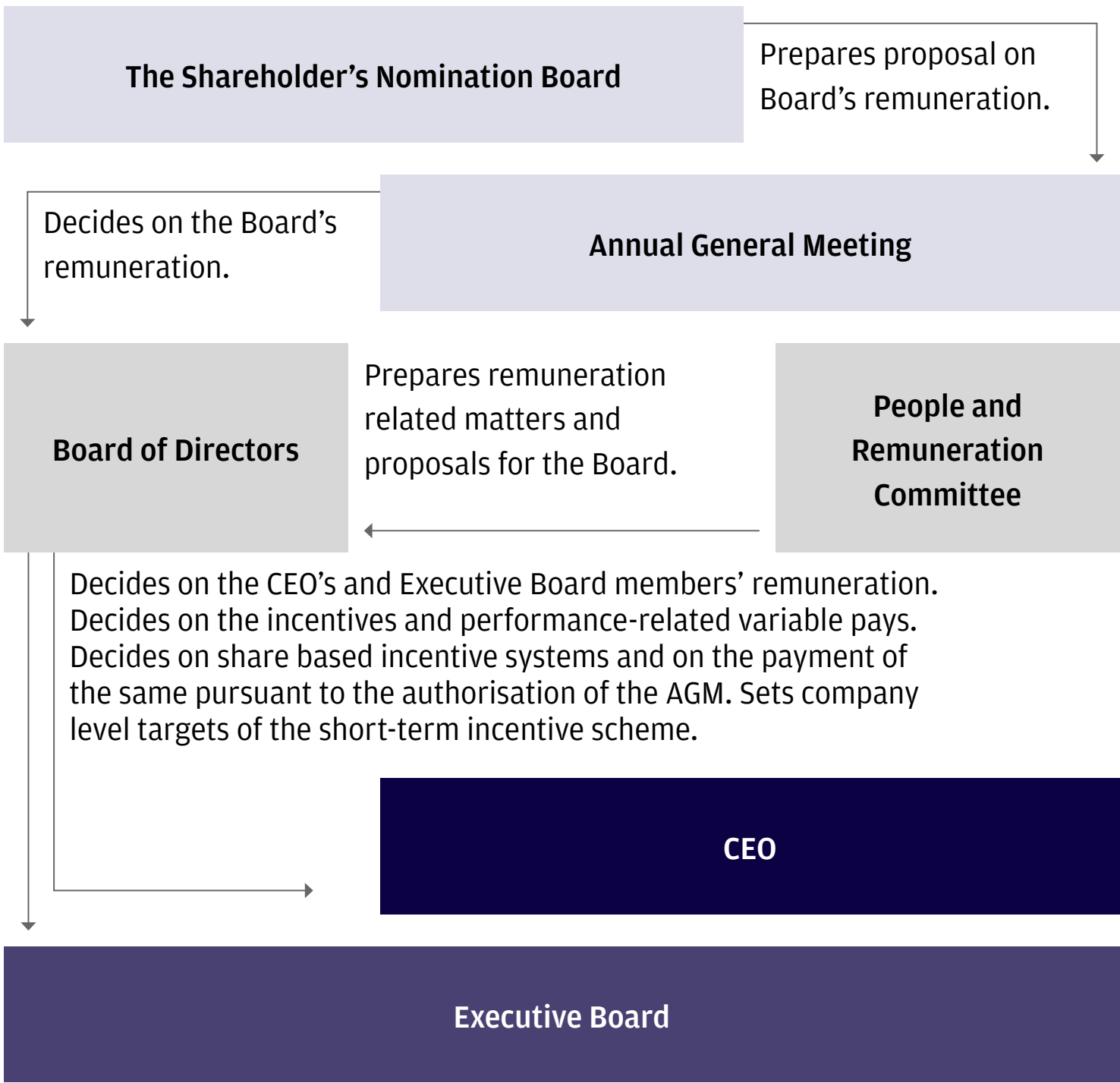
Remuneration Principles

Remuneration at Finnair is based on the principles of performance, fairness and competitiveness. Remuneration shall support the achievement of Finnair’s strategic goals, align the management’s priorities with the interests of Finnair’s shareholders, encourage behaviour consistent with Finnair’s values, and reward for excellent performance. These principles apply to the CEO, the Executive Board, as well as the rest of the personnel.

Incentive plans

The aim of Finnair’s incentive plans is to drive performance to support the achievement of the company’s strategic goals.

REMUNERATION DECISION-MAKING PROCEDURE





ment of Finnair’s strategic targets. Long-term incentives are also aimed at fostering employee and management commitment 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. The Board has certain discretion defined in the terms of the various incentive plans to set, change, postpone or cancel the incentives and related payments.

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.

The STI plan is based on an annual (twelve-month) performance period. The STI for the

CEO and other members of the Executive Board is determined based on key strategic targets set by the Board of Directors for the financial year.

Profit-sharing plan (Personnel fund)

Finnair has a Profit-sharing plan in which a share of Finnair’s profits is allocated to the personnel. The share of profit is determined on the basis of targets set by the Board of Directors. All Finnair employees are eligible for the profit-sharing plan, excluding the CEO, other members of the Executive Board and the participants of the performance share plan. In 2019, 6.8 million euros was transferred to the personnel based on the performance in 2018 as 100 per cent of the targets of the profit-sharing plan were reached (of a maximum of 200%). For employees working in Finland the share of profit is channeled to the Personnel Fund and for employees working outside Finland the share is paid via normal payroll.

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 upon separately by the Finnair Board. The seventh savings period of the plan started on 1 July 2019.

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.

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 2019, Finnair delivered a total of 105,112 shares as awarded matching shares to the participants of the 2016–2017 saving period.

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 the years 2020-2022 and the potential share rewards will be delivered to the participants in the spring of 2023. If the targets are fully achieved, the maximum number of shares to be delivered based on this plan is approximately 650,000 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 2020-2022 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.

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, 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 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	187% of maximum 200%
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, 16,7% weight Unit cost (CASK) constant fuel price and currencies 33,3% weight	period ongoing
2020-2022	Earnings Per Share (EPS), 50% weight Unit cost (CASK) constant fuel price and currencies, 50% weight	period ongoing

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.



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). At the end of 2019, CEO's monthly base salary was 62.000 EUR.	Fixed monthly salary (including phone benefit).
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	None	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 2019

At the end of 2019, the Executive Board comprised 9 members in addition to the CEO. The Executive Board members are presented on Finnair’s [website](#). CEO Topi Manner joined Finnair as of 1 January 2019 and hence did not receive any short- or long-term incentive payment during 2019 from previous years’ performance.

Remuneration paid, euros per year		CEO 2019	Interim CEO 2018 (4.9.2018–31.12.2018)	CEO 2018	Executive Board 2019 ⁶	Executive Board 2018 ⁴
		Topi Manner	Pekka Vähähyppä ⁴	Pekka Vauramo ⁵		
Base Salary ¹						
The monthly salaries of the CEO	In total, euros	751,597	118,687	681,925	2,077,996	1,720,375
Employee benefits						
	Car benefit, taxable value	15,480	4,115	0	43,307	55,315
	Phone benefit, taxable value	240	78	200	2,080	1,842
	Other taxable benefits ²	1,768	834	2,198	12,456	15,851
	In total, euros	17,488	5,027	2,398	57,843	73,008
Short-term incentives ³						
	In total, euros	0	0	152,584	288,699	410,992
Long-term incentives						
	Key personnel LTI, monetary and share reward, total	0	0	381,409	880,706	831,531
	Fly Share, monetary and share reward, total	120	0	10,429	18,725	18,248
	In total, euros	120	0	391,838	899,431	849,779
Supplementary pensions (defined contribution)						
	In total, euros	0	0	227,904	51,143	56,543
Remuneration paid in total		769,205	123,714	1,456,648	3,375,112	3,110,696

¹ Base salary includes holiday bonus.
² Other taxable benefits include health insurances and staff tickets.
³ Earning period for incentives paid in 2019 was 1 Jan 2018–31 Dec 2018 and for incentives paid in 2018 1 Jul 2017–31 Dec 2017.
⁴ Pekka Vähähyppä’s compensation is based on the compensation paid during period he acted as interim CEO (4.9.2018–31.12.2018).
⁵ Pekka Vauramo's 2018 compensation include 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.
⁶ Salary and remuneration included for Executive Board membership period only.

Management remuneration, the company’s long-term incentive plan and pension contributions are also described in Finnair Financial Statements in note 1.3.8. Employee benefits.



REMUNERATION OF THE BOARD OF DIRECTORS IN 2019

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 was 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
- Chairs 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 compensation is 600 euros.

The members of the Board of Directors are entitled to 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 on 2019

	Annual remuneration ¹	Board meetings	Committee meetings	Meeting compensations in total	Taxable benefits ²	Total
Members 1.1.-31.12.2019						
Jouko Karvinen (chair)	61,200	8/8	0/0	13,200	3,507	77,907
Colm Barrington (deputy chair)	32,400	8/8	5/5	19,200	4,384	55,984
Mengmeng Du	30,000	8/8	5/5	13,200	1,576	44,776
Jaana Tuominen	32,400	8/8	5/5	6,000	2,497	40,897
Montie Brewer	30,000	8/8	5/5	17,400	0	47,400
Henrik Kjellberg	30,000	8/8	5/5	17,400	0	47,400
Members 20.3.-31.12.2019						
Jukka Erlund	24,300	7/7	4/4	5,400	0	29,700
Tiina Alahuhta-Kasko	22,500	7/7	4/4	4,800	0	27,300
Members 1.1.-20.3.2019						
Jonas Mårtensson	7,500	2/2	1/1	5,400	1,404	14,304
Maija-Liisa Friman	8,100	1/2	1/1	1,200	2,188	11,488

Remuneration paid to the Board in 2019.

¹ The remuneration is expressed at the annual level but paid in monthly instalments.

² 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.



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