

FINNAIR

CORPORATE GOVERNANCE STATEMENT
1 JAN-31 DEC 2016





CORPORATE GOVERNANCE STATEMENT 2016

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Regulatory framework

This Corporate Governance Statement is prepared in accordance with the Finnish Corporate Governance Code 2015 for listed companies. It sets out the governing bodies and the principles of governance of Finnair Plc. Finnair complies with the recommendations of the Code without exceptions.

The principal legislative authorities on corporate governance of Finnish listed companies are the Companies Act, the Securities Market Act, the Market Abuse Regulation (MAR), the regulations and guidelines issued by the Financial Supervision, the rules and instructions for listed companies issued by Nasdaq Helsinki and the Finnish Corporate Governance Code, all of which are complied with by Finnair. Company specific authorities on the governance of Finnair are the Articles of Association and the procedures specified Finnair's Board of Directors and Executive Board.

The Articles of Association, the published procedures and other additional information on Finnair's corporate governance can be found at Finnair's internet site at <https://investors.finnair.com/en/governance>. The

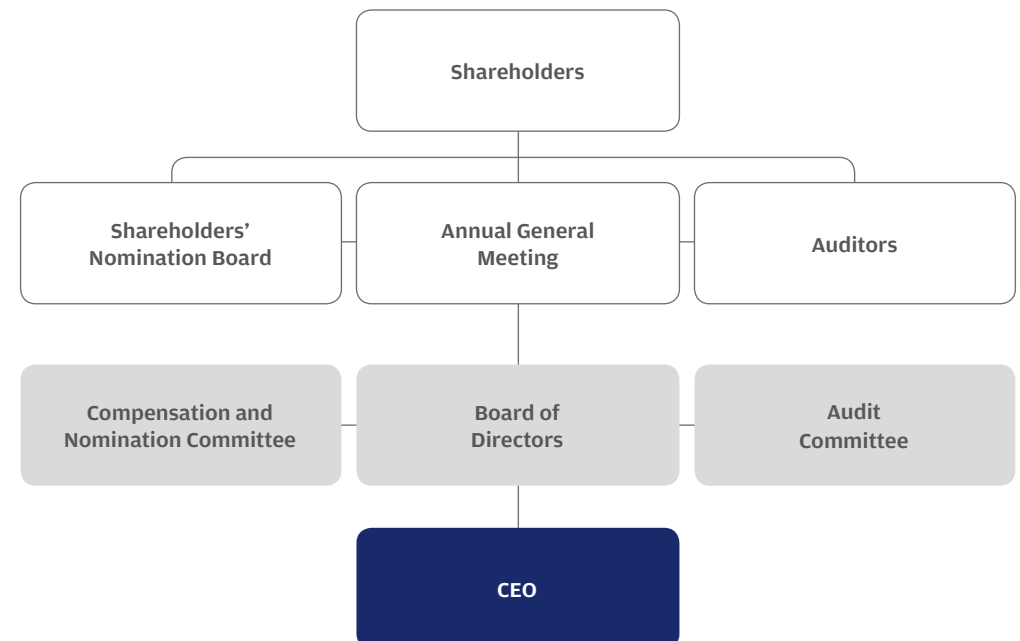
Corporate Governance Code is publicly available on the website of the Securities Market Association's website at www.cgfinland.fi.

This statement has been reviewed by Finnair's Audit Committee and Board of Directors, and it has been prepared as a separate report from the Board of Directors' Report. Finnair's audit firm, PricewaterhouseCoopers, has verified that the description contained herein and in the financial statements of the main features of internal control and risk management related to the financial reporting process are consistent.

Governing bodies

The governing bodies of Finnair pursuant to the Companies Act and the Articles of Association are the General Meeting of Shareholders, the Board of Directors (the "Board") and the Chief Executive Officer (the "CEO"). The roles of the governing bodies are described below.

Governing bodies of Finnair



General Meetings

The ultimate authority in Finnair is vested in the General Meeting of Shareholders. An Annual General Meeting (the “AGM”) must be held each year by the end of May.

The competence of the General Meeting of Shareholders is set out in the Companies Act and in Finnair’s Articles of Association. The AGM shall annually decide on the following matters:

- adoption of the financial statements and the consolidated financial statements
- the use of the profit shown on the balance sheet
- the discharging of the Members of the Board and the CEO from liability
- the appointment of the Members of the Board and their remunerations
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

The Board convenes the General Meetings of Shareholders by publishing a notice not earlier than three months and not later than three weeks before the date of the meeting and always at least nine days before the record date of the meeting. The notice shall be published as a stock exchange release and on Finnair’s website.

Each shareholder who is registered on the record date as a shareholder in the company’s public register of shareholders, maintained by Euroclear Finland Oy, has the right to participate in the General Meeting of Shareholders. If a holder of nominee-registered shares wishes to participate in the meeting, he or she has to register temporarily in the register of shareholders. Furthermore, in order to attend the meeting, a shareholder must register for the meeting in the manner defined in the notice convening the meeting.

A shareholder has the right to have a matter falling within the competence of the General Meeting of Shareholders addressed by the meeting, if the shareholder so demands in writing from the Board by the date announced on Finnair’s internet site.

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair’s internet site within two weeks of the meeting.

2016 Annual General Meeting

Finnair’s AGM 2016 was held in Helsinki on 17 March. A total of 320 shareholders, representing 66 per cent of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members, candidates for Board membership and the auditors of the company were present in the meeting.

Auditor

The company’s auditor in 2016 was PricewaterhouseCoopers, and Mikko Nieminen was the auditor with principal responsibility appointed by it. The audit fees paid in 2016 amounted to 0.2 million euros, and the fees for other services rendered amounted to 0.3 million euros.

Shareholders' Nomination Board

The AGM 2013 decided to establish a permanent Shareholders' Nomination Board. The term of the Nomination Board continues until further notice. The previous practice since 2008 was that a Shareholders' Nomination Committee was established annually by the AGMs.

The purpose and task of the Nomination Board is to prepare and present to the AGM, and, if necessary, to an Extraordinary General Meeting, proposals on the remuneration of the members of the Board, on the number of members of the Board and on the members of the Board. In addition, the task of the Nomination Board is to seek potential future candidates for Board members. The Nomination Board shall forward its proposals to the company's Board by 31 January each year.

The Nomination Board consists of four members nominated annually. The company's three largest shareholders appoint three of the members, and the Chairman of the Board serves as the fourth member. The committee appoints its chairman from among its members. The company's largest shareholders entitled to appoint members to the Nomination Board are determined on the basis of the registered holdings in the company's shareholder register held by Euroclear Finland Ltd as of the first working day in September each year. In the event that a shareholder does not wish to exercise its right to appoint a representative, such right passes to the next largest shareholder.

The members of the Nomination Board are not remunerated by Finnair for their membership in the Nomination Board. The members’ expenses are reimbursable in accordance with the company’s expense policy. In addition, the Nomination Board’s costs of using external experts shall be borne by the company.

The Charter of the Nomination Board is available at the company [website](#).

2015 Nomination Board

The Nomination Board established in 2015 consisted of the representatives of three largest shareholders as at the first working day September 2015 i.e. the State of Finland, Keva and Ilmarinen, and of the Chairman of the Board. The composition of the 2015 Nomination Board was the following:

- Mr. Eero Heliövaara, see above, (Chairman), b. 1956, M. Sc. (Econ.), M. Sc. (Eng.), Director General in the Ownership Steering in the Prime Minister’s Office (Chairman)
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva;

- Mr. Timo Ritakallio, b. 1962, Master of Laws, MBA, President and CEO of Ilmarinen Mutual Pension Insurance Company
- Mr. Klaus Heinemann, see details on page 116.

The Nomination Board convened 3 times and the participation rate was 100%. On 29 January 2016, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 17 March 2017. The proposals are available at Finnair's website.

2016 Nomination Board

The Nomination Board established in 2016 consisted of the representatives of three largest shareholders as at the first working day September 2016 i.e. the State of Finland, Keva and Varma, and of the Chairman of the Board. The composition of the 2014 Nomination Board was the following:

- Mr. Eero Heliövaara, see above, (Chairman);
- Mr. Robin Backman, see above;
- Mr. Reima Ryttsölä, b. 1969, M.Soc.Sc, EVP Investments, Varma Mutual Pension Insurance Company;
- Mr. Klaus Heinemann, see details on page 116.

The Nomination Board convened 3 times and the participation rate was 100%. On 25 January, 2017, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 16 March 2017. The proposals are available at Finnair's website.

Board of Directors

The Chairman and the Members of the Board are elected by the AGM. According to the Articles of Association, the Board consists of the Chairman and a minimum of four and a maximum of seven other members. The Board elects a Deputy Chairman from among its members. The term of office of the members of the Board ends at the close of the first AGM following their election.

According to the Companies Act, the Board represents all shareholders of Finnair and has the general duty to act diligently in the interests of the company. Under law, the Board is accountable to the shareholders for the appropriate governance of the company and for ensuring that the operations of the company are run adequately.

The accountability for the company's governance pertains specifically to the assurance of the effectiveness of the Company's system of internal controls. The main features of the company's system of internal controls and risk management are described later in this report. Finnair has a number of procedures issued by the Board of Directors or the Executive Board, designed to enhance the internal controls. The procedures are assessed at least on an annual basis updated where necessary.

In addition to the Board's statutory tasks, certain significant matters are reserved for the Board's decision, as set out in the Board's charter. The Board prepares and adopts its Charter as well as those of for Committees

and Internal Audit. The Board sets the company's strategic aims and monitors the implementation. The Board approves other significant strategic matters, business plans, significant partnerships and other decisions exceeding the CEO's decision-making authority. The Board decides on guarantees and other commitments for external liabilities. The monetary limit for the CEO's decision-making authority is 10 million euros.

The Board appoints and removes the CEO and other members of the executive management, evaluates their performance and determines their levels of remuneration. The Board also attends to the succession planning of the management. The Board establishes and regularly evaluates the group's personnel policies, including the compensation structures. The Board evaluates its work on an annual basis. The Board's charter is available on Finnair's website in its entirety.

The Board has determined the diversity principles applying to its composition, which are available to the Shareholders' Nomination Board when it is searching successors to retiring Board members and preparing its proposal on the composition of the Board to the Annual General Meeting. The diversity principles are neither binding on the Nomination Board nor the AGM.

The diversity principles applying to the composition of the Board of Directors are as follows:

- The Board as a whole must have sufficient expertise and experience to conduct its duties carefully and effectively, taking into account the quality, scope and international nature of the company's operations, the company's strategic targets and changes in the business environment and society.
- The members of the Board must be capable of cooperating with the other members and the management.
- The members of the Board should have training and experience that complements each other and experience from industries that are important for the company.
- The members should have experience of Board work and conducting managerial duties in business or other areas of society.
- The Board shall have at least 40 per cent both men and women. The composition should show diversity also in terms of the age distribution, length of service and cultural background.
- Sufficient continuity should be ensured in reforming the composition of the Board, but the continuous term of any member may not exceed 10 years.

The principles applying to the composition of the Board were fulfilled well in the Board elected in 2016, except for the age distribution. The members represent diverse experience from managerial or Board duties in Finland and abroad. The members come from three countries and speak four different languages as their native tongue. Women represent 43 per cent of the Board members, which meets both the diversity target set by the Council of State in its resolution of 17 February 2015 and the target set by the Board of Directors.

At the end of 2016, the term of all members had lasted less than five years. The median year of birth of the Board was 1958, and the age differential between the youngest and eldest member was 12 years. On 25



January 2017, the Shareholders' Nomination Board gave its proposal on the composition of the Board of Directors for the AGM to be held on 16 March 2017. If the AGM approves the proposal, the median year of birth of the Board members will be 1957 and the age differential between the youngest and eldest member will be 34 years.

Members of the Board and their independence

The 2016 AGM held on 17 March elected Mr. Klaus Heinemann as Chairman of the Board and Ms. Maija-Liisa Friman, Mr. Jussi Itävuori, Mr. Jouko Karvinen, Ms. Gunvor Kronman, Ms. Jaana Tuominen and Mr. Nigel Turner as other members of the Board. The Board elected Mr. Jouko Karvinen as its Vice Chairman.

The Board assessed the independence of its members and concluded that all members are independent of the Company and its major shareholders.

The ownership of the Directors and companies controlled by them in Finnair

At the end of 2015 and 2016, neither the members of the Board of Directors nor companies under their control held any shares or any rights relating to shares in any company within Finnair Group.

Members of the Board in 2015 and their attendance in Board and Committee meetings

In 2016, the Board met 8 times. In addition, the Board made per capsulam decisions 6 times during the year. See the table below for information on the Board members' participation in the meetings.

The Board's work in 2016

In 2016, the Board met 8 times in person and made decisions 6 times without convening.

In addition to its duties, under its charter and the law, the Board focused in its work on monitoring the company's financial result and status, monitored the implementation of the company's strategy, and evaluated changes in the operating environment as well as their impacts on the company's strategy and confirmed the focus areas of strategy implementation in 2016-2018. The Board made investment decisions required by accelerated growth, product improvements and digital business. The Board reviewed the status of flight and occupational safety as well as corporate security and operational quality, and related management systems. It also paid attention to the development of risk management and internal controls. The Board approved the Group's updated Code of Conduct.

| Name | Personal Information | Participation in Board meetings in 2016 | Participation in Committee meetings in 2016 | |
|---------------------------|---|---|---|-----------------------------|
| | | | Audit | Compensation and Nomination |
| Klaus W. Heinemann | Chairman of the Board since 27 March 2013 Member of the Board since 28 March 2012 B. 1951, B.Sc. (Econ.) Main occupation: Board professional Committee membership: Audit Committee until 27 March 2014 | 8/8 | | |
| Harri Kerminen | Member of the Board since 24 March 2011 until 17 March 2016 Vice Chairman of the Board since 28 March 2012 B. 1951, M. Sc. Tech, MBA Main occupation: Board professional Committee memberships: Audit and Compensation and Nomination Committee | 2/2 | 1/1 | 2/2 |
| Jouko Karvinen | Vice Chairman of the Board since 17 March 2016 B. 1957, M. Sc. Tech Main occupation: Board professional Committee memberships: Audit Committee | 6/6 | 5/5 | |
| Maija-Liisa Friman | Member of the Board since 28 March 2012 B. 1952, M.Sc. (Eng.) Main occupation: Board professional Committee memberships: Audit Committee (Chairman) | 8/8 | 5/6 | |
| Jussi Itävuori | Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Board professional Committee memberships: Compensation and Nomination Committee (Chairman) | 8/8 | | 5/5 |
| Gunvor Kronman | Member of the Board since 28 March 2012 B. 1963, Master of Arts Main occupation: CEO of Swedish-Finnish Cultural Centre Committee membership: Compensation and Nomination Committee | 8/8 | | 5/5 |
| Jaana Tuominen | Member of the Board since 27 March 2014 B. 1960, M. Sc. (Eng.) Main occupation: CEO of Paulig Group Committee membership: Compensation and Nomination | 8/8 | | 5/5 |
| Nigel Turner | Member of the Board since 27 March 2014 B. 1958, BA (Hon.) Main occupation: - Committee membership: Audit Committee | 8/8 | 4/6 | |

More information on the Members of the Board is available on page 116 and on Finnair's website.



The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the Compensation and Nomination Committee. The Board appoints the Committee members and their Chairs from among the members of the Board. The minimum number of members is three in both Committees.

Each Committee meets regularly under their respective charters. The Committees' tasks and the work carried out by them during the year are described in their respective sections below. The Committees report on their work regularly to the Board but they do not have decision-making powers independent from the Board, except where expressly authorised by the Board. Copies of the Committees' charters are available on Finnair's website.

Audit Committee

The Audit Committee assists the Board in its task to ensure the proper governance of the company, in particular, by considering the accounting and financial reporting, the Company's internal control systems and the work of the external auditors. The Audit Committee addresses concerns pertaining to control matters as may be detected by the management or the internal audit or external auditors of the company. These are reported to the Board by the Audit Committee. The Audit Committee ensures that appropriate action is taken by the management to rectify identified shortcomings.

The members of the Audit Committee are independent of the company and its significant shareholders. The members have complementary expertise and business management experience as well as industry experience. The Audit Committee as a whole has sufficient expertise and experience of the matters in its remit.

The main duties of the Audit Committee

The Audit Committee shall:

- monitor the financial status of the company
- monitor the reporting process of financial statements and interim reports and assess the draft financial statements and interim reports
- monitor the efficiency of the company's internal controls, internal auditing and risk management system
- monitor the statutory audit and review all material reports from the auditor
- assess the independence of the auditors, in particular with regard to their ancillary services and establishes the procedures and limits applying to the procurement of such services
- prepare for the Board proposals to the Annual General Meeting regarding the election of the auditor(s) and their remunerations
- review the auditors' and internal auditors' audit plans and reports
- review the company's corporate governance statement
- prepare for the Board the group's risk management policies

- prepare for the Board decisions on significant changes in the accounting principles or in the valuations of the group's assets;
- assess the group's compliance with laws and regulations; and
- maintain contact with the auditors.

After 2016 AGM, the Audit Committee members are Ms. Maija-Liisa Friman (Chairperson), Mr. Nigel Turner and Mr. Jouko Karvinen.

In accordance with its annual plan, the Audit Committee met 6 times in 2016. The CEO, the CFO, the Head of Internal Audit and Risk Management as well as the external auditor also participated in the Committee's meetings. Finnair's General Counsel acted as the secretary of the Audit Committee. The Committee held closed sessions as well as sessions where the External or Internal Auditors participated without the presence of the members of the management. The Committee also performed its annual self-evaluation.

The Audit Committee's activities in 2016

In addition to its customary tasks, in 2016 the Audit Committee attended selected focus areas, comprising financial reporting segments, financial risk hedging policy, investment, financing and cash management plans as well as IFRS standard revisions and the implementation of new standards, which continue in 2017. Another special theme in 2017 is the development of financial management processes and controls.

The Audit Committee also:

- Reviewed and approved a risk-based action plan and assessed the sufficiency of the resources in the internal control functions;
- Discussed with the auditors and the management the company's significant accounting policies and the estimates and judgements applied in preparing the reports;
- Performed an annual self-evaluation and set the Committee's annual plan for 2017.

Compensation and Nomination Committee

The Compensation and Nomination Committee assists the Board in matters pertaining to the compensation and benefits of the CEO and other senior management, their performance evaluation, appointment and successor planning. The Committee assists the Board also in establishing and evaluating the group's compensation structures and other personnel policies. By virtue of a Board authorisation, the Committee ascertains the achievement of targets for short-term incentives and approves the payment of incentives to the CEO and other top management.



The main duties of the Compensation and Nomination Committee

The Committee prepares the following matters for the Board:

- compensations, pensions, benefits and other material terms of the contract of the CEO
- compensations, pensions and benefits of the top executives of the group, and other material terms of their contracts to the extent that the same deviate from the customary practice
- nominations of the CEO and other top executives
- top executives' succession planning
- composition of the Executive Board
- equity-based incentive plans
- the principal compensation policies and practices regarding the personnel
- management's participation in the boards' of directors of the group and of external companies
- major organisational changes
- proposals of awarding the members of the management honorary decorations and titles.

A copy of the Committee's charter is available on Finnair's website.

After the 2016 AGM, the members of the Compensation and Nomination Committee elected are Mr. Jussi Itävuori (Chairman), Ms Gunvor Kronman, Ms Jaana Tuominen and Mr. Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The members of the Compensation and Nomination Committee met 5 times in 2016 with an aggregate attendance rate of 100 per cent. The CEO and the SVP, People and Culture were invited to the meetings to assist the Committee. Finnair's General Counsel acted as the Committee's secretary.

The Compensation and Nomination Committee's work in 2016

The Committee, among other things:

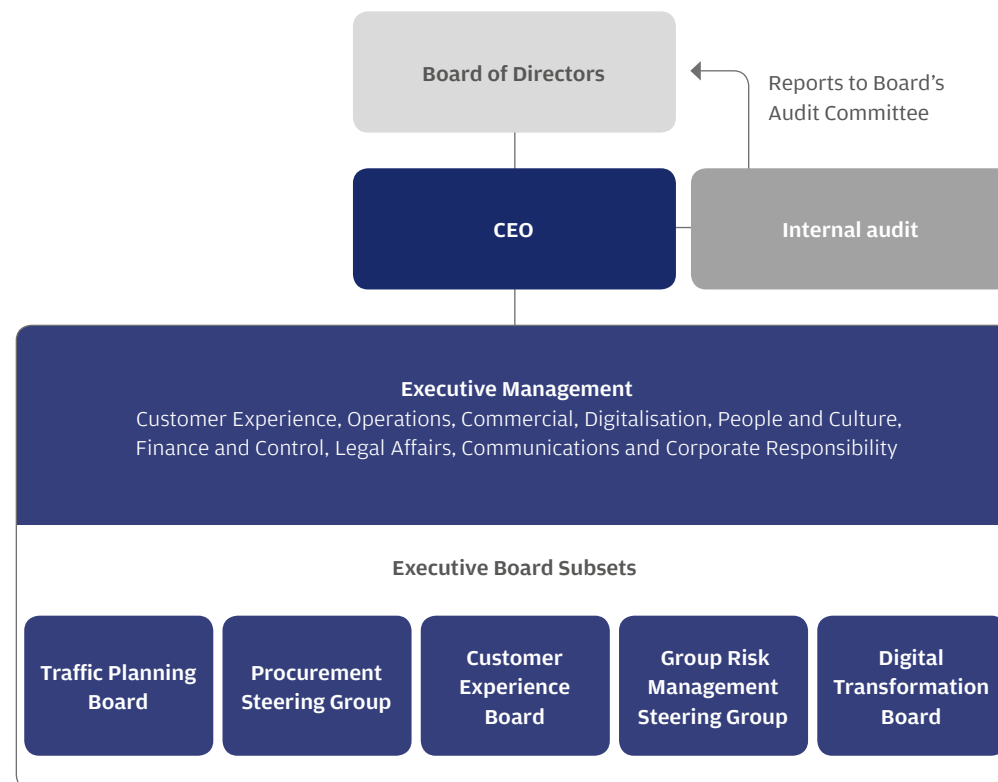
- Prepared for the Board approval the conditions and targets of the employee share saving plan (FlyShare) for the earnings period beginning in 2016;
- Reviewed the senior management's compensation levels compared to the market level, assessed the performance of the management relative to the long and short term incentive targets, and approved the payment of short-term management incentives;
- Assisted the Board in determining the personnel fund's bonus criteria for 2016 and the semi-annual targets and conditions for top management;
- Assisted the Board in determining the participants, targets and conditions for the next earnings period of the share bonus plan for key personnel;
- Assessed the methodology and results of the company's successor and talent mapping;
- Assessed its meeting practices and tasks.

Company management

Finnair's corporate structure

Finnair's two previous business areas: Airline Business and Travel Services (tour operators and travel agencies) were combined as of the beginning of 2016. The shared functions in Finnair's Group Administration are Finance and Control, People and Culture. Communications and Corporate Responsibility, Legal Affairs and Internal Audit

Company Management





The CEO

The CEO is appointed by the Board. The CEO manages the company's day-to-day operations in accordance with guidelines and instructions issued by the Board. The CEO's instructions from the Board include, in particular, the implementation of Finnair's strategy, driving of structural change and improving the company's profitability. The CEO acts as the Chairman of the Executive Board.

The Board determines the CEO's compensation and sets his short and long term incentive targets. The main contents of the CEO's contract, including his compensation and benefits, are described in the Remuneration Statement and on Finnair's internet pages.

The CEO of Finnair is Mr. Pekka Vauramo, b. 1957, M.Sc. (Tech). At the end of the year, he owned 91,102 Finnair shares. Neither he nor any company under his control held shares in other Finnair Group companies. Neither he nor any company under his control had share-based rights in any Finnair Group company at the end of 2016. The CEO belongs to Finnair's long-term incentive programmes as well as the FlyShare programme, described in more detail in Note 1.3.7 to the financial statements and in the Remuneration Statement.

Executive Board

The Executive Board of the Company is led by the CEO and it comprises the senior management responsible for Finnair's operations and commercial activities, customer experience, digitalisation, finance and control, people and culture, communications and corporate responsibility and legal affairs. The members' respective roles and their direct and indirect shareholdings in Finnair as at 31 December 2016 are shown below.

| | |
|--|--------|
| Hakakari, Eija, b. 1961, M.Sc. (Ed), SVP Human Resources | 4,138 |
| Harra-Salonen, Katri, b. 1969, M.Sc. (Tech), eMBA, Chief Digital Officer (Umbrella Strategic Advisory Oy) | 0 |
| Järvinen, Juha, b. 1976, MBA, Chief Commercial Officer | 2,916 |
| Karhu, Piia, b. 1976, Doctor, Business Administration, SVP Customer Experience (TJA Consulting Ky) | 0 |
| Sarelius, Sami, b. 1971, LL.M., SVP and General Counsel | 41,823 |
| Schildt, Jaakko, b. 1970, MBA, B.Sc. Engineering, SVP Operations | 952 |
| Suominen, Arja, b. 1958, MA, eMBA, SVP Communications and Corporate Responsibility | 68,760 |
| Vähähyppä, Pekka, b. 1960, M.Sc (Econ), eMBA, CFO | 40,437 |

The Executive Board members are appointed by the Board, which also determines their remuneration.

The duties of the Executive Board include group-wide development projects, the definition of principles and procedures that guide the company's activities, and the preparation of matters to be dealt with by the Board. The Executive Board also acts as Finnair's risk management steering group.

In 2016, Finnair's Executive Board met twice a month on average. A major proportion of the Executive Board's time was used in leading key projects relating to Finnair's strategy and further development of the strategy. Investments required by the fleet and traffic growth and related operational challenges required the attention of the Executive Board throughout the year. The Executive Board continued the value and cultural reform initiative, and the comprehensive leadership development programme to support the strategy. The Executive Board prepared for the Board's approval the Group's new Code of Conduct. The Executive Board also focused on the financial position of the company and on the improvement of operational quality, guidelines and other internal controls, and on the development of the customer experience, personnel wellbeing and working capacity. In addition, it was occupied with ancillary sales, risk management and digital business strategy. The areas of responsibility of the Board of Directors changed materially during 2016 on two occasions.

Subsets of the Executive Board

The Executive Board delegates certain of its functions to five subsets. These subsets' decision making authority is derived from that of the Chief Executive Officer, set by the Board of Directors.

Network Planning Group is responsible for fleet and network strategy and short and long-term traffic planning of Finnair's scheduled, leisure and cargo traffic, among other things. The Group is headed by the Chief Commercial Officer, and it meets monthly.

Procurement Steering Group is responsible for Finnair's Procurement Guidelines, procurement category structure and related development projects. It also leads supplier relationship management. The Group convenes at least four times a year and it is chaired by the CFO.

Customer Experience Board is responsible decisions related to customer experience. These concern issues such as the brand, customer service identity, airport experience, the flight product, aircraft interior design and lounges. The Board is headed by SPV Customer Experience and it meets bi-monthly.

Digital Transformation Board is responsible for the implementation of the digital strategy and related decisions, including those concerning the customer and employee interface, development and IT projects related to digital planning and implementation as well as technology. In addition, the development of expertise, innovation and technological capabilities in the area of digitalisation fall within the Board's remit. The Board convenes approximately once a month and it is chaired by the Chief Digital Officer.

In addition Executive Board acts as the **Group Risk Management Steering Group**. Risk Management Steering Group is responsible for the Group's strategic risk assessment and the implementation of risk management measures. It assesses the adequacy and timeliness of the Group's risk management policy. In addition, it approves changes in the risk reporting process, Finnair common risk language and risk model. The Steering Group is headed by the CEO and meets bi-monthly.



Management Board

Finnair Management Board is principally a communication and co-operation forum designed for the personnel's participation in the company's governance processes, especially with regard to matters that affect the personnel. The focus of the Management Board work is on enhancing communication and understanding between the personnel groups and the management as to the implementation of the company's strategic objectives and on sharing information and discussing plans and projects that affect Finnair's personnel. The Management Board also discusses the business plans and financial performance of the Group, the operational quality and customer satisfaction as well as significant development projects. The Management Board comprises the Executive Board members, certain senior managers and the representatives of all personnel groups.

In 2016, the Management Board met 6 times.

Corporate Governance in Finnair subsidiaries

For major subsidiaries, the members of the boards of directors are selected from individuals belonging to Finnair's senior management and, in selected subsidiaries, also from representatives proposed by personnel groups. The key tasks of the boards of directors of subsidiaries include strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of the approval limits issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2016 under Note 4.2.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Nordic Regional Airlines Oy through Nordic Regional Airlines AB (ownership 40 per cent). Nordic Regional Airlines Oy is a Finnish regional passenger airline operating ATR turboprop and Embraer 190 aircraft. Its route network is designed to provide convenient feeder connections to Finnair's European and long-haul routes. Finnair's influence over the governance of the company is secured by shareholding and various contractual rights.

Finnair procures certain important operational services from strategic partners. LSG Sky Chefs Finland Oy runs the former catering businesses of Finnair at Helsinki Airport. It supplies Finnair's catering services pursuant to a multi-year agreement. In late 2016, LSG stated it would not use its option to purchase LSG SkyChefs Finland Oy, as a result of which Finnair and LSG began negotiations on the restructuring of the cooperation during 2017. Other strategic service agreements have been made for example in the ground handling services, with Swissport Finland Ltd, and in the engine and component services with SR Technics, Lufthansa Technik and Rolls Royce, and in the area of IT and mobile services particularly with IBM and Apple. The cost and quality targets of these agreements have been determined so as to correspond at least to a good general market level.

Finnair participates in joint ventures consisting of certain airlines belonging to the **oneworld** alliance. These joint ventures seek to improve competitiveness and efficiency in a manner benefitting the passengers. Finnair's influence in the joint ventures is based on contractual arrangements. Decisions by the joint venture are sought to be made unanimously.

All Finnair's service providers are expected to comply with Finnair's policies and Finnair's Supplier Code of Conduct, and Finnair is entitled to audit the Supplier's governance and security practices to ensure this.

Finnair's Code of Conduct and Supplier Code of Conduct are available on Finnair's website.

Main features of the internal control and risk management system pertaining to the financial reporting process

Description of the overall system

The objective of internal control and risk management system pertaining to the financial reporting process is to provide the Board, the Executive Management and other key stakeholders with a reasonable assurance of the reliability and correctness of financial and operational reporting, as well as compliance with associated laws, regulations and internal policies. It is built on the principles of Finnair's overall system of risk management which is aligned with commonly accepted COSO ERM framework and ISO 31000:2009 standard for risk management.

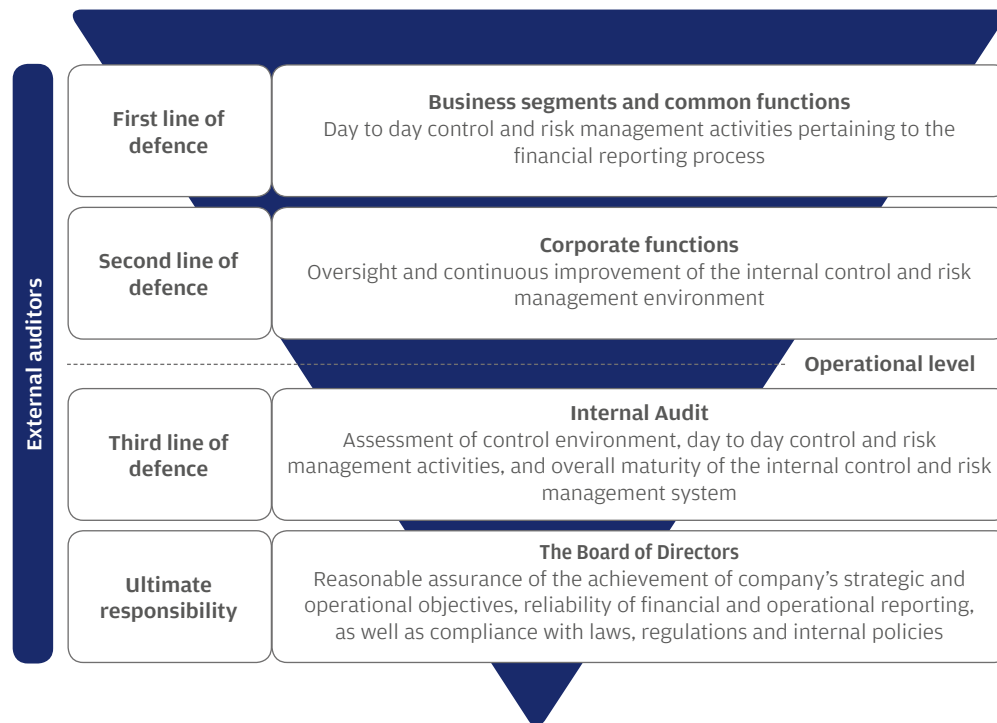
Control environment

Finnair's Code of Conduct and management system form the foundation for its control environment and background for awareness and implementation of control activities across the organisation. Guiding principles of internal control and risk management in Finnair are documented in the Group Risk Management Policy. Other key steering instruments supporting control over reporting include, but are not limited to, Accounting principles, Treasury Policy, Procurement Policy, Credit Policy, Disclosure Policy and Approvals Policy.

Finnair's Board of Directors holds the overall responsibility for the company's internal control and risk management. The Board has delegated the implementation of efficient control environment and measures to ensure the reliability of financial reporting to the CEO. The Group CFO is responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. The line organisations of business units and Group-wide functions have the main responsibility for executing day to day control activities pertaining to the financial reporting process.

Internal Audit assesses the control environment as well as the status and effectiveness of planned control and risk management activities. To ensure the independence of the Internal Audit activity, Internal Audit has a direct functional reporting line to the Audit Committee of Finnair Board and it is positioned to operate

The role in the implementation of the internal control and risk management system



administratively under the CEO. The Audit Committee appointed by the Board of Directors oversees the financial reporting process and overall maturity of the internal control and risk management system. The described roles and responsibilities are in accordance with the Finnish Companies Act, and the Finnish Corporate Governance Code. The picture below summarises the roles of the listed stakeholders in the implementation of the internal control and risk management system.

Risk Assessment

The objective of Finnair's financial reporting risk assessment is to identify, evaluate and prioritise the most significant threats to the reliability of internal and external reporting at the Group, reporting area, unit, function and process levels. Processes related to financial reporting are subject to on-going risk assessment by the business unit controllers, financial controllers and other shared service centre staff as part of their activities.

As a part of internal controls development project, the processes with material impact on financial reporting have been defined and risks threatening the reliability and accuracy of financial reporting assessed in a coordinated manner. Possible changes in internal and external environment are always assessed and processes updated accordingly.

Control activities

Financial reporting instructions have been prepared to be followed across the organization. The instructions outlining the content and schedule for the reporting aim to increase the overall controllability of the financial reporting process and ensure that financial statement fulfils the requirements set in the IFRS standards and other applicable principles.

Risks related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for listed companies.

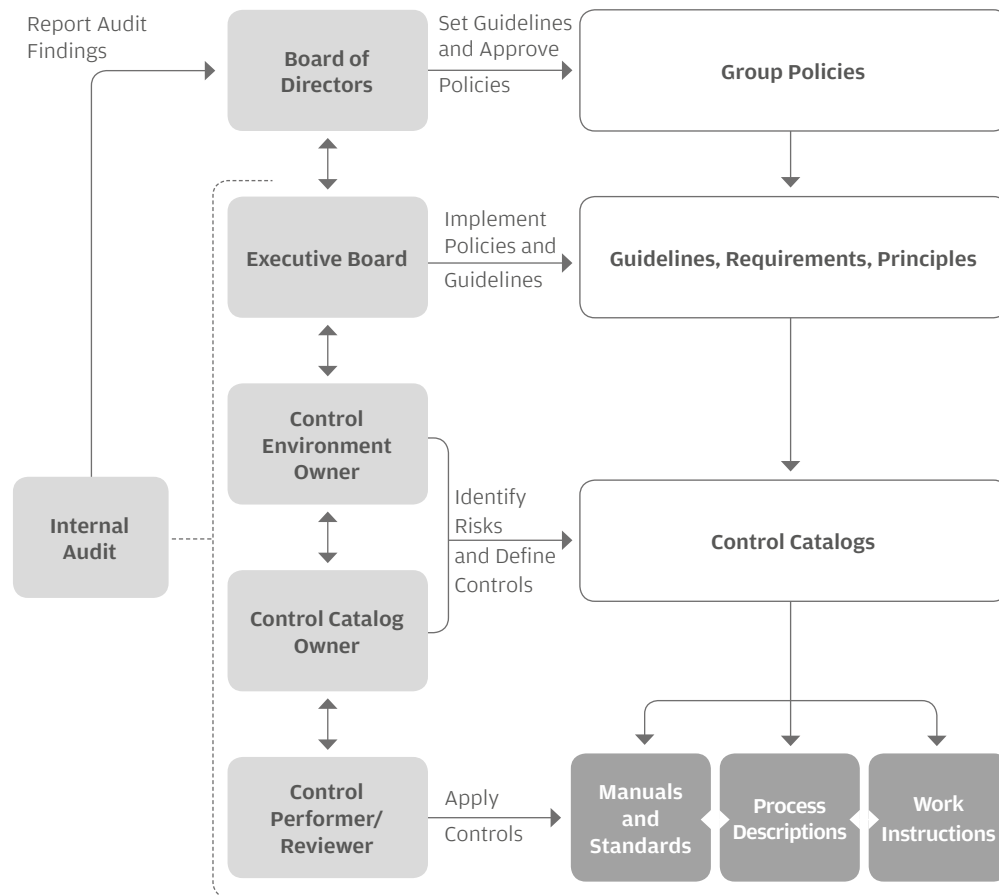
These control activities are:

- preventive, detective and corrective in nature;
- integrated into reporting processes in business units, group-wide functions and subsidiaries;
- operationalized through the implementation of Policies, Guidelines and Principles,
- captured in Control Catalogues;
- supported by Manuals and Standards, Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

Responsibilities over reporting controls are illustrated in the matrix below:

| Role | Description |
|---|---|
| Control Environment Owner – Group CFO | Responsible for governing financial reporting control environment and acting as the risk owner of reporting risks |
| Control Catalogue Owner – Process Owners | Owner of the process controls defined in the control catalogue |
| Control Performer / Reviewer | Responsible for executing / monitoring key control(s) defined in the control catalogue |
| Internal Audit | Responsible for audit of reporting processes and related controls according to the annual audit plan |

The main components and roles associated with control planning, implementation and monitoring are summarized below:



Information and communication

Information and communication system provides means for Finnair's personnel to capture and communicate information related to risk assessments and control activities across company's operations. The system aims at providing required personnel access to adequate and timely information on accounting and reporting as well as on related controls. Information regarding control requirements is communicated through common policies, dedicated guidelines and process level procedure descriptions.

The CFO, supported by Investor Relations function, is responsible for the disclosure of financial information and fulfilment of the communication obligations of a listed company. Investor Relations holds the responsibility over planning and implementation of investor communications and daily contact with investors and analysts.

Monitoring and improvement

Finnair's internal control and risk management system is subject to both on-going and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of corporate management, business units and group-wide functions.

Focus areas of internal control over financial reporting in 2016 and 2017

Key Activities in 2016

Regular self-assessment of risks and controls was performed as set in the annual calendar of internal control activities. Additionally, the Internal Audit and external auditors performed audits on key controls as defined in the annual audit plan.

The controls were updated on the basis of an internal assessment and audit findings. Special attention was focused on process areas where changes in roles and responsibilities had taken place due to restructuring.

Planned Key Activities for 2017

Further development of the controls will be conducted independently and also using any findings and suggestions received from Internal Audit and external auditors. By the end of the year, audits will have been performed on each key process.



Internal Audit

The Internal Audit is established by the Board of Directors, and its responsibilities are defined by the Audit Committee of the Board of Directors as part of their oversight function.

The mission of Internal Audit in Finnair is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations. Internal Audit helps the organisation to mitigate factors that might undermine its business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit focus areas in 2016 and 2017

Key Activities in 2016

In 2016 Internal Audit set an objective to focus its audit activities to sourcing, third party risk management and vendor management processes as well as airline operations to support management in their corporate strategy. These themes were the overarching objectives throughout the Audit Plan 2016 in all audit engagements. Other special audit themes during the year comprised strategically important partnerships and IT systems.

Planned Key Activities for 2017

Internal Audit focus areas and annual plan for 2017 have been approved by the Audit Committee of the Board of Directors in December 2016. Key focus areas of Internal Audit for 2017 are based on and aligned with corporate strategy, results of risk assessments conducted by company management and recent changes in internal processes. Audit activities will pay special attention to the strategic focus areas (profitable growth, customer experience, people experience and digital transformation).

Compliance

Finnair is committed to complying with international and local laws and ethical policies in accordance with the Code of Conduct updated in 2016. The Company's General Counsel is responsible for Finnair's compliance function, which supports the business lines and other functions in identifying and complying with the law and corporate governance practices. The key tasks of Finnair's Compliance function are to ensure compliance with the regulation in all operations, excluding those covered by special legislation within the airline operations and human resources, the maintenance of Finnair's compliance program and the development of ethical business culture. In 2017, the Compliance function will attend especially to the implementation of the new Code of Conduct, preparations for the new data protection legislation and compliance with anti-bribery guidelines.

Transactions with closely associated parties

Finnair has guidelines concerning the avoidance of conflicts of interest, which concern, among other things, business transactions between the Finnair group and people in its employ. The guidelines also apply to the members of the Board of Directors. A permission must be obtained for transactions with the company. The permission can be given by the Executive Board, or the permission concerns the CEO or a member of the Board of Directors, by the Board of Directors. The requirement to have a permission also applies to transactions in which the counterparty is a person closely related to a Finnair employee or Board member, or an entity in which these have an ownership of at least 20%. The person concerned may not participate in discussing the matter on the Executive Board or the Board of Directors or participate in preparations, decisions or implementation of the matter on behalf of the company.

In addition, the members of the Executive Board and the Board of Directors are required to file an annual report of transactions conducted by them or their closely related parties with Finnair during the financial period as well as transactions anticipated for the next period.

The permission and notification procedures only apply to negotiated transactions. Hence, they do not apply to service or product purchases available on normal commercial terms or normal employee discounts.

Significant transactions between Finnair and closely associated parties are announced with a stock exchange release in accordance with the rules of Nasdaq Helsinki.

Information on transactions with closely associated parties is also provided in note 4.5 to the financial statements.

Managers' transactions and key insider management procedures

Inside information within the company and transactions on Finnair financial instruments by persons discharging managerial responsibilities in the company or their closely associated persons are managed in accordance with the Market Abuse Regulation (MAR) and the insider guidelines of Nasdaq Helsinki and of the company. The company's insider guideline also applies to employees in the so-called informative core of the company.

The company maintains a list of persons discharging managerial responsibilities in Finnair (managers), including their closely associated persons and entities, who are under the obligation to notify the company and the Financial Supervisory Authority of their transactions on the company's financial instruments within three business days of the execution of the transaction. The company is under the obligation to disclose these transactions in a stock exchange release during the same period. The company's managers refer to the members of Finnair's Board of Directors and of the Executive Board.

The company's managers and employees in the so-called informative core of the company are bound by a closed window on trading, which begins 30 days before the release of interim or annual results and continues until the end of the release date. The company may also impose other trading restrictions and grant exemptions in accordance with its insider guidelines.

The company's managers and employees in the so-called informative core of the company must give an advance notice to the company before the execution of a planned transaction. In addition they can request an advance assessment of the legality of a planned transaction. The advance notice obligation and advance assessment opportunity are intended to reduce the risk of trading during a closed trading window or at a time when the company has undisclosed inside information. Giving an advance notice does not affect the responsibility of the company's managers and employees in its so-called informative core regarding the abuse of inside information.

The disclosure policy of the company requires, in accordance with the Market Abuse Regulation (MAR), that the company disclose as soon as possible any inside information it may have. However, the disclosure may be delayed if the requirements specified in the regulation are met. The identification of inside information and decisions regarding the disclosure or delay of disclosure are made by the company's Disclosure Committee, which includes the CEO, CFO, SVP Communications and General Counsel. The Disclosure Committee assesses information within the company every two weeks or otherwise whenever necessary. If the company delays the disclosure of inside information, it establishes a project-specific insider list and enters the persons with access to the relevant information on the list.

The person responsible for insider issues within the company is the General Counsel.

Finnair's insider guidelines are available at the company's website.