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LETTER FROM THE CHAIR OF THE BOARD'S AUDIT COMMITTEE

Dear Shareholders,

Good governance plays an important role in the complex and regulated world of today. Good governance supports quality of decision-making and accountability as well as drives transparency and responsibility.

During the year 2018, the Audit Committee focused on a few specific topics. Throughout the year the Audit Committee monitored the preparations for the adaptation of the new IFRS 16 Leases standard. The implementation of IFRS 16 will have significant impacts on Finnair's financial statements and key ratios. Finnair is adopting the IFRS 16 -standard from 2019 onwards. More information on the implementation of the IFRS 16 -standard and its estimated effects can be found in the Report of the Board of Directors and in Finnair's financial statements.

The Audit Committee also closely followed preparations for the EU General Data Protection Regulation (GDPR) with the goal of providing a compliant way of working with data privacy, not only to meet

"GOOD GOVERNANCE DRIVES TRANSPARENCY AND RESPONSIBILITY"

the legal requirements but also to protect the trust that our customers and employees place in Finnair. The Committee reviewed Finnair's cyber security readiness and data governance principles and placed continued focus on enterprise risk management process and activities of the company.

Our Corporate Governance Statement presents Finnair's governance model, reporting structure and main features of the internal control and risk management system relating to financial reporting. It has been prepared in accordance with the Finnish Corporate Governance Code 2015 for listed companies. Finnair complies with the recommendations of the Code without exceptions.

Maija-Liisa Friman
Chair of the Audit Committee



Regulatory framework

The Articles of Association, the published policies and other additional information on Finnair’s corporate governance can be found at Finnair’s [website](#). The Finnish Corporate Governance Code is publicly available on the [website](#) of the Securities Market Association.

This Corporate Governance Statement has been prepared as a separate report

from the Board of Directors’ Report. Finnair’s Audit Committee and the Board of Directors have reviewed it. Finnair’s auditor, PricewaterhouseCoopers, has verified that the description of the main features of internal control and risk management related to the financial reporting process contained in this statement and in the financial statements are consistent with each other.

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.

General Meeting of Shareholders

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.

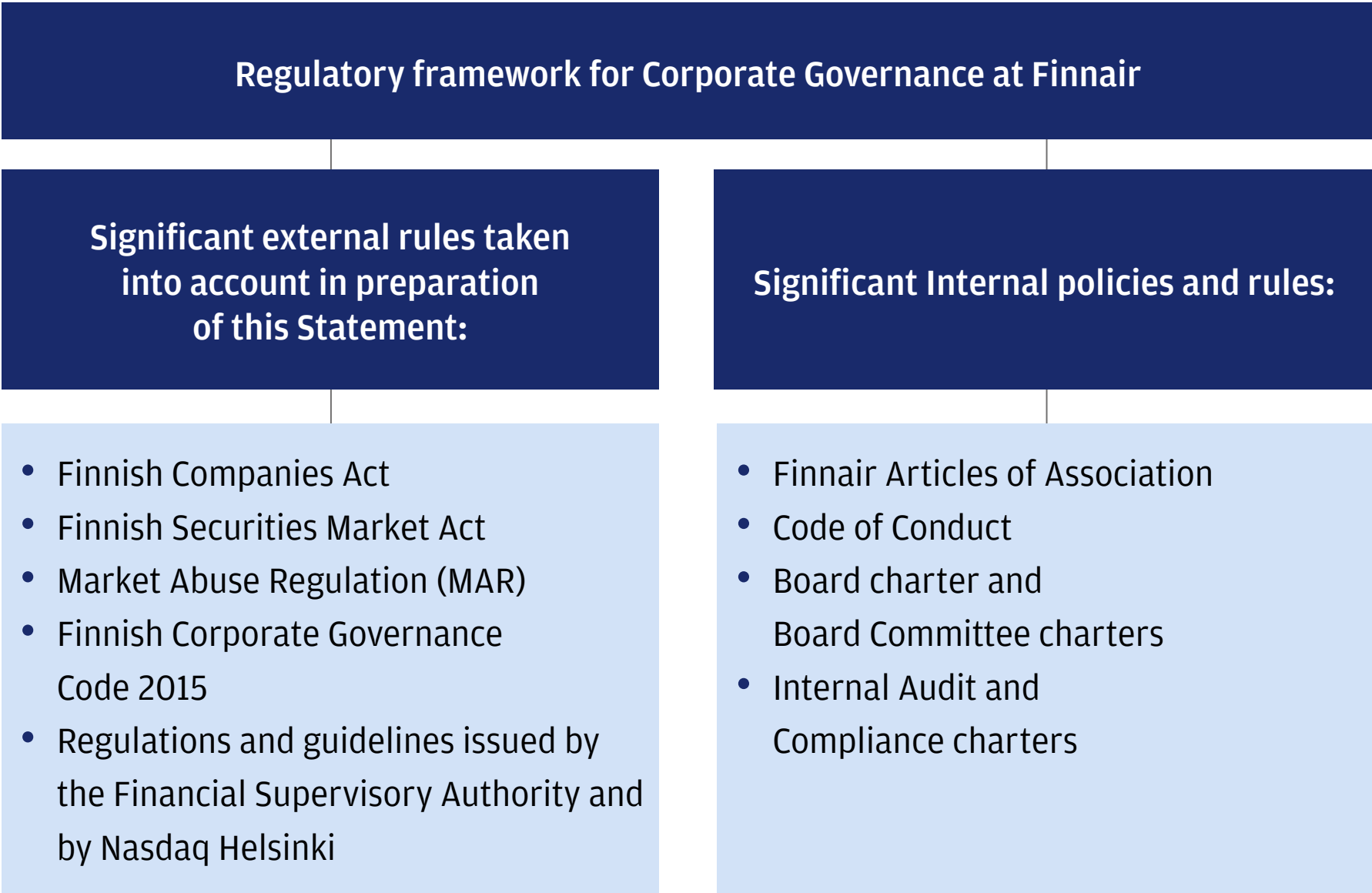
The competence of the General Meeting of Shareholders is set out in the Companies Act and in Finnair’s Articles of Association. The AGM shall annually decide on the following matters:

- 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 remuneration
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

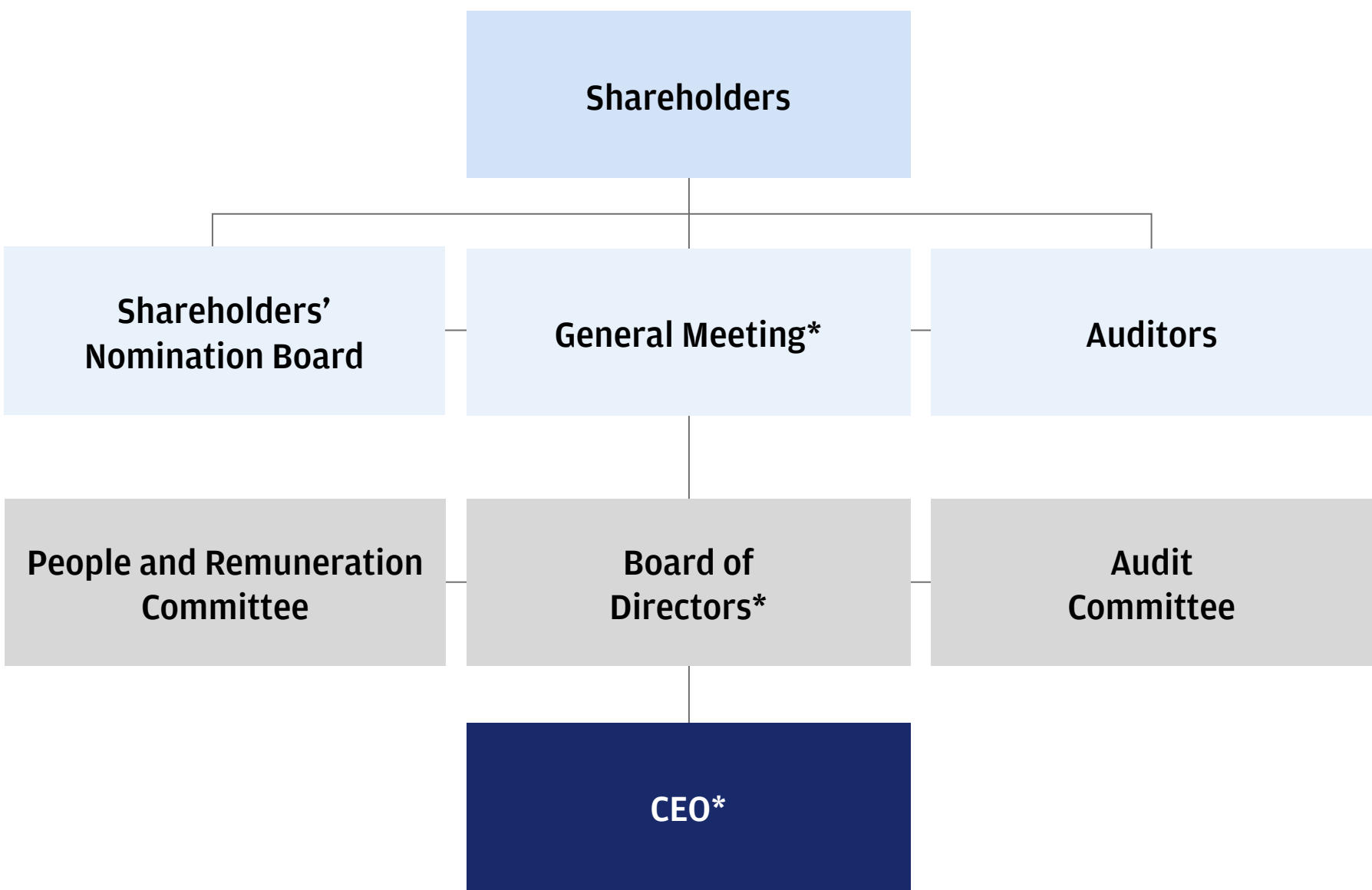
The Board convenes the General Meetings of Shareholders by publishing a notice not earlier than three months and not later than three weeks before the date of the meeting and always at least nine days before the record date of the meeting. The notice shall be published as a stock exchange release and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



GOVERNING BODIES OF FINNAIR*



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 [website](#).

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair’s [website](#) within two weeks of the meeting.

2018 Annual General Meeting

Finnair’s AGM 2018 was held in Helsinki on 20 March 2018. A total of 534 shareholders, representing 71.1 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 2018 was PricewaterhouseCoopers, and Mr. Mikko Nieminen acted as the auditor with principal responsibility. The audit fees paid in 2018 amounted

to 0.3 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 composition and remuneration of Board of Directors. 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 of Directors 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 current Chairman of the Board serves as the fourth

member. The Nomination Board 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 Oy 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](#).

2017 Nomination Board

The 2017 Nomination Board consisted of the representatives of first, third and fourth largest shareholders as at the first working day in September 2017 i.e. the State of Finland, Mr. Heikki Kyöstilä and Mutual Pension Insurance Company Ilmarinen, and of the Chairman of the Board. The composition of the 2017 Nomination Board was the following:

- Mr. Pekka Timonen, b. 1960, Director General of Ministry of Economic Affairs and Employment (Chairman)
- Mr. Heikki Kyöstilä, b. 1946, Managing Director of Planmeca Oy
- Mr. Mikko Mursula, b. 1966, Chief Investment Officer of Mutual Pension Insurance Company Ilmarinen
- Mr. Jouko Karvinen, see details on page 8, Chairman of the Board of Finnair.

The Nomination Board convened 3 times and the participation rate was 100%. In addition, the Nomination Board held several telephone conferences and interviewed the Board candidates in Finland and abroad. On 30 January 2018, the Nomination Board submitted to the Board its proposals for the 2018 AGM to be held on 20 March 2018. The proposals are available at Finnair’s [website](#).

2018 Nomination Board

The 2018 Nomination Board consisted of the representatives of first, second and third largest shareholders as at the first working day in September 2018 i.e. the State of Finland, Keva and Etola Oy (through its subsidiaries Tiivistie-Group Oy and Etra Invest Oy), and of the Chairman of the Board. The composition of the 2018 Nomination Board was the following:

- Ms. Minna Pajumaa, b. 1963, Senior Financial Counsellor, Government Ownership Steering Department (Chairman)
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva
- Mr Mikael Etola, b. 1977, Managing Director, Etola Oy
- Mr. Jouko Karvinen, see details on page 8, Chairman of the Board of Finnair.

The Nomination Board convened 2 times and the participation rate was 100%. In addition, the Nomination Board held several telephone conferences and interviewed the Board candidates. On 31 January 2019, the Nomination Board submitted to the Board its proposals for the 2019 AGM to be held on 20 March 2019. 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 nine other members. The Board elects a Vice Chairman from among its members. The term of the 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. 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 reliability of the financial reporting of the company and 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 and policies issued by the Board of Directors or the Executive Board, designed to enhance the internal controls. The procedures and policies are assessed at least once a year and 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 approves the charters of the Board and of its committees. The Board approves also the charters of the Internal Audit and Compliance. The Board sets the company’s strategic direction and monitors the implementation of the strategy. The Board approves other significant strategic matters, business plans, significant partnerships and other decisions exceeding the limits that the Board has set to the CEO’s decision-making authority. The Board decides on guarantees and other commitments for external liabilities.

The Board appoints and removes the CEO and other members of the Executive Board,

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 own work on an annual basis. The Board’s charter is available on Finnair’s [website](#) in its entirety.

Members of the Board and their independence

The 2018 AGM held on 20 March elected Mr. Jouko Karvinen as Chairman of the Board and Mr. Colm Barrington, Ms. Mengmeng Du, Ms. Maija-Liisa Friman, Mr. Jonas Mårtensson, Ms. Jaana Tuominen, Mr. Henrik Kjellberg and Mr. Montie Brewer as other members of the Board. The Board elected Mr. Colm Barrington as its Vice Chairman.

The Board has 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 2017 and 2018, neither the members of the Board of Directors nor any companies under their control held any shares or share-based rights in any company within Finnair Group.

The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the People and Remuneration 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 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](#).

The Board’s work in 2018

The Board focused in its work on monitoring the company’s financial result and position and the implementation of the company’s strategy, as well as evaluated changes in the operating environment and their impacts on the strategy.

The Board monitored the status of operational safety and quality; corporate and cyber security as well as compliance with privacy laws; and reviewed the related management systems. It also monitored the functioning of the enterprise risk management process and the development of internal controls and compliance.

Following the resignation of Mr Pekka Vauramo from his position as the CEO in May, the Board started the search of a new CEO, which was completed in September.

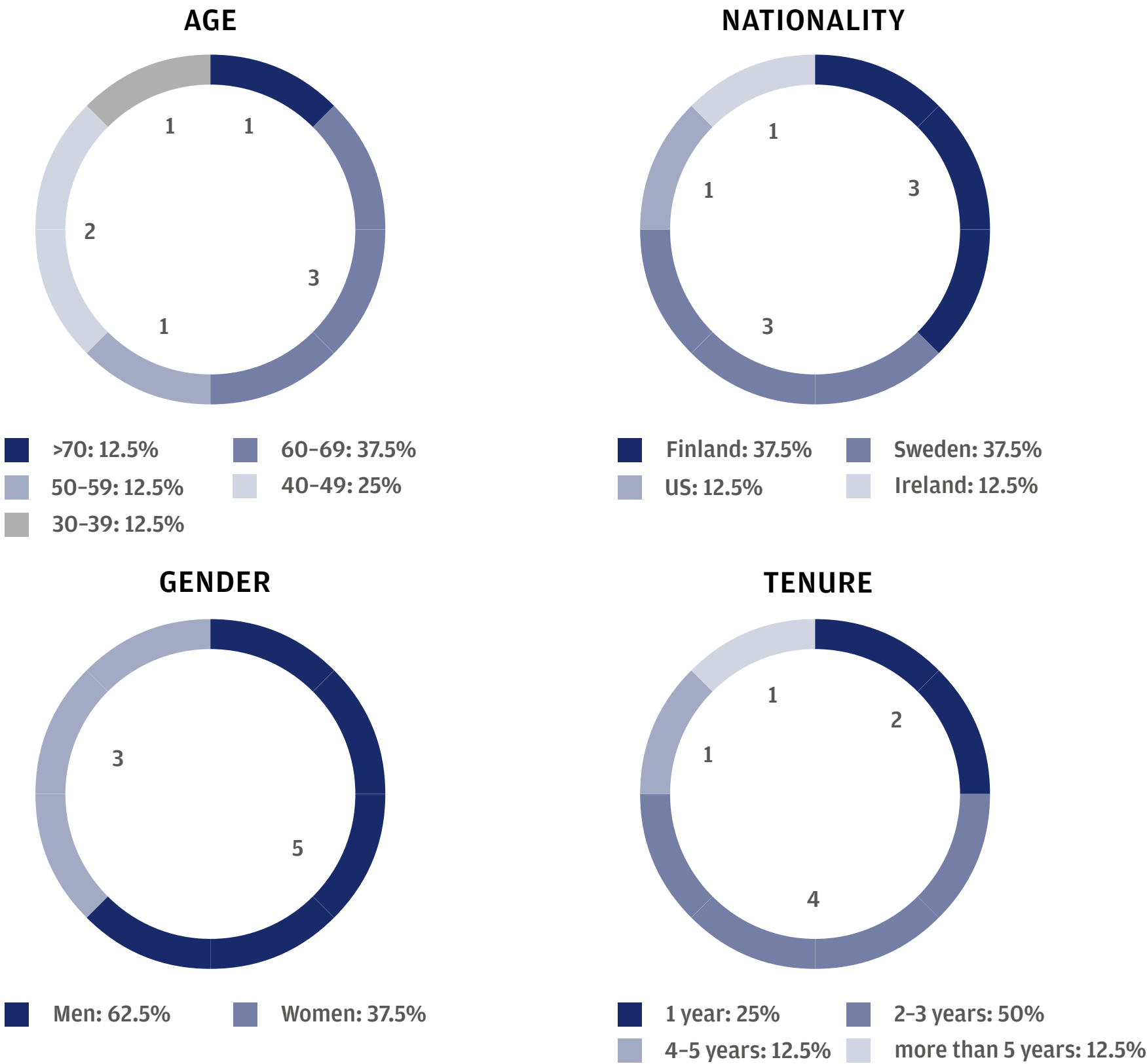
The diversity principles of the Board of Directors

The Board of Directors has determined its diversity principles for the use of the Shareholders’ Nomination Board when preparing proposals on the composition of the Board to the General Meeting of Shareholders.

The diversity principles of the Board of Directors are:

- The Board as a whole must have sufficient expertise and experience to conduct the 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 diversity of the Board of Directors:




BOARD OF DIRECTORS

Committees


A = Audit Committee

PR = People and Remuneration Committee

Board meeting participation/
of meetings eligible to participate.



Jouko Karvinen



11/11

b. 1957, M.Sc. (Tech.).
Chairman of the Board since March 2017
Member of the Board since March 2016

Main occupation:
Board professional

Key positions of trust:
Vice Chairman of the Board of Valmet, Member of the Foundation and Supervisory Boards of IMD Business School, Lausanne, Switzerland, Member of International Advisory Board of Komatsu Corporation of Japan



Mengmeng Du



11/11

PR

b. 1980, M.Sc. (Econ), M.Sc. (Computer science).
Member of the Finnair Board of Directors since 2017

Main occupation:
Digital advisor, board professional

Key positions of trust:
Member of the Board of Directors of Skandia and Netonnet Group and Member of the Swedish National Innovation Council.



Jonas Mårtensson




9/11

PR

b. 1977, M.Sc. Business Admin (Business Development), M.Sc. Business Admin (Entrepreneurship).
Member of the Finnair Board of Directors since 2017

Main occupation:
CEO of Mojang, a videogame development company

Key positions of trust:
-



Colm Barrington



11/11

A

b. 1946, M.Sc. (Econ).
Vice Chairman and member of the Finnair Board of Directors since 2017

Main occupation:
CEO and Director of Fly Leasing Limited

Key positions of trust:
Member of the Board of Directors of IFG Group plc (until August 2018), and Hibernia REIT plc.



Maija-Liisa Friman



11/11

A

b. 1952, M.Sc. (Chem. Eng.).
Member of the Finnair Board of Directors since 2012

Main occupation:
Board professional

Key positions of trust:
Member of the Boards of Essity AB and the Finnish Securities Market Association, partner of Boardman Oy.



Jaana Tuominen




11/11

PR


b. 1960, M. Sc. (Eng.).
Member of the Finnair Board of Directors since 2014

Main occupation:
CEO of Fiskars Group

Key positions of trust:
Member of the Board of Directors, Suominen Oyj.



Montie Brewer



9/9

A


b. 1957, BA (Business Administration).
Member of the Finnair Board of Directors since 2018

Main occupation:
Board professional

Key positions of trust:
Board of Directors of Allegiant Travel Company



Henrik Kjellberg



9/9

A

b. 1971, M.Sc. (Economics).
Member of the Finnair Board of Directors since 2018

Main occupation:
Board professional

Key positions of trust:
-



Jussi Itävuori (Former member)



2/2

b. 1955, M. Sc. (Econ).
Member of the Board since 28 March 2012 until 20 March 2018

Main occupation:
Managing Director, RJI Partners Oy, Senior Partner and Director, RJI Partners Limited

Key positions of trust:
Chairman of the Board of Barona Group Oy and RJI Partners Oy, and Chairman of the Board of RJI Holding Oy and Cloudator Payroll Oy.

AUDIT COMMITTEE

The Audit Committee assists the Board in its task to ensure the proper governance of the company, in particular by considering the financial reporting and controls. The Audit Committee evaluates the Company’s internal control, internal audit and risk management systems, and monitors the statutory audit as well as evaluates the independence of the external auditors. In addition, the Audit Committee monitors the development and implementation of the Code of Conduct and evaluates processes aimed at ensuring compliance with laws and regulations.

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 non-audit services and establish 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.

Audit Committee members

Member	Attended	Eligible to attend
Friman, Maija-Liisa (chair)	6	6
Barrington, Colm	6	6
Brewer, Montie	5	5
Kjellberg, Henrik	5	5
Du, Mengmeng (former member)	1	1

In addition to the Committee members, the CEO, the CFO, the Head of Internal Audit and the Head of Compliance and Risk Management as well as the external auditor participated in the Committee’s meetings. Finnair’s General Counsel acted as the secretary of the Audit Committee.

Key highlights 2018:

In 2018, the Audit Committee focused on the following topics:

- monitoring the development of financial management processes and internal controls
- review of the company’s significant accounting policies and estimates and judgements applied in preparing of reports
- implementation of IFRS 16 leases reporting standard;
- implementation of EU General Data Protection Regulation
- Cyber security readiness and the company’s IT architecture
- review and update of the Finnair Risk Appetite Statement

PEOPLE AND REMUNERATION COMMITTEE

The People and Remuneration 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. Pursuant to Board’s authorisation, the Committee reviews and confirms the achievement of targets for short-term incentives and approves the payment of the incentives to the CEO and other top management.

Main duties of the People and Remuneration 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
- major organisational changes
- proposals of awarding the members of the management honorary decorations and titles.

People and Remuneration Committee members

Member	Attended	Eligible to attend
Tuominen, Jaana (chair)	5	5
Du, Mengmeng	4	4
Mårtensson, Jonas	4	5
Itävuori, Jussi (previous chair)	1	1

In addition to the Committee members, the CEO and the SVP, People and Culture participated in the meetings and Finnair’s General Counsel acted as the Committee’s secretary.

Key highlights 2018:

In 2018, the People and Remuneration Committee focused on the following topics:

- New CEO search and contract terms
- Updated People strategy
- Succession plans and Talent review
- Updated terms and conditions of the employee share saving plan (FlyShare) for the savings period beginning in 2019
- Expansion of the Personnel Fund to cover all Finnair employees
- Review of senior management’s compensation levels compared to the market level, their performance relative to the long and short-term incentive targets
- Incentive plan criteria and other terms for plans covering 2019

Company management

Finnair’s corporate structure

Finnair’s core airline activities are operated in the Group’s parent company, Finnair Plc whereas technical services, travel services (package tours), catering services and financial business services are run in wholly owned subsidiaries. Finnair business is considered as one operating segment, consisting of Finnair units Customer Experience, Operations and Commercial. The shared functions in Finnair’s Group admin-

istration are Finance and Control, People and Culture, Transformation & IT, Communications and Corporate Responsibility, Legal Affairs, Internal Audit and Compliance.

The CEO

The CEO is appointed by the Board. The CEO manages the company’s operations in accordance with guidelines and instructions issued by the Board. 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 webpages.

Mr. Pekka Vauramo, M.Sc. (Tech), b.1957, was the CEO of Finnair until 4 September 2018. Finnair announced on 21 May 2018 that Pekka Vauramo had given notice of his resignation from the company to join Metso Corporation as its new CEO and that he would leave Finnair at the latest in November 2018.

On 4 September 2018 Finnair appointed Mr. Topi Manner, b. 1974, M.Sc. (Econ), as Finnair’s CEO as of 1 January 2019. Manner has a long career in management positions at Nordea, the largest financial group in the Nordic countries, and since 2016 he has worked as a member of Nordea’s Group Executive Management and as Head of Personal Banking.

Mr. Pekka Vähähyppä, Chief Financial Officer, acted as the interim CEO between 4 September and 31 December 2018.

The CEO belongs to Finnair’s short and long-term incentive programs, 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, digital transformation, finance, people and culture, communications and corporate responsibility and legal affairs.

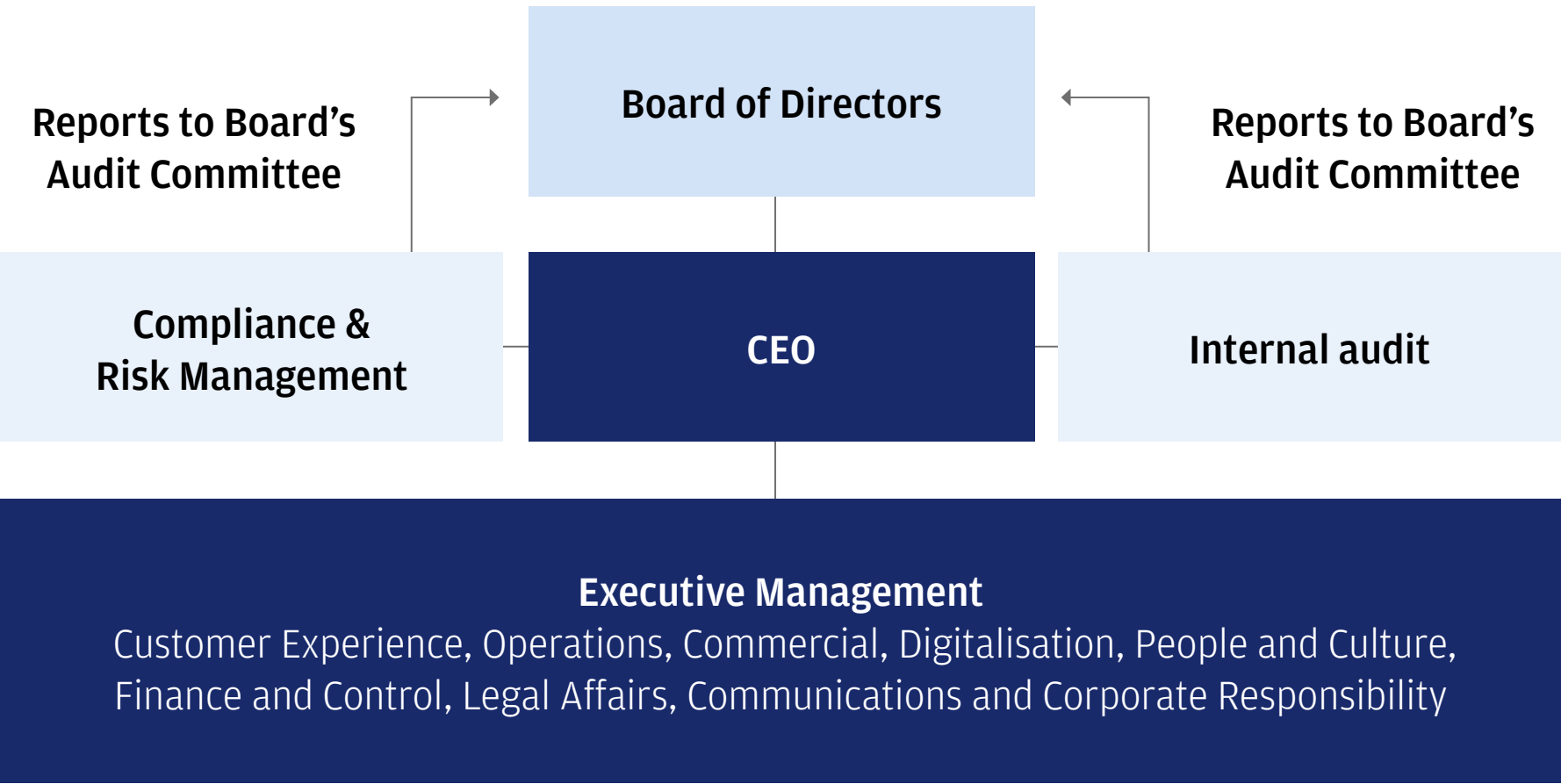
The Executive Board members are appointed by the Board, which also determines their remuneration.

The Executive Board assists the CEO in the strategy implementation, coordinates group-wide development projects and defines policies that guide the company’s activities. The Executive Board members report to the CEO and their main task is to lead the daily operations of their respective unit or corporate function.

In 2018, Finnair’s Executive Board met twice a month on average.

A major proportion of the Executive Board’s time was dedicated to leading key projects relating to Finnair’s accelerated growth strategy and in further development and renewal of the groups business portfolio. Other focus areas were digital transformation, development of the customer experience, internal controls and process development, GDPR and other regulatory compliance projects as well as development of the employee experience and cooperation with employee representatives. Executive Board also focused on development of regional airline partnership Norra with the new majority owner, Danish Air Transport.

COMPANY MANAGEMENT



EXECUTIVE BOARD MEMBERS

The CEO's and the Executive Board members' direct and indirect shareholdings in Finnair as at 31 December 2018 are shown in the table above.

Until 4 September 2018, the CEO of Finnair was Pekka Vauramo, M.Sc. (Tech), whose shareholdings in Finnair as at 31 December 2018 was 145 503 shares.



Topi Manner
b. 1974, M. Sc. Econ.
Main occupation:
CEO as of January 1, 2019
Key positions of trust:
Vice chairman, Finland Chamber of Commerce
Shareholding 31 December 2018:
15,000



Eija Hakakari
b. 1961, M. Sc. (Education).
Main occupation:
SVP Human Resources as of 1st of October 2014
Key positions of trust:
-
Shareholding 31 December 2018:
19,642



Katri Harra-Salonen
b. 1969, M.Sc. (Tech) eMBA.
Main occupation:
Finnair Chief Digital Officer (CDO) as of 21 March 2016
Key positions of trust:
Member of the Board of Veho Oy Ab 2016–
Shareholding 31 December 2018:
5,939



Piia Karhu
b. 1976, Doctor of Science (Economics and Business Administration).
Main occupation:
SVP Customer Experience as of 1 March 2016
Key positions of trust:
Member of the Board of Kesko Oyj 2018–
Shareholding 31 December 2018:
7,479



Sami Sarelius
b. 1971, LL.M.
Main occupation:
SVP and General Counsel
Key positions of trust:
-
Shareholding 31 December 2018:
54,418



Jaakko Schildt
b. 1970, MBA, BSc Engineering.
Main occupation:
SVP Operations, as of 1st of March 2016
Key positions of trust:
-
Shareholding 31 December 2018:
6,556



Arja Suominen
b. 1958, MA, e-MBA.
Main occupation:
SVP Corporate Communications and Corporate Responsibility, as of March 2011
Key positions of trust:
-
Shareholding 31 December 2018:
90,955



Pekka Vähähyyppä
b. 1960, M.Sc. Econ., eMBA.
Main occupation:
CFO as of 17 August 2015. Interim CEO as of 4 September until 31 December 2018
Key positions of trust:
Member of the Board of A-lehdet Oy 2013–, IATA Financial Committee June 2017–
Shareholding 31 December 2018:
64,796



Juha Järvinen
b. 1976, BA (Hons), MBA.
Main occupation:
Chief Commercial Officer as of 1 November 2014 until 31 December 2018
Key positions of trust:
-
Shareholding 31 December 2018:
14,149



Mika Stirkkinen
b. 1968, M. Sc. Econ.
Main occupation:
Interim head of Finnair's Commercial Unit since 1 January 2019.
Key positions of trust:
-
Shareholding 31 December 2018:
8,352

Executive Board subsets

During 2018 Finnair clarified its governance structure by integrating certain Executive Board subsets (Network Planning Board, Customer Experience Board, Digital Transformation Board and Compliance, Risk & Governance Board) into the Executive Board. The Executive Board regularly focuses on these topics, with additional participation from the unit/function leadership teams presenting and providing expert views to the Executive Board.

Investment Steering Board continues as the forum for preparing investment decisions for the Executive Board’s approval as well as exercises delegated powers to approve investments below a given threshold. The Board is headed by the Chief Financial Officer.

Finnair has a Safety Review Board that is responsible for reviewing the company’s safety policy and assessing the safety performance against the safety policy and objectives. The Safety Review Board reviews the effectiveness of the flight safety, security and compliance management systems and ensures that appropriate resources are allocated to achieve the targeted safety performance. The Board is headed by the Chief Operating Officer and convenes at least 4 times per year.

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 Management Board discusses the implementation of the company’s strategic objectives and development projects that affect Finnair’s personnel as well as business plans and financial performance of the Group, the operational quality and customer satisfaction. The Management Board comprises the Executive Board members, certain senior managers and the representatives of all personnel groups.

In 2018, Finnair Management Board met 7 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 subsidiaries of Finnair are presented in the Financial Statements 2018 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 (Finnair’s ownership 100 per cent until 1 October 2018 and 40 per cent thereafter). 60 per cent of Nordic Regional Airlines AB is owned by Danish Air Transport (DAT). 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 based on shareholding and various contractual rights.

Finnair procures certain important operational services from strategic partners, such as the ground handling services in Helsinki hub from Swissport Finland Ltd, and the engine and component services from SR Technics, Lufthansa Technik and Rolls Royce. In the area of IT and mobile services Finnair partners with IBM and Apple, among others. 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 businesses with certain airlines belonging to the

oneworld alliance. These joint businesses seek to improve competitiveness and efficiency in a manner benefitting the passengers. Finnair’s influence in the joint business 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 Supplier Code of Conduct. Finnair aims to secure in its supply contracts the rights to audit the Supplier’s governance and security measures.

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 Risk Management Policy. Other key steering instru-

ments 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 acts as the risk owner of reporting risks. The line organisations in business units and Group-wide functions have the main responsibility for executing day to day control activities pertaining to the financial reporting process.

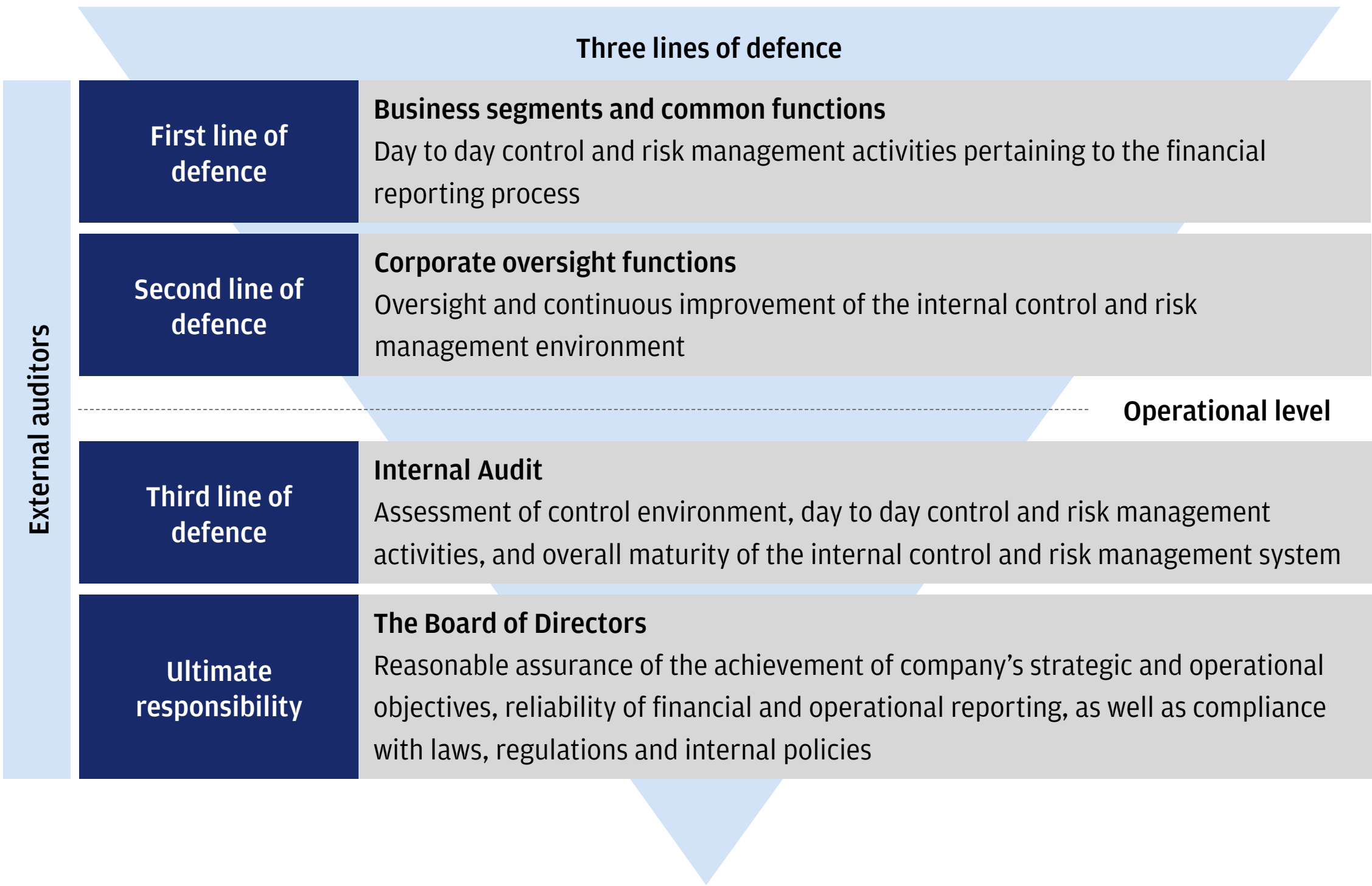
Internal Audit assesses the control environment as well as the status and effectiveness of planned control and risk management activities. To ensure the independence of the Internal Audit activity, Internal Audit has a direct functional reporting line to the Audit Committee of Finnair Board and it is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

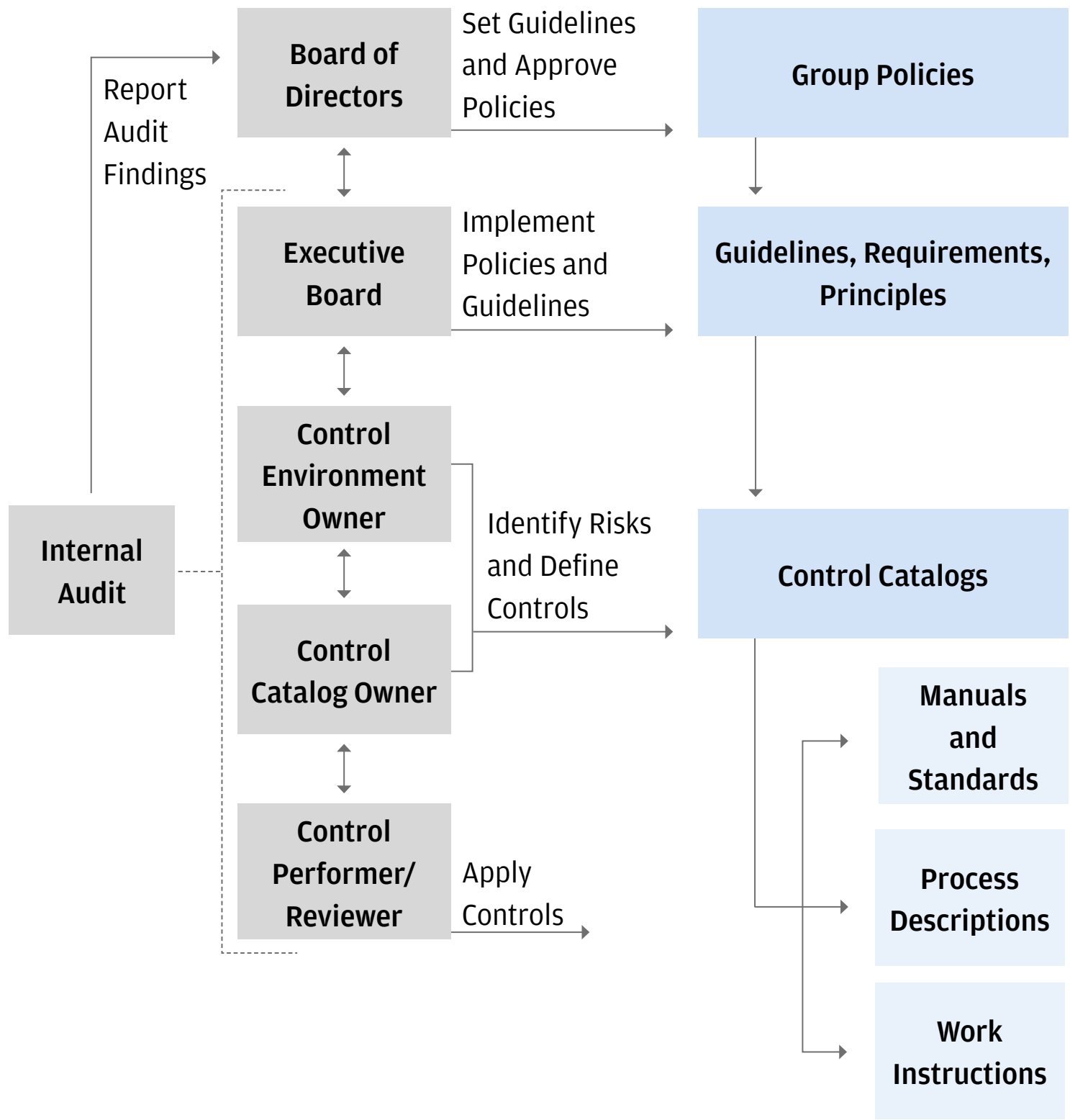
THE ROLE IN THE IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



reporting at the Group, 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 center staff as part of their activities.

THE MAIN COMPONENTS AND ROLES ASSOCIATED WITH CONTROL PLANNING, IMPLEMENTATION AND MONITORING



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 requirements.

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 Group Policies
- captured in Control Catalogues;
- supported by Standards, Rules and Manuals as well as Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

Focus areas for internal control and risk management system in 2018 and 2019:

Key Activities in 2018

Internal controls were reviewed and assessed in selected process areas identified based on financial reporting materiality and risk assessment. Based on this work, Group level key controls were identified and a model for testing and continuous improvement of the key controls was defined. Internal Audit and external auditors performed audits on key controls as defined in their annual audit plan.

In risk management the focus was on further improvement of the established companywide bottom-up risk management process as well as continued development of risk management activities in relation to

partners and suppliers.

Planned Key Activities for 2019

The governance model for the Group level key controls will be implemented and internal controls will continue to be reviewed and developed in a continuous manner.

In risk management, the aim is to further integrate the risk management process into the management system and link risk mitigation planning more closely to strategy process and implementation. Enterprise risk management will also continue to support risk identification and mitigation planning in relation to partners and suppliers.

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

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.

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.

Compliance

Finnair is committed to complying with applicable international and local laws and ethical policies in accordance with the company’s Code of Conduct updated in 2016. In order ensure effective reporting Finnair’s Compliance function has a direct functional reporting line to the Audit Committee of Finnair Board and is positioned to operate under the CEO.

Finnair Compliance function supports the business lines and other functions in identifying and complying with applicable laws and regulations as well as governance practices and policies. Other key tasks of Finnair’s Compliance function are the maintenance and the development of Finnair’s compliance program and furthering of ethical business culture. In addition to Group Compliance function, Finnair’s flight operations have a comprehensive compliance monitoring system relating to the requirements set by special legislation within the airline operations and by the supervisory authorities.

Compliance focus areas in 2018 and 2019

During 2018, the Compliance function focused on preparations for the EU General Data Protection Regulation and GDPR compliance. Finnair’s privacy team is located in the Compliance function. A total of 94% of Finnair employees completed an online training on GDPR awareness and compliance.

During 2018, ethical business practices and Code of Conduct was further linked to Finnair’s sustainability work under the joint umbrella “Responsible Finnair”. Themes of responsibility were discussed widely in the organization and further embedded into Finnair’s strategy. Finnair decided to renew its Whistleblowing line Finnair Ethics Helpline and preparations for the whistleblowing system renewal were launched. Compliance continued to support effective system of internal controls and the documentation and implementation of Group wide key controls.

In 2019, the renewed whistleblowing system Finnair Ethics Helpline will be opened for both internal and external stakeholders. Compliance will focus on raising the awareness for the whistleblowing channel as well as continue work on supply chain transparency and risk mitigation.

Internal Audit focus areas in 2018 and 2019

Key Activities in 2018

In 2018 Internal Audit’s key focus areas were based on and aligned with corporate strategy and results of risk assessments conducted by company’s management. Internal audit performed audits according to the annual internal audit plan. The annual plan included audits on selected IT applications and IT controls. In addition, Internal Audit performed reviews of internal control catalogues.

Planned Key Activities for 2019

Internal Audit annual plan for 2019 have been approved by the Audit Committee of the Board of Directors in December 2018. The planned audits in 2019 have been chosen based on risk assessment and management interviews carried out as well as based on follow-up audits from previous years.

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 if 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 of 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 to normal employee discounts.

Significant transactions between Finnair and its 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 4.6 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 related 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 rules also apply 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

related 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 discloses as soon as possible any inside information it may have. However, the disclosure may be delayed if the requirements specified in MAR 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 comprises of the members of the Executive Board. The Disclosure Committee assesses the company's information typically twice a month and 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 insider list.

The person responsible for insider issues within the company is the General Counsel. Finnair's insider rules are available at the company's [website](#).

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