

# Corporate Governance

## CORPORATE GOVERNANCE STATEMENT

Finnair Plc adheres to the Articles of Association and the Finnish Companies Act as well as the rules and regulations for listed companies issued by NASDAQ OMX Helsinki Exchanges. Furthermore, the Finnair Group complies with the Finnish Corporate Governance Code for listed companies, issued in 2008, excluding recommendations 28–30, as Finnair Plc's Board of Directors does not have a Nomination Committee referred to in these recommendations. A committee established by the Annual General Meeting prepares a proposal for the Annual General Meeting on Members of the Board and their fees. The Corporate Governance Code is publicly available on the website of the Finnish Securities Market Association at the address [www.cgfinland.fi](http://www.cgfinland.fi). The Corporate Governance Statement is presented separately here and the Annual Report contains a reference to this statement.

### *Tasks and responsibilities of governing bodies*

The management of Finnair Group is the responsibility of the Annual General Meeting, the Board of Directors and the President & CEO, whose tasks are determined mainly in accordance with the Finnish Companies Act.

### *Annual General Meeting and exercising of voting rights*

Ultimate authority in Finnair Plc is exercised by the company's shareholders at the Annual General Meeting. The Annual General Meeting is convened by the company's Board of Directors. In accordance with the Companies Act, the Annual General Meeting decides on, among other things, the following matters:

- number, election and remuneration of the Board of Directors
- election and remuneration of the auditors
- approval of the financial statements
- distribution of dividends
- amendment of the Articles of Association.

The Articles of Association of Finnair Plc do not contain any redemption clauses nor any

restrictions on voting rights. The company has one series of shares.

### *Board of Directors*

#### *Composition and term of office*

The Board of Directors of Finnair Plc consists of a chairman and at least four and at most seven members. The Annual General Meeting elects the Chairman and the Members of the Board of Directors for one year at a time. The Board of Directors elects a Deputy Chairman from among its members.

On 26 March 2009 the Annual General Meeting of Finnair Plc elected the following persons as Members of the Board:

- Christoffer Taxell, former Government Minister, LL.M., b. 1948 (Chairman)
- Sigurdur Helgason, MBA, b. 1946
- Satu Huber, Managing Director of the Tapiola Pension Ltd., M.Sc. (Econ.), b. 1958
- Kari Jordan, President and CEO of Metsäliitto Group, B.Sc. (Econ.), b. 1956 (Deputy Chairman)
- Ursula Ranin, M.Sc. (Econ.), LL.M., b. 1953
- Veli Sundbäck, LL.M., b. 1946
- Pekka Timonen, Director-General of the Prime Minister's Office Ownership Steering Department, LL.D., b. 1960
- Elina Björklund, VP Marketing Fiskars Home, M.Sc. (Econ.), b. 1970

All Members of the Board are independent of the company. Members of the Board are also independent of the company's significant shareholders, excluding Pekka Timonen, who is in the service of the Finnish Government, Finnair Plc's largest shareholder. The Board of Directors' term of office expires at the end of the next Annual General Meeting.

Personal details of the Members of the Board can be viewed on the Finnair Group website <http://www.finnair.com/group>.

#### *Tasks and description of activities*

The Board of Directors represents the company and all of its shareholders. The Board of Directors must act in the interests of the company and its shareholders and handle its tasks prudently, basing its actions on the best information and expertise available to it or which reasonably can be acquired by it.

The Board of Directors approves the company's strategy and is responsible for arranging financial monitoring and risk management. The Board of Directors approves the main principles of the management and governance systems necessary for implementing its tasks and appoints the senior management responsible for them. In addition, the Board of Directors decides on the convening of the Annual General Meeting, prepares the matters to be dealt with at the Annual General Meeting and is responsible for implementing the decisions of the Annual General Meeting.

The Board of Directors appoints and dismisses the President & CEO and decides on his/her salary and terms of employment. The Board of Directors also appoints and dismisses the deputy to the President & CEO. The Board of Directors selects the members of Finnair Group's senior management and decides on their terms of employment, taking into account the human resources strategy guidelines and remuneration schemes in accordance with the company's corporate governance. The Board of Directors is responsible for ensuring that the company's accounts, budget monitoring system, internal auditing and risk management are arranged in accordance with the company's corporate governance.

The Board of Directors is also responsible for ensuring that the openness and fairness referred to in the company's corporate governance are implemented in the information given on the company's financial statements.

The company is represented by the Chairman of the Board and the company's President & CEO as well as the Deputy CEO each separately, by two Members of the Board of Directors together, and by those individuals to whom the Board of Directors has conferred the right to represent the company, together with a Member of the Board or another individual entitled to represent the company. The company's powers of procurement are decided by the Board of Directors.

The Board of Directors met 13 times during 2009. The average attendance of the Members of the Board of Directors at the meetings of the Board was 96.2 per cent.

The President & CEO of Finnair Plc or a senior member of the Finnair Group's

management nominated by him acts as the presiding officer at meetings of the Board of Directors. The Finnair Group's General Counsel Sami Sarelius acts as secretary to the Board of Directors. The Board of Directors evaluates its working practices regularly.

The charter of the Board of Directors can be viewed on the Finnair Group's website <http://www.finnair.com/group>.

#### Committees

The Board of Directors has established a Compensation and Appointments Committee and an Audit Committee. The Compensation and Appointments Committee consists of Chairman of the Board Christoffer Taxell as well as Members of the Board Pekka Timonen, Kari Jordan and Ursula Ranin. The Compensation and Appointments Committee's main task is, among other things, to prepare for the decision of the Board of Directors compensation and appointments matters relating to the company's President & CEO and the Group's other senior management as well as principles and practices relating to the compensation of the company's personnel. The committee met six times during 2009. Members' attendance at the meetings was 100 per cent.

The Audit Committee consist of Veli Sundbäck (Chairman), members Sigurdur Helgason and Satu Huber and, a new member, Elina Björklund. The Audit Committee's main task is, among other things, to monitor the financial statements reporting process and to monitor that internal controls and risk management have been appropriately arranged, and to assess compliance with laws and regulations within the Group. The committee met twice during 2009. Members' attendance at the meetings was 87.5 per cent.

The Finnair Group's General Counsel Sami Sarelius acts as secretary to both committees.

The charters of the committees can be viewed on the Finnair Group's website <http://www.finnair.com/group>.

#### *President & CEO and Deputy CEO*

Finnair Plc has a President & CEO, whose task is to manage the company's operations according to guidelines and instructions issued by the Board of Directors. In 2009 Finnair Plc's President & CEO was Jukka Hienonen, M.Sc. (Econ.), b. 1961. The Deputy CEO has been Chief Financial Officer Lasse Heinonen, M.Sc. (Econ.), b. 1968, since 13 January 2009. Following Jukka Hienonen's resignation from the service of Finnair Plc, Mika Vehviläinen, M.Sc. (Econ.), b. 1961, has been appointed Finnair's CEO as of 1 February 2010.

#### *Finnair's Executive Board and Group Structure*

The Finnair Group's structures were reorganised during 2009 and as of 1 October 2009 business and subsidiaries were grouped into three operational entities: Airline Business, Travel Services and Aviation Services. Airline Business is further divided into Sales & Marketing, Operations and Customer Service. Travel Services consists of the Group's travel agencies, tour operators and distribution companies. Aviation Services includes ground handling operations, Finnair Technical Services and catering activities. The support functions in Group Administration are Economics and Finance, Human Resources Management, Communications and Community Relations, Resource Management, Business Development and Legal Affairs.

Since 1 October 2009, the Executive Board has been as follows: President & CEO Jukka Hienonen (since 1 February 2010 Mika Vehviläinen), SVP Communications and Community Relations Christer Haglund, Chief Financial Officer and Deputy CEO Lasse Heinonen, SVP Human Resources Anssi Komulainen, SVP Sales & Marketing Mika Perho, SVP Travel Services Kaisa Vikkula, SVP Customer Service Timo Riihimäki, SVP Operations Erno Hildén and SVP Ville Iho of the Resource Management Unit, which operates under Group Administration.

Finnair Plc's Executive Board meets around 20 times per year (23 times during 2009) and its tasks include the handling of group-wide development projects as well as group-level principles and procedures. In addition, the Executive Board is informed

about, among other things, the business plans of the Group and sector companies, financial performance, and matters to be dealt with by Finnair Plc's Board of Directors, in the preparation of which it participates. The Executive Board also acts as the Group's risk management steering group.

#### *Finnair Group's Board of Management*

The Board of Management meets around ten times per year (eight times during 2009). The Finnair Group's Board of Management in 2009 comprised, in addition to members of the Executive Board, Northport Oy's Managing Director Jukka Hämäläinen, Vice President of Catering Operations and Finnair Catering Oy's Managing Director Kristina Inkiläinen, Vice President of Cargo Operations and Managing Director of Finnair Cargo Oy and Finnair Cargo Terminal Operations Oy Antero Lahtinen, and Vice President of Finnair Technical Services Kimmo Soini as well as personnel representatives, namely Department Supervisor Mauri Haapanen of the Finnair Technical Employees Association, Purser Mauri Koskeniemi of the Finnish Flight Attendants' Association SLSY, Purser Tiina Sillankorva, Deputy Chairman of the Finnair Senior White Collar Workers Association, Pilot Kristian Rintala, Chairman of the Finnish Commercial Pilot Association, and Juhani Sinisalo, Representative of Finnair Personnel Fund and Finnish Aviation Union.

The Board of Management is informed about, among other things, the business plans and financial performance of the Group. The Board of Management prepares, among other things, significant changes affecting personnel as well as fleet and other fixed asset related investments and projects to be decided by the Board of Directors. The Board of Management decides, according to the Group's investment guidelines, on investments and projects that fall within its sphere of approval.

#### *Corporate governance of subsidiaries*

The Members of the Boards of Directors of the most significant subsidiaries are selected from individuals belonging to Finnair Group management and from representatives proposed by personnel groups. The key tasks of

the Boards of Directors of subsidiaries are strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of instructions issued by the Board of Directors of Finnair Plc.

### *Insider management*

The Finnair Group's insiders are divided into permanent insiders and temporary insiders in accordance with the Securities Market Act. Permanent insiders are further divided into those entered in a public insider register and those entered in a non-public company-specific insider register.

Finnair Plc's permanent insiders include members of Finnair Plc's Board of Directors, the President & CEO and his Deputy, the direct subordinates of the President & CEO, as well as the auditors, including the auditing firm's auditor with chief responsibility for the company.

The permanent company-specific insiders also include some other managers and white-collar workers in accordance with their job descriptions. Temporary insiders are individuals who receive insider information during the performance of some assignment (project). These individuals are entered into a non-public company-specific insider register, namely a project-specific register.

The Board of Directors of Finnair Plc have approved Finnair Plc's insider guidelines, which contain guidelines for permanent and project-work insiders and specify the organisation and procedures of the company's insider controls. The company's insider guidelines have been distributed to all insiders.

The Legal Affairs Department is responsible for the content of the insider guidelines. Compliance with the insider guidelines is monitored by the Economics and Finance Department. The company operates a restriction on trading, which applies to insiders' trading in the company shares or in securities granting entitlement to shares, for 30 days before the declaration of financial results.

Finnair Plc's insider register is maintained by Euroclear Finland Ltd. The public insiders and their up-to-date shareholdings can be viewed at Euroclear Finland's premises

in Helsinki, Finland at the address Urho Kekkosen katu 5C and on Finnair's website at the address [www.finnair.com/investor](http://www.finnair.com/investor).

### *Auditors*

The company has two auditors and two deputies elected by the Annual General Meeting. The auditors' term of office ends at the conclusion of the Annual General Meeting following the meeting of their election. The auditor and the auditor's deputy must be an authorised public accountant or an authorised public accounting firm approved by the Central Chamber of Commerce.

Finnair Plc's Annual General Meeting in 2009 elected as the company's auditors Authorised Public Accountants PricewaterhouseCoopers Oy, Principal Auditor APA Eero Suomela and APA Jyri Heikkinen, and as deputy auditors APA Tuomas Honkamäki and APA Timo Takalo. The auditors of Finnair Group subsidiaries are mainly PricewaterhouseCoopers auditing firms or auditors employed by them.

Auditing fees paid to auditors amounted to 177,000 euros in 2009. Auditors were also paid 315,000 euros in 2009 for services (e.g. tax advice) unrelated to auditing.

### *Internal auditing*

Internal auditing work is employed to verify the integrity of transactions and the accuracy of information in internal and external accounting, and to confirm that controls are exercised effectively, property is maintained and operations are conducted appropriately in accordance with the Group's objectives. Internal Auditing also participates in the auditing of Finnair Plc subsidiaries' accounts in collaboration with External Auditing. The Internal Auditing priorities are determined in accordance with the Group's risk management strategy.

### *Internal control*

Most of the company's operational activity is based on official regulations and supervision, and responsibility for complying with these rests with individuals approved by the authorities. In addition, the most important supervision responsibilities relate to economics, finance and information security. The company has internal control guidelines,

according to which each unit or function manager must arrange internal control of his/her own unit and organisation.

### *A description of the main features of the internal control and risk management systems pertaining to the financial reporting process*

Financial reporting is a process of data recording, period close activities, consolidation and reporting. Most of the data recording and period close activities of Finnair Group companies are carried out in the Group's centralised Shared Service Centre in cooperation with business unit controllers, whereas consolidation and group reporting is performed in a separate group accounting unit reporting directly to the Finnair Group CFO. Most of the significant financial reporting items originate from the parent company or from the subsidiary which manages the fleet. The Finnair Group applies the international financial reporting standards.

Financial reporting controls aim 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. In the Finnair Group, the financial reporting risks are managed through an interrelated process of five sub-areas: internal control environment, risk recognition and assessment, control activities, information and communication, and monitoring.

The internal control environment consists of the Group's roles, responsibilities and documented internal control principles as well as the Group's values and ethics. Roles and responsibilities are in accordance with the Finnish Companies Act, the Finnish Corporate Governance Code and also with the organisational structure of the Finnair Group. Internal control principles in the Finnair Group are documented in Group reporting guidelines, the Self Assessment Tool, Treasury Policy, Procurement Policy, Credit Policy and Data Security Principles.

Risk recognition and assessment is carried out at all organisational levels of the Finnair Group. In addition to this, Internal Auditing in cooperation with external

auditors, Shared Service Centre and business unit controllers, evaluates the most significant financial reporting risks related to main processes, such as revenue recognition, purchasing, payroll, investments, treasury, IT and disclosure processes, and in co-operation with external auditors tests identified key controls to determine whether the controls are effective enough to manage these risks. Based on this, a financial statement risk analysis report is prepared twice a year under the direction of Internal Auditing and the results are reported to the Audit Committee.

The most significant evaluated risks in respect of financial reporting are managed through control activities in companies, business areas and processes. The business unit controllers as well as the Shared Service Centre play an important role in performing control activities. Through the self-assessment tool, all major business units report the key controls and the performance of these key controls. Key control activities, such as balancings, trend analyses and system controls have been defined through facilitated workshops, which were held in cooperation with the Shared Service Centre, business unit controllers and Internal Auditing during autumn 2008 and spring 2009.

Information regarding control requirements is communicated through guidelines, policies and procedures. Through the self-assessment tool, unit management communicates adherence to these requirements to Group Accounting. Internal Auditing reports the results of its work regularly to the Audit Committee. The results of the Audit Committee's control work, in the form of observations, recommendations and proposed decisions and measures, are continuously reported to the Board of Directors.

Monitoring to ensure the effectiveness of internal control over financial reporting is conducted by the Board of Directors, the Audit Committee, the President & CEO, the Executive Board, Internal Auditing, subsidiaries and business units. Monitoring includes the follow-up of monthly financial reports in relation to budgets and targets, the follow-up of the self-assessment reports of the Group's companies and business areas, as well as a review of results from internal audits performed by Internal Auditing or the group's external auditors.

## SALARIES AND REMUNERATION

### *Remuneration of Members of the Board*

The remuneration and attendance allowances decided by the Annual General Meeting for Members of the Board of Directors in 2009 were:

- Chairman's annual remuneration 61,200 euros
- Deputy Chairman's annual remuneration 32,400 euros
- Member of the Board's annual remuneration 30,000 euros
- Meeting compensation to a Member of the Board residing in Finland 600 euros per meeting of the Board of Directors or its committees
- Meeting compensation to a Member of the Board residing abroad 1,200 euros per meeting of the Board of Directors or its committees

The Board of Directors are entitled to a daily allowance and compensation for travel expenses in accordance with Finnair Plc's general travel rules. In addition, Members of the Board of Directors have a limited right to use ID tickets in accordance with Finnair Plc's ID ticket rules. The fees paid to the Board of Directors are outlined in Note 9 to the financial statements. Members of the Board do not fall within the sphere of the company's share scheme or incentive bonus scheme. Up-to-date information on the Finnair shares owned by Members of the Board is available from Euroclear Finland Oy's NetSire service.

### *Remuneration scheme of President & CEO, Executive Board and key individuals*

The earnings of the President & CEO, Executive Board and management consist of monthly salary and incentive bonuses as well as share bonuses. Remuneration schemes of management and key individuals are prepared in the Board of Directors' Compensation and Appointments Committee. Decisions are made by the company's Board of Directors. Management's incentive bonuses are determined annually based on set financial targets, unit-specific quality

and process indicators as well as personal performance appraisals. The bonus can be equivalent at most to 40 per cent of yearly earnings. Information on the bonuses of the President & CEO and Deputy CEO is outlined in Note 9 to the financial statements.

Around 70 key individuals of the Group belong to the 2007–2009 share-based incentive scheme. The rewards of the share bonus scheme are based on the achievement of financial targets. Finnair Plc's Board of Directors decides the target levels annually. The share bonuses are subject to sales restrictions. More information on share-based bonuses is given in Note 26 to the financial statements. Up-to-date information on the Finnair shares owned by members of the Executive Board is available from Euroclear Finland Oy's NetSire service.

The pension schemes of the parent company's President & CEO and members of the Executive Board as well as those of the managing directors of subsidiaries are individual schemes, and the retirement age under these agreements varies from 60 to 65 years. Pension liabilities are outlined in Note 27 to the financial statements.

### *Other benefits of the President & CEO's employment*

Up to the end of 2009, the President & CEO's other benefits were as follows:

- retirement age 60 years
- pension 60 per cent of pensionable salary
- notice of termination 6 months and severance pay equivalent to 12 months' salary payable in addition to notice period salary

As of 2010, the President & CEO's pension is defined-contribution pension and the retirement age is 63 years.