

FINNAIR

Corporate Governance Statement 2014



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Regulatory framework

This Corporate Governance Statement is issued pursuant to the Finnish Corporate Governance Code 2010 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.

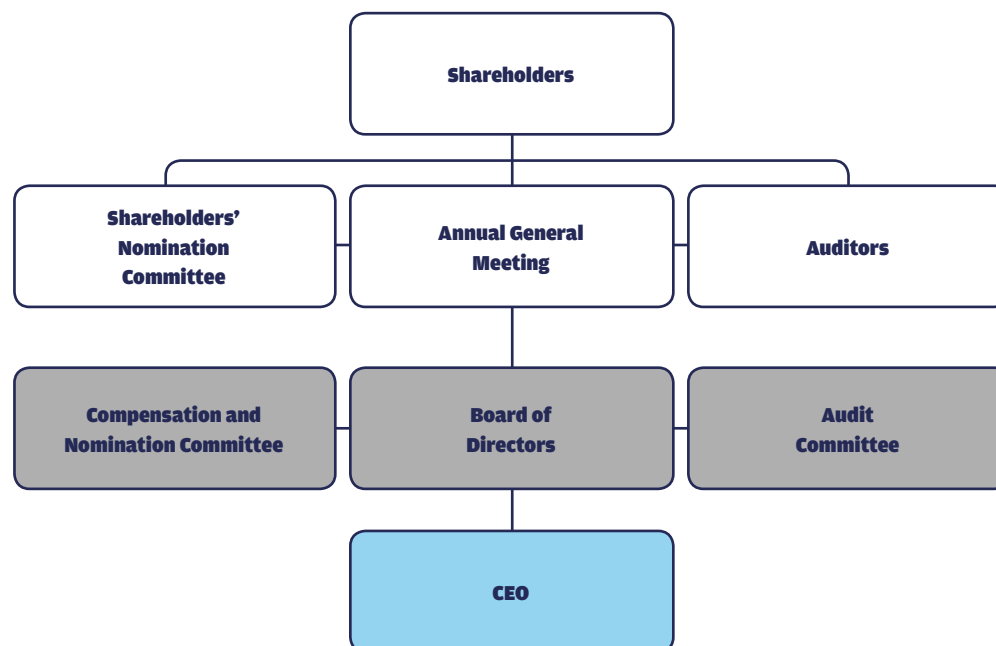
The principal legislative authorities on corporate governance of Finnish listed companies are the Companies Act, the Securities Market Act, the regulation and guidelines issued by the Financial Supervision, the rules and instructions for listed companies issued by Nasdaq Helsinki and the Finnish Corporate 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 principles, policies and guidelines issued by Finnair's Board of Directors.

The Articles of Association, the published policies and other additional information on Finnair's corporate governance can be found at Finnair's internet site at www.finnairgroup.com. 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 approved by Finnair's Board of Directors and it has been prepared as a separate report from the Board of Directors' Report. Finnair's auditing firm, PricewaterhouseCoopers, has verified that the description of the main features of the internal control and risk management related to the financial reporting process contained herein are consistent with the financial statements.

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 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 Ltd, 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.

2014 Annual General Meeting

Finnair’s AGM 2014 was held in Helsinki on 27 March. A total of 251 shareholders, representing 63 per cent of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members elected by the 2013 AGM except one and all candidates for

Board membership in 2014 AGM were present in the meeting, as well as Finnair’s Executive Board and the auditors of the company.

Shareholders’ Nomination Board

The AGM 2013 decided to establish a permanent Shareholders’ Nomination Board. The term of the Nomination Board continues until the General Meeting of the company decides otherwise. 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 shall consist of four members, who shall be nominated annually. The company’s three largest shareholders shall appoint three of the members, and the Chairman of the Board shall serve as the fourth member. The company’s largest shareholders entitled to appoint members to the Nomination Board shall be 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 shall pass 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.

2013 and 2014 Nomination Boards

The Nomination Board established in 2013 consisted of the representatives of three largest shareholders as at the first working day September 2013 and of the Chairman of the Board. The shareholders were the State of Finland, Keva and Skagen Global Verdipapirfond and the composition of the Nomination Board was the following:

- Mr. Eero Heliövaara, 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. Per Wennberg, b. 1969, B. Sc. (Hon.) in Business Management, Skagen’s Managing Director in Sweden;
- Mr. Klaus Heinemann, see details on page 5.

The Nomination Board convened three times and all members were present in the meetings. On 31 January 2014, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM held on 27 March 2014.

The Nomination Board established in 2014 consisted of the representatives of three largest shareholders as at the first working day September 2014 i.e. the State of Finland, Keva and Skagen Global Verdpapirfond, and of the Chairman of the Board. Skagen funds sold their shares in Finnair Plc in November 2014 and consequently their representative in the Shareholders' Nomination Board resigned. The right to nominate a member to the Nomination Board was thus transferred to the fourth largest shareholder of Finnair Plc as at the first working day September, Ilmarinen. The composition of the 2014 Nomination Board is the following:

- Mr. Eero Heliövaara, see above, (Chairman);
- Mr. Robin Backman, see above;
- Mr. Per Wennberg, see above; (until Dec 2014)
- Mr. Harri Sailas, b. 1951, M. Sc. (Econ.) President and CEO of Ilmarinen Mutual Pension Insurance Company (from 15 Dec 2014 onward)
- Mr. Klaus Heinemann, see details on page 5.

The Nomination Board convened two times and all members were present in the meetings. On 29 January 2015, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 25 March 2015. The Nomination Board's proposals are available on 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 policies issued by the Board, designed to enhance the internal controls. The policies are regularly updated and communicated to the personnel.

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 sets the company's strategic aims and monitors the implementation of the same by the management, approves other significant strategic matters, investments, divestments and capital commitments and approves the business and financial plans, significant partnerships and other major contracts. The Board reviews the performance of the management and it appoints and removes the CEO and other members of the executive management 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's charter is available on Finnair's website in its entirety.

The Board evaluates its work annually, and in 2014 it also used an external consult in assessing Board work. The Board's gender distribution in the composition elected by 2014 AGM is four men and three women.

Members of the Board and their independence

The 2014 AGM held on 27 March elected Klaus Heinemann as Chairman of the Board and Maija-Liisa Friman, Jussi Itävuori, Harri Kerminen, Gunvor Kronman, Jaana Tuominen and Nigel Turner as other members of the Board. The Board elected Harri Kerminen as its Vice Chairman.

Board members represent a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations. The Board assessed the independence of its members and concluded that all members are non-executive members independent of the Company and its major shareholders.

Members of the Board in 2014 and their attendance in Board and Committee meetings

In 2014, the Board met nine times (seven meetings with the composition elected by the 2014 AGM and two meetings with the composition elected by the 2013 AGM). In addition, the Board made per capsulam decisions six times during the year. See the table on the following page for information on the Board members' participation in the meetings during 2014.

Name	Personal Information	Participation in Board meetings in 2014	Participation in Committee meetings in 2014	
			Audit	Remuneration
Mr. 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	9/9	1/1	
Mr. Harri Kerminen	Member of the Board since 24 March 2011 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	9/9	6/6	4/5
Ms. 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)	9/9	6/6	
Mr. Jussi Itävuori	Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Senior partner, RJJ Partners Limited Committee memberships: Compensation and Nomination Committee (Chairman)	9/9		5/5
Ms. 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	8/9		5/5
Ms. 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 Committee	7/7		3/3
Mr. Nigel Turner	Member of the Board since 27 March 2014 B. 1958, BA (Hon.) Main occupation: - Committee membership: Audit Committee	7/7	5/5	
Members of the Board until the end of the 2014 AGM				
Ms. Merja Karhapää	Member of the Board until 27 March 2014 B. 1962, Master of Laws, PG IPR Diploma Main occupation: Chief Legal Officer, Sanoma Group Committee memberships: Audit Committee	2/2	1/1	
Mr. Antti Kuosmanen	Member of the Board until 27 March 2014 B. 1950, BA, M.Sc. (Mathematics, Economics and Statistics.) Main occupation: Ambassador Committee membership: Compensation and Nomination Committee	0/2		1/2

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

The Board's work in 2014

In 2014 the Board met nine times in person and had six additional online or telephone meetings. In addition to its regulatory duties, the Board's actions included the following:

- Evaluated the company's strategy, followed the implementation of the existing strategic initiatives and set the focus areas for new initiatives;
- Approved a share saving plan targeted to the entire staff and a long-term share incentive plan targeted to the key employees, and set the personnel fund's performance bonus criteria for 2014;
- Approved a long-term incentive plan for the Pilots as a part of the resolution on the Pilots' Collective Labour Agreement negotiation;
- Approved the divestment of Finnccatering Oy and the Duty free shops at Helsinki Airport;
- Approved the acquisition of the shares of Flybe Nordic;
- Reviewed the attainment of the targeted service levels and cost savings in the outsourced core services;
- Confirmed the company's financial risk management policies, reviewed the mid and long term investment and funding plans, approved several aircraft transactions, including the sale of four A340 aircraft to Airbus and confirmed eight A350 aircraft purchase options;
- Revised the financial guidance for 2014 in June and August;
- Assessed and developed its working practices; and
- Revised the charter of the Compensation and Nomination Committee.

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 Chairmen 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 raised by the management or the 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.

According to the Corporate Governance Code, the members of the Committee must be sufficiently qualified to perform the responsibilities of the Committee.

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;
- assess 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;
- 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 2014 AGM, the Audit Committee members are Maija-Liisa Friman (Chairman), Nigel Turner and Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The Audit Committee met six times in 2014 with an aggregate attendance rate of 100 per cent. One of the meetings was held with the composition that was in place after the 2013 AGM and five with the composition in place after the 2014 AGM. 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 2014

In addition to its customary tasks, the Audit Committee attended selected focus areas, such as labour productivity, Joint Business Agreements, hedging strategies, information security, internal controls enhancement program, aircraft financing, and partner management.

The Audit Committee also:

- Reviewed the mid and long-term investment and funding plans;
- Reviewed the risk management process, the risk and control environment, the top risks for 2014 and the related risk management measures. The Committee reviewed and approved a risk-based internal audit plan for 2014 and assessed the sufficiency of the resources in the internal control functions;
- Reviewed the current state and development roadmap of the group's Governance, Risk and Compliance (GRC) system;
- Held a risk management workshop to set and document the group's risk appetite;
- Discussed with the CEO, the CFO and the auditors the company's accounting policies and the estimates and judgements that were applied in preparing the reports;
- Recommended to the Board that it changed the financial guidance in June and August 2014;
- Assessed the internal and external auditor's performance and proposed to the 2014 AGM that PricewaterhouseCoopers be re-elected as the auditor for the fiscal year 2014; and
- Performed an annual self-assessment and set the Committee's annual plan for 2015. The areas of specific attention in 2015 will comprise complementary pensions, Joint Business Agreements, Finance processes and controls, IT, Aircraft Finance, and Vendor Management.

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.

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 2014 AGM, the members of the Compensation and Nomination Committee elected are Jussi Itävuori (Chairman), Gunvor Kronman, Jaana Tuominen and Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The members of the Compensation and Nomination Committee met five times in 2014 with an aggregate attendance rate of 90 per cent. Two of the meetings were held with the composition that was in place after the 2013 AGM and three with the composition in place after the 2014 AGM. The CEO and the Head of HR 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 2014

The Committee's work comprised, among other things, the following topics:

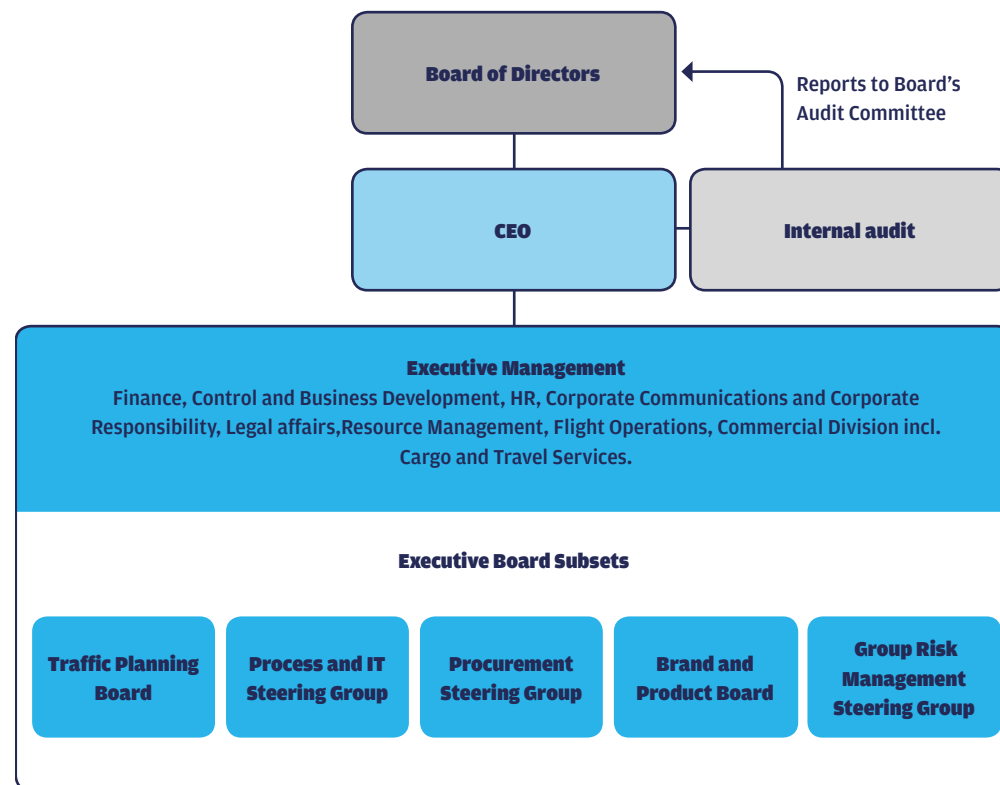
- Prepared for the Board approval the 2014 program under the employee share saving plan 'Flyshare';
- Committee also reviewed the senior management's compensation levels compared to the market and assessed their performance under the long and short term incentive targets;
- Assisted the Board in determining the semi-annual targets of the top management for 2014 as well as the personnel fund's bonus criteria for 2014;
- Reviewed Finnair's compensation policies and practices;
- Assisted the Board in determining the targets of the next rolling share bonus plan and assessed the development needs of the share bonus program;
- Discussed with the management the strategically vital labour cost savings and the targets and results of the collective labour agreement negotiations;
- Prepared for the Board approval a long-term incentive plan for the pilots as part of their new collective labour agreement; and
- Assessed its meeting practices and tasks and prepared its revised charter, which was approved by the Board early 2014.

Company management

Finnair's corporate structure

Finnair has two business areas: Airline Business and Travel Services (tour operators and travel agencies) and its financial reporting is based on this grouping. Shared functions in Finnair's Group Administration are Finance, Control and Corporate Development, Human Resources, 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 Pekka Vauramo, b. 1957, M. Sc. (Mining).

Executive Board

The Executive Board of the Company is led by the CEO and it comprises the senior management responsible for Finnair's business operations, finance, control and corporate development, human resources, communications and corporate responsibility and legal affairs. The members' respective roles and their shareholdings in Finnair are more fully described on the company's web pages. The senior management is appointed and removed by the Board, which also determines their remuneration and other terms of employment.

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 2014, Finnair's Executive Board met twice a month on average. The main focus areas in the Executive Board's work were the strategy assessment, development and implementation, the group's financial status, revenue enhancement and product renewal, risk management, IT transformation and related investments, outsourcings and vendor management, talent and successor reviews, and HR development programs. The Executive Board also sought to improve route profitability, operational quality and customer service. In addition, the Executive Board met nearly every week to tend to Finnair's collective labour agreement negotiations and the profitability and productivity improvement programs.

Subsets of the Executive Board

The Executive Board delegates certain of its functions to five subsets. These subsets consist of members of the Executive Board or representatives of various business functions. These subsets' decision making authority is derived from that of the Executive Board, set by the Board by way of the approval limits, policies and instructions.

Network Planning Group is responsible for fleet and network strategy and short and long-term traffic planning of Finnair's passenger and cargo traffic, among other things. The Group is headed by SVP Resource Management and meets monthly.

Process and IT Steering Group makes decisions on IT and process development projects and sets the priorities, budgets and targets for the same. It also approves significant projects, investments and supplier contracts in the area of IT. The Group is headed by CFO and meets bi-monthly.

Procurement Steering Group is responsible for Finnair's Procurement Policy, procurement category structure and related development projects. It also approves significant supplier contracts (with the exception of IT contracts) and their related governance models. The Group is headed by the CFO and meets at least quarterly.

Brand and Product Board is responsible for strategic brand steering and management as well as product decisions. It decides, for example, on brand development activities, service identity and visual identity of Finnair. The Board is headed by the CEO and meets bi-monthly.

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 setting risk management priorities and risk management measures. It assesses the adequacy and timeliness of the Group's risk management policy, and decides over the extent to which key external cooperative parties are obligated to comply with the content of this. In addition, it reviews and 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. 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 2014, the Management Board met seven 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 2014 under Note 1.3., Subsidiaries.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Flybe Finland Oy through Flybe Nordic AB (ownership 40 per cent) and in Nordic Global Airlines Ltd (ownership 40 per cent). Flybe Finland is a Finnish regional passenger airline operating ATR turboprop and Embraer 170 and 190 aircraft. Part of its route network is designed to provide convenient feeder connections to Finnair's European and long haul routes. Nordic Global Airlines Ltd is a Finnish full freight airline and its home base is in Finland. Nordic Global Airlines provides cargo capacity mainly to Finnair Cargo Ltd. Finnair's influence over the governance of these companies is secured by shareholding and various contractual rights.

Finnair has entrusted certain important operational services to world class service providers. 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 designed to ensure Finnair's receipt of high quality services, cost savings and other benefits. Other similar long-term arrangements exist in the ground handling services, with Swissport Finland Ltd, and in the engine and component services with a Swiss company SR Technics. In addition to a requirement of continued cost competitiveness, these agreements contain service level requirements with baselines meeting or exceeding the levels achieved by Finnair prior to the outsourcing.

All Finnair's partners are expected to comply with Finnair's Code of Conduct 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.

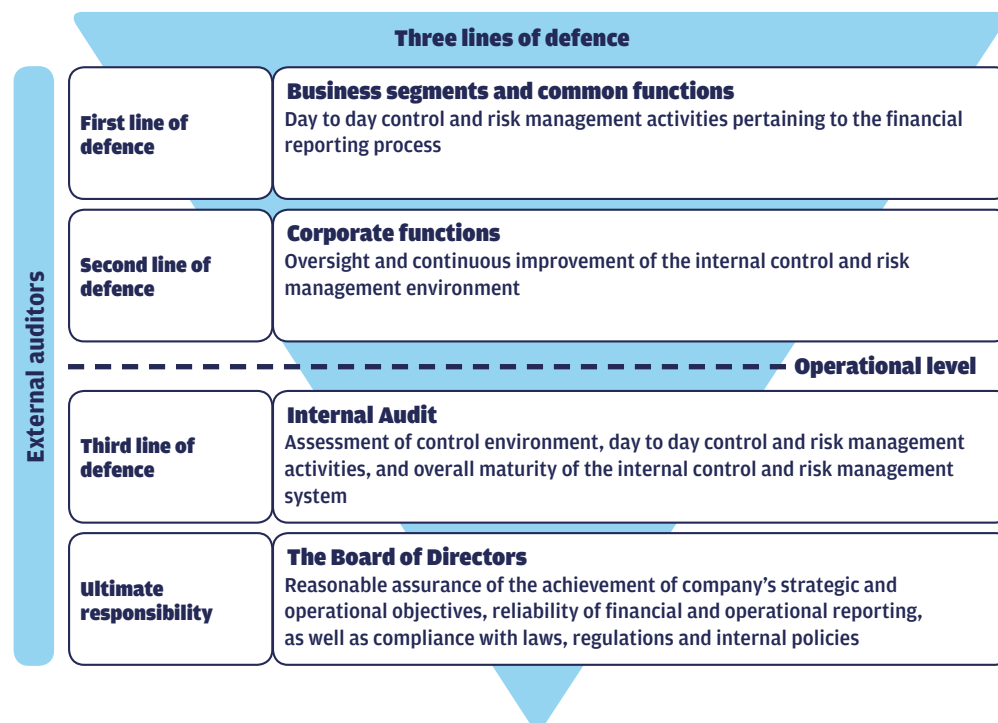
Control environment

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, Annual Accounts drafting principles, Treasury Policy, Procurement Policy, Credit Policy and Disclosure 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. Group CFO is responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. The line organizations 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,

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



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 above summarises the roles of the listed stakeholders in the implementation of the internal control and risk management system.

Risk Assessment

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 shared service centre as part of their daily and weekly 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 control-liability of the financial reporting process and ensure that financial statement fulfils the requirements set in the IFRS standards and other applicable principles.

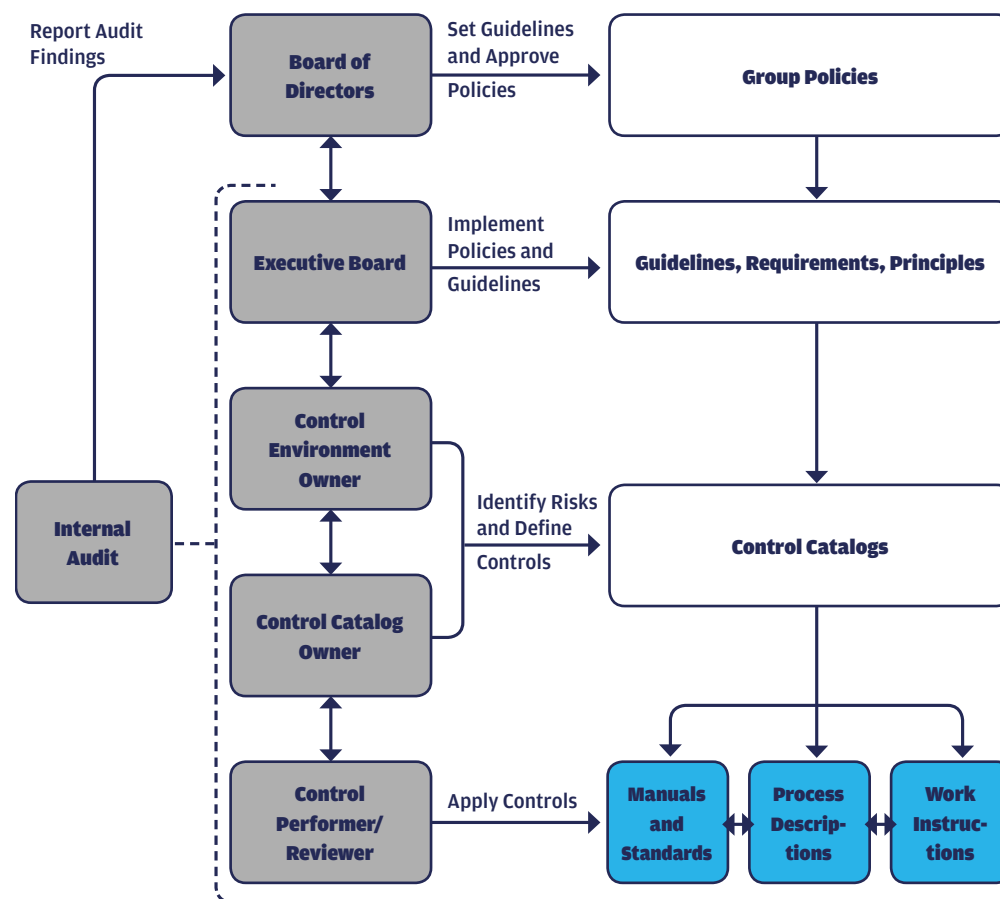
Risk related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for 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 Catalogs;
- supported by Manuals and Standards, Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

As part of group-wide internal control development project in 2013, responsibilities over reporting controls were reviewed and updated to reflect the recent changes in the organization. These roles are illustrated in the below matrix:

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 summarised in the following chart:



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 2014 and 2015

2014 Key Activities

Regular self-assessment of risks and controls was performed as set in the annual calendar of internal control activities. Specific attention was put into the critical process areas where changes in the roles and responsibilities have recently occurred. Additionally, the Internal Audit and public auditors performed audits on key controls as defined in the annual audit plan.

Furthermore, control catalogue documentation in additional key process areas identified after the first phase implementation was carried out to further extend the coverage of the consistently defined framework and control process. Special attention was focused on areas where changes in roles and responsibilities had taken place.

2015 Planned Key Activities

Further development of the controls will be conducted independently and also using any findings and suggestions received from Internal Audit and public auditors. By the end of 2015 audits will have been performed for each control catalogue.

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 organization'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's focus areas in 2014 and 2015

2014 Key Activities

Main focus areas of Internal Audit for the year 2014 were based on and aligned with corporate strategy, results of risk analysis and changes in internal processes. As part of the Audit Plan, special attention was given to sales strategy implementation and business resilience. Finnair Internal Audit participated in the planning of a project aiming to enhance Governance, Risk and Compliance management system and related IT platform. It also provided facilitative support for setting and documentation of the group's risk appetite.

2015 Planned Key Activities

Internal Audit Plan for 2015 has been approved by the Audit Committee of the Board of Directors in December 2014. Sales strategy implementation will continue to be a focus area, and other special attention areas will relate to strategic partnerships and programs, and data integrity. Internal Audit will participate as a subject matter expert in project aiming to enhance key process controls' development as well as continue to participate in project aiming to enhance Governance, Risk and Compliance management system and related IT platform.

Compliance

Finnair is committed to complying with international and local laws and ethical policies in accordance with the Code of Conduct approved in 2012. The Company's General Counsel is responsible for Finnair's compliance function, which supports business operations and corporate administration developing practices related to identifying and complying with the law. The key tasks of Finnair's Compliance function are to ensure compliance with the regulation in all operations, maintenance of Finnair's compliance program and the continuous development of ethical business culture.