

Finnair Plc Corporate Governance Statement 2012

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REGULATORY FRAMEWORK

This Corporate Governance Statement is issued pursuant to the Finnish Corporate Governance Code for listed companies published in 2010. 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 standards issued by the Financial Supervision, the rules, regulations and guidelines for listed companies issued by NASDAQ OMX Helsinki Exchange 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.

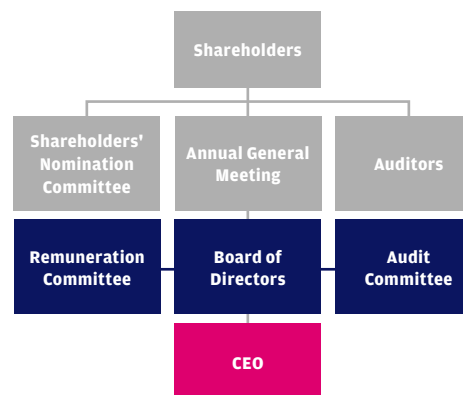
The Articles of Association, the published policies and other additional information on Finnair's corporate governance can be found at Finnair's internet site at www.finnairgroup.com. The Corporate Governance Code is publicly available on the website of the Securities Market Association's website at 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, Price-waterhouseCoopers, 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.

Governing bodies of Finnair



General Meetings

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

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

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

In accordance with Finnair's Articles of Association, the AGM elects also the Chairman of the Board

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 al-

ways at least nine days before the record date of the meeting (as defined in the Companies Act). 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 Shareholder 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.

2012 Annual General Meeting

Finnair's AGM 2012 was held in Helsinki on 28 March. A total of 391 shareholders, representing circa 73.5% of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members elected by the 2011 AGM and all but one of the candidates for Board membership in 2012 AGM were present in the meeting, as well as Finnair's Executive Board and the auditors of the company. Further information on 2012 AGM is available at www.finnairgroup.com.

Shareholders' Nomination Committee

The Shareholders' Nomination Committee is a non-permanent body convened annually pursuant to the decision of the AGM for the purposes of preparing proposals for the next AGM on the composition of the Board and its remuneration.

The Committee has been appointed annually since 2008.

The Shareholders' Nomination Committee consists of the representatives appointed by the three largest shareholders with reference to a record date set annually by the AGM. If a shareholder chooses not to exercise its right to appoint a representative to the Committee, the right is transferred to the next largest shareholder. The Chairman of the Board acts as an expert member of the Committee.

The members of the Committee are not remunerated by Finnair for their membership in the Committee.

2011 and 2012 committees

The proposal for the 2012 AGM was made by a Committee formed by the decision of the 2011 AGM. Based on the largest shareholdings on 1 November 2011, the Committee consisted of representatives of State of Finland, Keva and Skagen Global Verdipapirfond. Their representatives were:

- Mr Jarmo Väisänen, b. 1951, Licentiate in Political Science, Senior Financial Counsellor in Prime Minister's Office;
- Mr Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva; and
- Mr Michael Gobitschek, b. 1971, M. Sc. (Econ.) Portfolio Manager in Skagen funds.

The Committee elected Jarmo Väisänen as its Chairman and the Chairman of the Board, Mr. Harri Sailas served as the Committee's expert member. The Committee convened twice before submitting their first proposal to the 2012 AGM on 1 February 2012. At the instruction of Minister Hautala, the Committee convened thereafter to submit a renewed proposal to the 2012 AGM on 21 March 2012. All members were present in all meetings.

As of the record date set by the 2012 AGM, 1 November, the three largest shareholders of Finnair were the State of Finland, Keva and Skagen Global Verdipapirfond, who appointed the following representatives to the Committee:

- Mr Jarmo Väisänen, (see above);
- Mr Robin Backman, (see above); and
- Mr Per Wennberg, b. 1969, B. Sc. (Hon.) in Business Management, Skagen's Managing Director in Sweden.

The Committee elected Jarmo Väisänen as its Chairman. Harri Sailas served as the Committee's expert member. The Committee convened two times and all members were present in the meetings. On February 1, 2013, the Shareholders' Nomination Committee submitted to the Board its proposal for the Annual General Meeting to be held on 27 March 2013. The Committee proposed that Ms Maija-Liisa Friman, Mr Klaus W. Heinemann, Mr Jussi Itävuori, Ms Merja Karhapää, Mr Harri Kerminen and Ms Gunvor Kronman be re-elected, and Mr Antti Kuosmanen be elected as a new member. The Committee proposed that Mr Klaus W. Heinemann was elected as Chairman of the Board. The existing Chairman of the Board, Mr Harri Sailas had informed the Committee that he would not stand for re-election in 2012 AGM.

The Shareholders' Nomination Committee proposes that the remunerations of the members of the Board would remain unchanged and thereby be the following: annual remuneration to the Chairman 61,200 euros, to the Vice Chairman 32,400 euros and to other members 30,000 euros each. The Committee further proposes that for each meeting of the Board or the committees of the Board a fee of 600 euros be paid to the members of the Board that reside in Finland and a fee of 1,200 euros be paid to the members that reside abroad.

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 control. The policies are regularly updated and communicated to the personnel.

In 2012, the Board approved a group-wide code of conduct, which provides greater clarity and guidance on the ethical standards of the company to the personnel. This code of conduct is supported by a training course for all personnel, starting in 2013.

In addition to the Boards' statutory responsibilities, certain significant matters are reserved for Board 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 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 at www.finnairgroup.com. The Board evaluates its work annually.

The Board's gender distribution in the composition elected by 2012 AGM is four men and three women.

Members of the Board and their independence

The 2012 AGM elected Mr Harri Sailas as Chairman of the Board and the following persons as other members of the Board: Ms Maija-Liisa Friman, Mr Klaus Heinemann, Mr Jussi Itävuori, Ms Merja Karhapää, Mr Harri Kerminen and Ms Gunvor Kronman. The Board elected Mr 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. All members of the Board, including the Chairman are independent of the company and of its significant shareholders.

Also the members of the Board elected in the 2011 AGM (see tables on page 51) were independent of the company and of its significant shareholder, excluding Mr Pekka Timonen, who was in the service of Finnair's largest shareholder, the Finnish State.

Members of the Board of Directors in 2012 and their attendance in Board and Committee meetings

In 2012, the Board met 15 times (12 meetings with the composition elected by the 2012 AGM and three meetings with the composition elected by the 2011 AGM). See the table on next page for information on the Board members' participation in the meetings during 2012.

Members of the Board of Directors in 2012 and their attendance in Board and Committee meetings

	Name	Personal information	Board meetings	Committee meetings	
				Audit	Remuneration
Members since 2012 Annual General Meeting	Harri Sailas	Chairman of the Board since 24 March 2011 Member of the Board since 2010 B. 1951, M. Sc. (Econ.) Main occupation: President and CEO of Ilmarinen Mutual Pension Insurance Company Committee membership: Remuneration Committee (Chairman)	13/15		6/6
	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 Remuneration Committees	15/15	5/5	6/6
	Maija-Liisa Friman	Member of the Board since 28 March 2012 B. 1952, M.Sc. (Chem. Eng.) Main occupation: Board professional Committee memberships: Audit Committee (Chairman)	12/12	5/5	
	Klaus W. Heinemann	Member of the Board since 28 March 2012 B. 1951, B.Sc. (Econ.) Main occupation: Board professional Committee membership: Audit Committee	11/12	5/5	
	Jussi Itävuori	Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Senior Partner, RJJ Partners Limited Committee memberships: Remuneration Committee	11/12		4/4
	Merja Karhapää	Member of the Board since 28 March 2012 B. 1962, Master of Laws, PG IPR Diploma Main occupation: Chief Legal Officer, Sanoma Group Committee memberships: Audit Committee	12/12	5/5	
	Gunvor Kronman	Member of the Board since 28 March 2012 B. 1963, Master of Arts Main occupation: CEO of Swedish-Finnish Cultural Centre Committee membership: Remuneration Committee	12/12		4/4
Members until the end of the 2012 Annual General Meeting	Elina Björklund	Member of the Board since 2009 B. 1970, M.Sc. (Econ.) Main occupation: Partner, BletBI Advisors Committee membership: Audit Committee	3/3	1/1	
	Sigurdur Helgason	Member of the Board since 2007 B. 1946, MBA Main occupation: Chairman of the Board of Directors of the Icelandair Group Committee membership: Audit Committee	3/3	1/1	
	Satu Huber	Member of the Board since 2006 B. 1958, M.Sc. (Econ.) Main occupation: Managing Director of the Tapiola Pension Ltd Committee membership: Audit Committee	3/3	1/1	
	Ursula Ranin	Member of the Board since 2006 B. 1953, LL.M., MSc (Econ) Main occupation: Board professional Committee membership: Remuneration Committee	3/3		1/2
	Veli Sundbäck	Member of the Board since 2004 Vice chairman of the Board since 24 March 2011 B. 1946, LL.M. Committee membership: Audit Committee	3/3	1/1	
	Pekka Timonen	Member of the Board since 2008 B. 1960, LL.D. Main occupation: Director General of the Prime Minister's Office's Ownership Steering Department Committee membership: Remuneration Committee	3/3		1/2

More information on the Members of the Board is available on page 61 and on Finnair's website at www.finnairgroup.com.

The Board's work in 2012

The Board met 15 times in 2012. In addition to its regulatory duties, the Board

- *Evaluated the company's strategy, followed the implementation of the existing strategic initiatives and evaluated Finnair's position and its options in the on-going development towards consolidation and joint ventures throughout the industry;*
- *Approved the outsourcing of the engine and component services, the Catering services, the Embraer 190 operations, and the payroll services, as well as the related transactions and partnerships;*
- *Approved the Company's Code of Conduct and Disclosure Policy and the revised charters of the Audit Committee and Internal Audit;*
- *Confirmed the company's Treasury Policy and other Financial Risks Policies, reviewed the mid and long term investment and funding plans, approved the Issuance of a Hybrid Bond and the buy-back of the 2009 Hybrid Bond and, in December, approved the share buy-back plan;*
- *Reviewed the company's customer satisfaction ratings and the processes and organisations regarding the company's crisis management and operational quality management;*
- *Set the semi-annual short term incentive targets for the CEO and the executive team, assessed their performance and conducted talent reviews of the senior management;*
- *Attended the CEO's housing transaction;*
- *Hired independent experts, Mercer and PCA, to assist the Board in setting up a new share incentive scheme; and*
- *Performed an annual self-assessment and developed the meeting practices with the senior management.*

The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the 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' 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. Copies of the Committees' charters are available on Finnair's website at www.finnairgroup.com.

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, which the Audit Committee reports to the Board. The Audit Committee ensures that appropriate action is taken by the management to rectify identified weaknesses.

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

Audit committee

- monitors the financial status of the company
- monitors the reporting process of financial statements and interim reports and assesses the draft financial statements and interim reports
- assesses the efficiency of the company's internal controls, internal auditing and risk management system
- monitors the statutory audit and review all material reports from the auditor
- assesses the independence of the auditors, in particular with regard to their ancillary services
- prepares for the Board proposals to the Annual General Meeting regarding the election of the auditor(s) and their remunerations

- reviews the auditors' and internal auditors' audit plans and reports
- reviews the company's corporate governance statement
- prepares for the Board the group's risk management policies
- prepares for the Board decisions on significant changes in the accounting principles or in the valuations of the group's assets; and
- assesses the group's compliance with laws and regulations.

The charter of the Committee can be viewed on Finnair's website in its entirety at www.finnairgroup.com under the Investors section.

Post the 2012 AGM, the Audit Committee members were Ms Maija-Liisa Friman (Chairman), Mr Klaus W. Heine-mann, Ms Merja Karhapää and Mr Harri Kerminen. Before the 2012 AGM the Committee comprised of Veli Sundbäck (Ch.), Ms Elina Björklund, Mr Sigurdur Helgason and Ms Satu Huber. All Committee members were independent of the Company and of its significant shareholders.

The Audit Committee met six times in 2012 with an aggregate attendance rate of 100%. One meeting was held with the composition in place between the 2011 and 2012 AGM and five with the composition in place since the 2012 AGM. Finnair's General Counsel Mr Sami Sarelius acted as the secretary of the Audit Committee. The CEO, the Head of Internal Audit and Risk Management as well as external auditors also participated in the Committee's meetings. 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 Audit Committee's work in 2012

In addition to its regulatory duties, the Audit Committee attended selected focus areas, such as the IT risk management, funding and liquidity, and revenue recognition.

The Audit Committee also:

Reviewed the Treasury and other Financial Risk Policies and the mid and long term investment and funding plans;

- *Reviewed the risk management process, the risk and control environment, the top risks for 2012 and the related control procedures. The Committee reviewed and approved a risk-based internal audit plan and assessed the sufficiency of the resources in the internal control functions. In April, the Committee approved a risk management development project, and its first phase was executed during autumn 2012. The development work will continue in 2013;*

- *Discussed with the CEO, the CFO and the auditors significant accounting policies and the estimates and judgments that were applied in preparing the reports;*
- *Run a tender process in January for the external auditing services, based on which it proposed to the 2012 AGM that PricewaterhouseCoopers was elected as the auditor for the fiscal year 2012;*
- *Developed its working practices and the content and format of the reports to be presented to the Committee. The Board approved the revisions proposed by the Committee to its charter in June 2012. The Committee adopted new practices regarding the follow-up of the audit findings of the recommended corrective actions proposed by the internal audit and of the related actions taken by the management, and reviewed the potential audit weaknesses and discussed the same with the management. It also reviewed the performance of the external and internal auditors; and*

- *Performed an annual self-assessment and prepared an annual plan for 2013. The areas of specific attention in 2013 will comprise revenue management and forecasting, fleet capacity allocation, procurement, financial processes and accounting principles, maintenance costs, and partner management.*

Remuneration Committee

The 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.

The charter of the Committee can be viewed on Finnair's website in its entirety at www.finnairgroup.com under the Investors section.

Post the 2012 AGM, the members of the Remuneration Committee were Mr Harri Sailas (Chairman), Mr Jussi Itä-vuori, Mr Harri Kerminen and Ms Gunvor Kronman. Before the 2012 AGM, the Committee comprised of Mr Harri Sailas (Ch.), Mr Harri Kerminen, Ms Ursula Ranin and Mr Pekka Timonen. All Committee members were independent of the Company and of its significant shareholders, excluding Mr Pekka Timonen, who was in the service of the Finnish State.

The Remuneration Committee met six times in 2012 with an aggregate attendance rate of 92%. Two of the meetings were held with the composition in place between the 2012 AGM and four with the composition chosen after the 2012 AGM. The CEO and Senior Vice President, HR were invited to the meetings to assist the Committee. Finnair's General Counsel Mr Sami Sarelius acted as the Committee's secretary.

The Remuneration Committee's work in 2012

In 2012, the Committee reviewed the performance of the senior management under the short-term incentive scheme during 2011, and assisted the Board in determining the semi-annual targets for 2012. The Committee also assessed the company's short-term incentive schemes applicable to the other personnel groups.

The Committee started designing the 2013-2015 share incentive scheme with the help of external experts. The scheme is replacing the expiring 2010-2012 scheme and its scheduled approval and roll-out is in the first quarter of 2013.

COMPANY MANAGEMENT

Finnair's corporate structure

Finnair has three business areas: Airline Business, Aviation Services 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 and Control, Human Resources, Communications and Corporate Responsibility, Corporate Development, Legal Affairs and Internal Audit.

The CEO

In 2012, the CEO of Finnair was Mr Mika Vehviläinen, M.Sc. (Econ.), b. 1961. 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 tasks and work on which the CEO focused in 2012 appear from the below description 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 on pages 56–60.

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 and control, human resources, communications and corporate responsibility and legal affairs. The members' respective roles are more fully described on the company's internet site and information on their shareholdings in Finnair is presented in the Investors section at the www.finnairgroup.com. The senior management is appointed and removed, and their remunerations and other terms of employment determined, by the Board.

The duties of the Executive Board include group-wide development projects, the definition of principles and

procedures that guide the company's activities as well as the preparation of matters to be dealt with by the Board. The Executive Board also acts as Finnair's risk management steering group.

In 2012, Finnair's Executive Board met 19 times. The main focus of the Executive Board was on the leadership development of the key personnel throughout the group, on the Peace of Mind - service identity renewal, on financial performance and on improvement of route profitability, fleet and crew utilisation, operational quality and customer service. In addition, the Executive Board met nearly every week to address the profitability and productivity improvement programs that comprised principally of internal efficiency improvements, partnerships, joint ventures and outsourcing projects.

Subsets of the Executive Board

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

Board of Directors 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 scheduled, leisure 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.

Management Board

Finnair Management Board is principally a communication and co-operation forum designed for the personnel's participation in the company's governance processes, especially with regard to matters that affect the personnel. The focus of the Management Board work is on enhancing communication and understanding between the personnel groups and the management as to the implementation of the company's strategic objectives and on sharing information and discussing plans and projects that affect Finnair's personnel. The Management Board

comprises the Executive Board members, certain senior managers and the representatives of all personnel groups. The Management Board also discusses the business plans and financial performance of the Group, the operational quality and customer satisfaction as well as significant development projects.

In 2012, the Management Board met seven times, and the discussion was focused on the structural changes implemented in Finnair during 2012.

Corporate Governance in Finnair subsidiaries

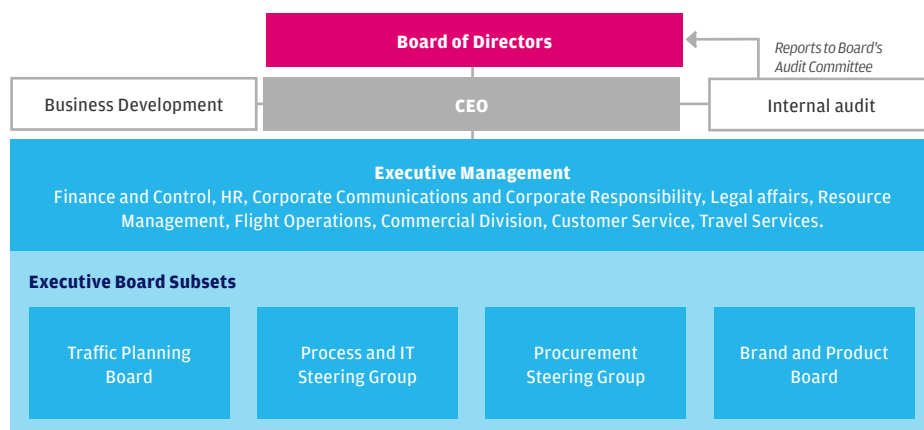
For major subsidiaries, the Members of the Boards of Directors are selected from individuals belonging to Finnair Group management and from representatives proposed by personnel groups. The key tasks of the Boards of Directors of subsidiaries include strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of instructions issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2012 under Note 33. Operating subsidiaries.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in a Swedish company Flybe Nordic AB (ownership 40%) which is the sole owner Flybe Finland Oy and in Nordic Global Airlines Ltd (ownership 40%) through a wholly owned subsidiary Finnair Cargo Ltd. 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 operating from bases in Finland and elsewhere according to the freight market conditions. Nordic Global Airlines provides cargo capacity to Finnair

Company Management



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.

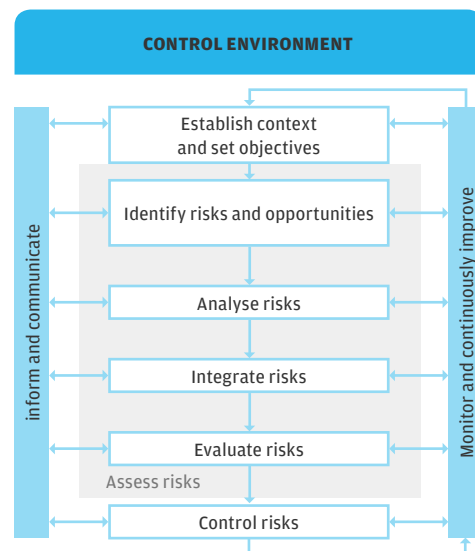
Finnair's Code of Conduct and Supplier Code of Conduct are available on Finnair's website at www.finnairgroup.com.

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 in Finnair is to safeguard the company's assets and provide the Board and the Executive Management with a reasonable assurance of the achievement of company's strategic and operational objectives, reliability of financial and operational

reporting, as well as compliance with laws and regulations and internal policies. The overall system of internal control and risk management in Finnair is based on commonly accepted COSO ERM framework and ISO 31000:2009 standard for risk management. Finnair's internal control and risk management system is subject to continuous improvement activities based on PDCA (Plan-Do-Check-Act) cycle. The main features of Finnair's internal control and risk management system are illustrated below:



Control environment

Finnair's values, Code of Conduct and management system form the foundation of its control environment and background for awareness and implementation of control activities across operations. The internal control and risk management principles in Finnair are documented in the Group Risk Management Policy that will be updated during Q1 2013 as part of development activities aiming

at raising the maturity of Finnair's internal control and risk management system. Other key steering instruments supporting control over strategy implementation, operational processes, compliance and financial reporting include, but are not limited to, Annual Accounts drafting principles, Code of Conduct, 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 President and CEO. The line organisations of business segments and common functions have the main responsibility for executing day to day control and risk management activities pertaining to the financial reporting process. A dedicated risk coordinator position has been established in 2012 to provide

policy implementation support for segments and functions, and consolidate and review reporting on risks and risk management activities. 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 President and CEO. The Audit Committee appointed by the Board of Directors oversees the financial reporting process and overall maturity of the internal control and risk management system. The described roles and responsibilities are in accordance with the Finnish Companies Act, and the Finnish Corporate Governance Code. The picture below summarises the roles of the listed stakeholders in the implementation of the internal control and risk management system.

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

First line of defense	Business segments and common functions Day to day control and risk management activities pertaining to the financial reporting process.
Second line of defense	Compliance and risk management functions Oversight and continuous improvement of the internal control and risk management system.
Third line of defense	Internal Audit Assessment of internal control environment, day to day control and risk management activities and overall maturities of the internal control and risk management system.
Ultimate responsibility	The Board of Directors Reasonable assurance of the achievement of company's strategic and operational objectives, reliability of financial and operational reporting, as well as compliance with laws and regulations and internal policies.

Risk Assessment

In executing its strategy, Finnair and its operations are exposed to a broad range of risks and opportunities. To exploit business opportunities, Finnair is prepared to take and manage risks within the limits of its risk-bearing capacity (rewarding risks). In relation to reliability of reporting, compliance with laws and regulations, and flight safety matters, Finnair's objective is to minimise risks (unrewarding risks).

Finnair's risk assessment process takes place in close relation to the company strategy process and operational objective setting to enable a holistic view on risks and opportunities. Integration of risk management into key management processes will be subject to further development during 2013. Any external or internal event, that may have an impact on reaching Finnair's strategic, operational, reporting or compliance objectives or the continuity of operations, are subject to further analysis and, further on, distinction between risks and opportunities. To ensure the coverage of risk identification and systematise the risk assessment activities, Finnair has established a common risk model and a common risk repository.

Risk assessment activities are carried out at all organisational levels of the Finnair Group. 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 ongoing risk assessment by the business unit controllers, financial controllers and shared service center as part of their daily and weekly activities. In 2012, this work was complemented by an enterprise wide risk assessment covering the area of financial reporting and by a development project focused on process level gap analysis of

Finnair's reorganised finance operations. In conjunction with reorganising the financial operations the main financial processes were described, updated and documented with respective work instructions. The responsibility areas between the renewed financial organisations inside the Group were also reviewed.

Risk response and control activities

The President and CEO, supported by the members of Executive Board, is responsible for defining risk management strategies and procedures, and setting risk management priorities. Risk owners in business segment, common functions and process level hold the responsibility for ensuring the residual risk of individual risks are within the limits of company's risk appetite.

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. Identified risks are managed through a range of control activities by companies, business segments and processes. The business unit controllers, financial controllers and Shared Service Centre play an important role in performing the control activities. To systematise its control framework, Finnair has established a control self-assessment tool and a control catalogue covering the whole financial reporting process and consists of entity level controls and process level controls. The control catalogue and its implementation are subject to continuous improvement and shall be revised during the year 2013.

Information and communication

Information and communication system provides means for Finnair's personnel to capture and communicate information related to execution of risk management

and control activities across company's operations. The system provides 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.

Monitoring

Finnair's internal control and risk management system is subject to both ongoing and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. Ongoing monitoring is built into the normal, recurring operating activities of operations and is the responsibility of corporate management, business segments and common functions.

Internal audit periodically evaluates state of the internal control and risk management system with special focus on areas related to the reliability of financial reporting. In relation to the financial reporting, the scope of internal audits include, but are not limited to, the integrity of transactions, the accuracy of information in internal and external accounting and execution of specific controls. Internal Audit works in cooperation with the external auditor and reports the results of its work regularly to the Audit Committee. The results of the Audit Committee's observations, recommendations and proposed decisions and measures on Finnair's internal control and risk management system are regularly reported to the Board of Directors.

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.

Focus areas in 2012 and 2013

In 2012 Finnair executed a development project including current state analysis of its existing internal control and risk management system, design of the system's future state and a roadmap describing required action points. Finnair has started to implement these action points with primary focus on Group Risk Management Policy revision, integration of risk management and strategy processes, and implementation of corporate wide risk repository. Key development activities for the year 2013 will focus on the implementation of the revised internal Group Risk Management Policy in cooperation with business segments and common functions.

Finnair revised the mission, vision, strategy and operating model of its Internal Audit during 2012. The scope of Internal Audit was broadened to cover all objective levels of the company including strategic, operational, reporting and compliance objectives. Internal Audit Charter was updated accordingly and changes were implemented through a systematic internal audit process supported by recruitment of new key personnel. Main focus areas of Internal Audit for the year 2012 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 the HR process controls, cost savings program and major outsourcing projects.