



CONTENTS

3	CEO’S REVIEW		
5	THE REPORT OF THE BOARD OF DIRECTORS		
6	Business model and operational environment		
8	Financial performance in 2018		
12	Financial position and capital expenditure		
14	Fleet		
15	Strategy implementation		
20	Responsible Finnair – Reporting of Non-Financial Information		
28	Changes in company management		
29	Shares and shareholders		
33	IFRS 16 implementation and estimated impacts		
34	Risk management		
36	Significant near-term risks and uncertainties		
37	Seasonal variation and sensitivities in business operations		
38	Outlook		
39	Calculation of key figures		
41	FINANCIAL STATEMENTS		
42	Consolidated income statement		
42	Consolidated statement of comprehensive income		
43	Consolidated balance sheet		
44	Consolidated cash flow statement		
45	Consolidated statement of changes in equity		
46	Notes to the consolidated financial statements		
87	BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND		
88	AUDITOR’S REPORT		

CEO'S REVIEW

"DIGITALISATION AND THE RENEWAL IT CAN ACCELERATE WILL CREATE OPPORTUNITIES TO INCREASE REVENUE, IMPROVE SERVICE AND IMPROVE EFFICIENCY."

The year 2018 was Finnair's third year of rapid growth, but it also had a different side to it. In the first half of the year, a favorable demand environment supported our rapid and profitable growth in both passenger traffic and travel services. However, in the second half of the year, competition intensified especially on certain European routes. In addition, the price of jet fuel temporarily spiked and the future growth rate of the global economy became more uncertain.

Finnair made strong capacity additions in our short-haul traffic during 2018, and continued investments that our renewal requires. Even if our operating result weakened towards the end of the year, our long-term target continues to be profitable, sustainable growth.

Our full-year traffic growth - a 14.8% increase in capacity and an 11.6% increase in number of passengers to 13.3 million - resulted in a growth of 10.4% in revenue, with a total revenue of 2.8 billion euros. Our full-year comparable operating result was 169.4 million euros, thus remaining at the previous year's level (170.4).

In the first half of the year, we added capacity especially to our Asian traffic, while in the second half of the year, the focus on capacity additions was on Euro-

pean traffic. We expanded our network with new year-round destinations such as Nanjing, Lisbon and Stuttgart, and added frequencies to strategically important Asian destinations such as Tokyo, Osaka and Hong Kong. In North Atlantic traffic, which developed favourably throughout the year, we extended the season of our Chicago and San Francisco routes from October to December. In European traffic, growth was particularly allocated to North European destinations. We also announced new long-haul routes for 2019 and we will start flying to Los Angeles in the spring as well as to Sapporo and Punta Cana at the end of the year.

Thanks to the collaboration between different stakeholders, our home market Finland has become an increasingly interesting travel destination. Our capacity to Lapland grew by approximately 15% during the winter 2018/2019 season compared to the previous year. We expect the Nordics to continue to attract travellers also in the future.

The same underlying themes of 2018 were also visible in our travel services and cargo business. Sales of Aurinkomatkat Suntours grew strongly in the first half of the year, but the warm summer in Finland



**"OUR AMBITION IS TO BE
THE BEST CHOICE FOR A
RESPONSIBLE AIR TRAVELER."**

slowed down sales and growth in the latter half. However, Aurinkomatkat Suntours maintained its position as the largest tour operator in Finland measured by number of passengers. In cargo operations, the ramp-up of the new COOL Nordic Cargo terminal slowed growth down in the first half of the year, but we were able to benefit from the positive demand environment during the second half.

We aim to provide a good customer experience on every flight, every day. This is what all Finnair employees work for. It is important that we are punctual, provide a good customer service both onboard and in possible disruption situations, and that we develop our customer feedback and compensation processes to be faster and smoother.

Last year, we introduced a new Nordic Business Class concept, which enables a more personal service that caters to the individual needs of passengers. New ancillary services, such as our "Seat&Meal" option, also help our customers to tailor their journey as they wish.

The secret to our success is competent personnel. Their wellbeing as well as occupational safety and competence development was a strong focus for us in 2018. This development has been supported by cross-team projects and new ways of learning. The Finnair team also grew last

year: we hired approximately 1,000 new employees, over half of whom are cabin crew, pilots and maintenance mechanics. We have also received external recognition as an employer, and every Finnair employee can be proud of this. We believe that an excellent employee experience is directly reflected into our customer satisfaction, which developed favourably last year.

We have also taken steps forward in the area of digitalisation, and among other initiatives, brought high-speed internet access to our Airbus narrow-body fleet. We have also developed many applications for personnel to facilitate and speed up their work as well as to improve their ability to serve our customers in real time. Digitalisation and the renewal it can accelerate will create opportunities to increase revenue, improve service and improve efficiency.

In the last few years, Finnair has invested in growth. I am pleased that our balance sheet remained healthy also during this growth. A healthy balance sheet enables our targeted investments in new aircraft, in customer experience development and in renewal. We have already announced some of our future investments; in 2021 we will introduce a new Premium Economy travel class on our long-haul aircraft, and the cabin renewal of our ATR aircraft, operated by our affiliate company Norra in regional traffic, will begin in summer 2019.

Last autumn, the IPCC report (Intergovernmental Panel on Climate Change) initiated a lively discussion on the future of our planet and the actions that are needed to reduce CO₂ emissions to stop climate change. The aviation industry takes the climate challenge very seriously and has been the first industry in the world to commit to the existing EU emissions trading scheme and also the global emissions reduction scheme that comes into effect in 2020.

For a long time, Finnair has invested into the reduction of CO₂ emissions, and this work naturally continues today. Additional details regarding our actions and targets can be found in this report and in our sustainability reporting. Finnair's most significant environmental investment of this decade has been our fleet of new A350 aircraft, which consume approximately 25 percent less fuel than their predecessors. Last year, we received our 12th A350 aircraft. We also announced that we would offer our customers the possibility to offset the emissions of their flights or to buy biofuel and we introduced the Push for change service for our customers in the beginning of 2019.

Environmental work and the reduction of emissions often have a larger focus for an airline, but social and economic responsibility also have their own important role in our operations. We committed to the United

Nations Global Compact initiative already in 2013, and with this initiative as our guideline, we develop our operations in line with the ten principles of the initiative. Whatever it is we do in our daily operations, we plan and evaluate all our actions through the lenses of responsibility.

As the new CEO, I have seen how passionate both our customers and own people are about Finnair. This forms a strong foundation on which to build Finnair's future together. I want to thank our customers for the trust they have placed in Finnair, and all Finnair employees for the good performance in 2018.

The outlook for the global economy is now more uncertain than a year ago. While the intensifying competition and the changing economic outlooks in our key markets challenge us to continuously improve our customer service and operations, we maintain our focus on sustainable value creation. Our ambition is to be the best choice for a responsible air traveler and to continue the renewal of our company to capture the opportunities connecting Europe and Asia can provide us. In doing this, we enrich life by bridging the world, as stated in our purpose.

Topi Manner
President and CEO of Finnair Plc

THE REPORT OF THE BOARD OF DIRECTORS

- Business environment
- Financial performance
- Fleet
- Strategy
- Responsible Finnair
- Management
- Shares
- Risks



BUSINESS MODEL AND OPERATIONAL ENVIRONMENT



Finnair is a network airline that specialises in passenger and cargo traffic between Asia and Europe. It also offers package tours under its Aurinkomatkat-Suntours (later Aurinkomatkat) and Finnair Holidays brands.

The cornerstone of Finnair's sustainable, profitable growth strategy is Finnair's competitive geographical advantage, which enables the fastest connections in the growing market of air traffic between Asia and Europe. The four megatrends listed on the right offer numerous opportunities for Finnair, but also add new requirements for conducting business.

Finnair's business is cyclical in nature, and in addition to long-term megatrends, it is heavily influenced by external factors described in the picture on the next page and on [Finnair's website](#).

Business environment in 2018

Traffic continued to grow in Finnair's main markets in 2018. In the first half of the year, a favorable demand environment supported growth in both passenger traffic and travel services. In the second half of the year, competition intensified, the price of jet fuel temporarily spiked and questions about the future rate of growth in the

global economy became more pronounced. Looking at the year as a whole, scheduled market capacity, measured in available seat kilometres, between Helsinki and Finnair's European destinations increased by 11.3 per cent in 2018 (6.0). Finnair's market share decreased slightly in European traffic to 57.0 per cent (59.0)¹. Competition increased especially on routes to other Nordic countries and to the Mediterranean.

The direct market capacity between Finnair's Asian and European destinations grew by 8.9 per cent (4.7). Competition in Asian traffic increased, while many competitors scaled up their capacity compared to the previous year or introduced new routes from Asia to Nordic capitals. Travel from Japan and China to Europe increased in particular. Finnair's market share in traffic between Europe and Asia increased slightly to 6.1 per cent (5.9).¹

Traffic from Asia and Europe to Nordic destinations continued to grow in 2018. Both Helsinki and Lapland saw better-than-average growth on an annual level. In North-Atlantic traffic, improved connections resulted in increased travel from North America to Europe and Russia. Corporate sales grew in 2018, but the materialisation

MEGATRENDS IMPACTING FINNAIR'S BUSINESS



Shift in economic and political focus from the United States and Europe to developing countries



Urbanisation

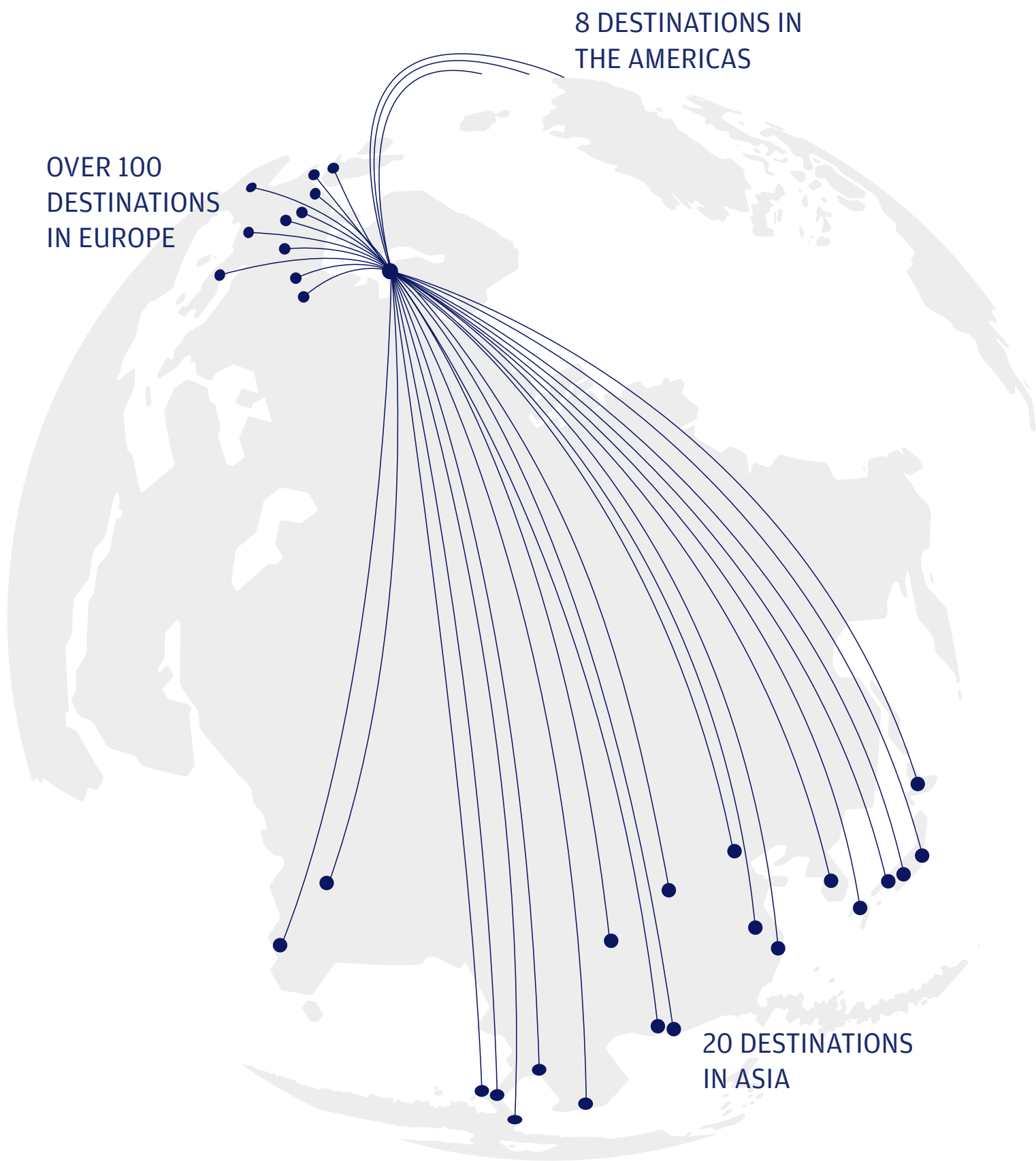


Technological progress, increase in the significance of network connections and digitalisation



Increasing significance of sustainability

¹ Based on external sources (capacity data from SRS Analyser and market share data based on DDS passenger volume estimates for January–November). The basis for calculation is Finnair's non-seasonal destinations.



rate of group travel from key Asian markets decreased in 2018 compared to the previous year. The increased competition pushed the yields down during the year.

Finnair engages in closer cooperation with certain **oneworld** partners through participation in joint businesses, namely the Siberian Joint Business (SJB) on flights between Europe and Japan, and the Atlantic Joint Businesses (AJB) on flights between Europe and North America. In both joint businesses, capacity grew significantly in 2018, but demand developed even better, which resulted in good unit revenue development within the joint business traffic.

The extreme weather conditions – harsh winter, typhoons in Asia and exceptionally warm summer in Finland – impacted Finnair’s traffic, punctuality and demand in 2018. In the third quarter, domestic and short-haul traffic were adversely affected also by runway work at Helsinki-Vantaa and Tampere airports as well as operational issues caused by tight supply of spare engines for narrow-body aircraft.

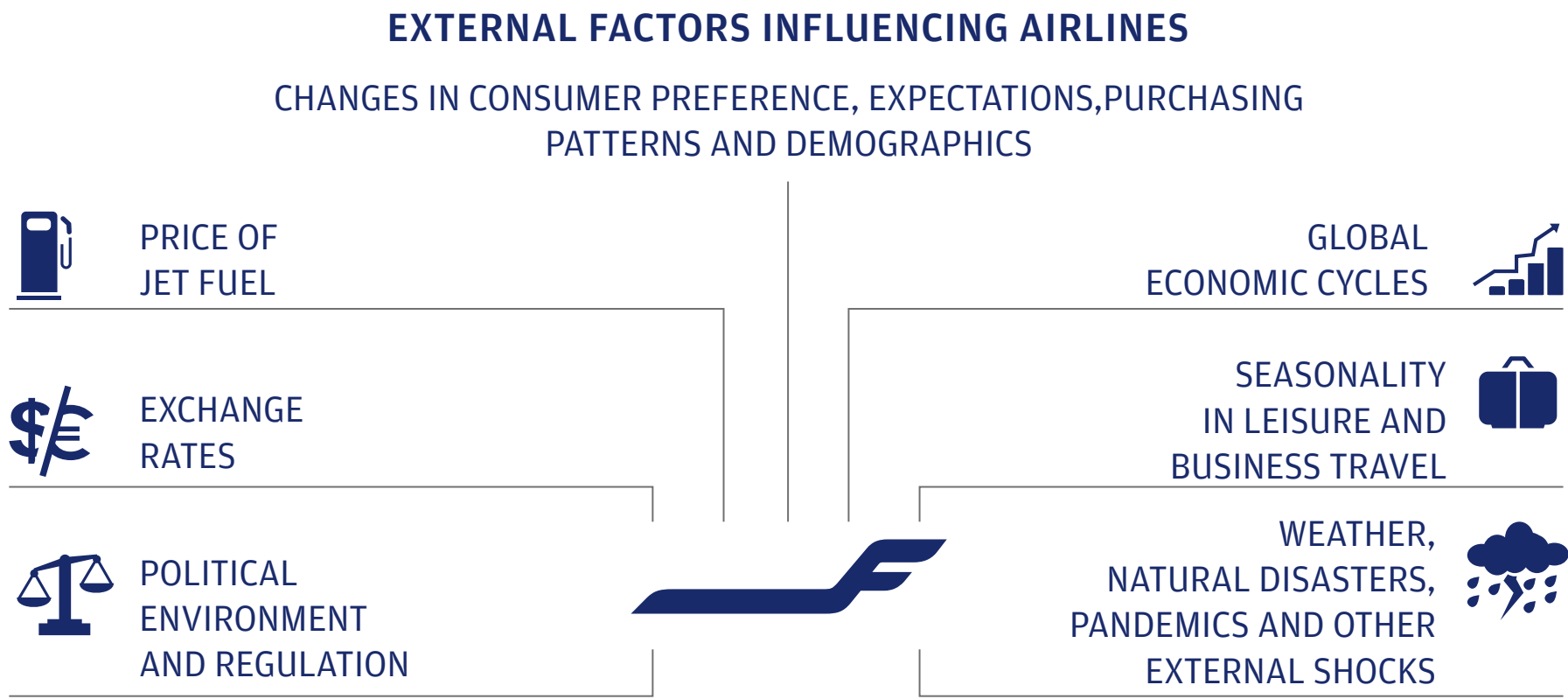
The supply of package tours abroad from Finland increased in 2018, and sales of package tours abroad were up by approximately 12 per cent in Finland. Demand for package travel was

strong in the first half of the year, but the excellent summer weather in Finland delayed bookings and weakened demand in the second half of the year. Together with the increased package tour supply, this made the market environment challenging for the rest of the year.

The overall air cargo market continued its growth, but at a slightly slower pace than in the previous year. Significant overcapacity in the market still affected air cargo unit revenues, although cargo yields started to trend upwards in the second half of the year. Finnair’s cargo operations grew in-line with the capacity additions. Particularly, the success in the cargo market in Japan and

Finland contributed to strong growth year-on-year.

The US dollar, which is the most significant expense currency for Finnair after the euro, depreciated by 4.3 per cent against the euro. With regard to key income currencies, the Japanese yen was 2.8 per cent weaker against the euro than in the comparison period. The Chinese yuan depreciated by 2.3 per cent against the euro. The market price of jet fuel was 29.9 per cent higher during the fiscal year than in the comparison period. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected directly in its result but with a delay.



FINANCIAL PERFORMANCE IN 2018

Revenue

Finnair revenue grew by 10.4 per cent to 2,834.6 million euros (2,568.4). Passenger revenue increased by 11.1 per cent and ancillary revenue by 11.2 per cent. Also cargo and travel services revenue grew, by 4.8 per cent and 8.2 per cent respectively.

Unit revenue (RASK) decreased by 3.9 per cent and amounted to 6.69 euro cents (6.96). The unit revenue at constant currency decreased by 2.6 per cent.

Passenger traffic

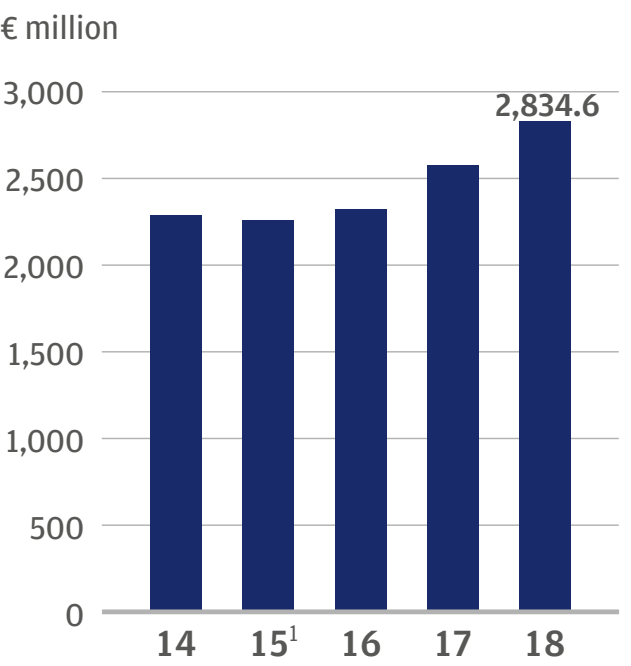
During the year, Finnair achieved several monthly records of numbers of passengers and capacity growth. Passenger traffic capacity, measured in Available Seat Kilometres (ASK), grew by 14.8 per cent during 2018. Traffic, measured in Revenue Passenger Kilometres (RPK), grew by 12.7 per cent and

the passenger load factor (PLF) decreased by 1.5 percentage points to 81.8 per cent. The number of passengers carried increased by 11.6 per cent to a new annual high, 13.3 million passengers.

The maximum weekly number of flights to Asia is 101 in the winter season 2018/2019 (89), and it was 97 in the summer season 2018 (87). In Asian traffic, ASKs increased by 14.7 per cent, and the growth was particularly strong in H1. The new capacity was allocated primarily to increased frequencies to Bangkok, Hong Kong, and Tokyo, as well as to new year-round service to Nanjing. RPKs increased by 13.1 percent and the PLF decreased by only 1.2 percentage points to 85.5 per cent, despite a substantial increase in capacity.

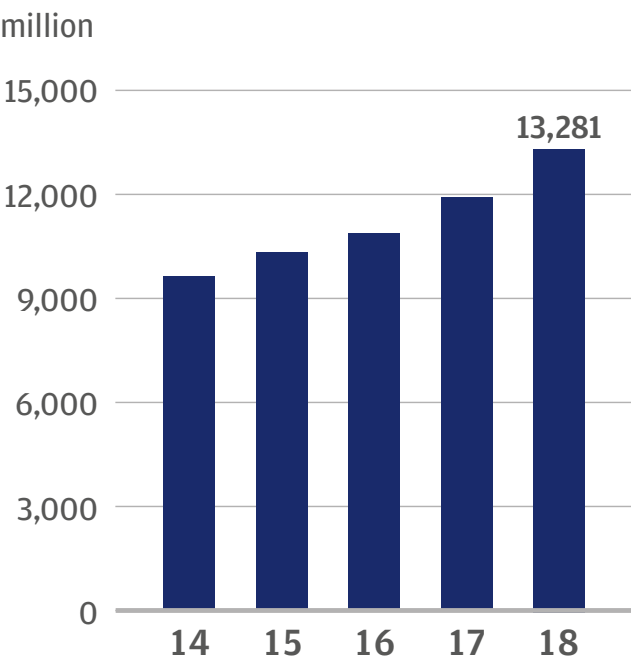
Capacity on the North Atlantic routes increased by 13.0 per cent. Finnair operated

Revenue

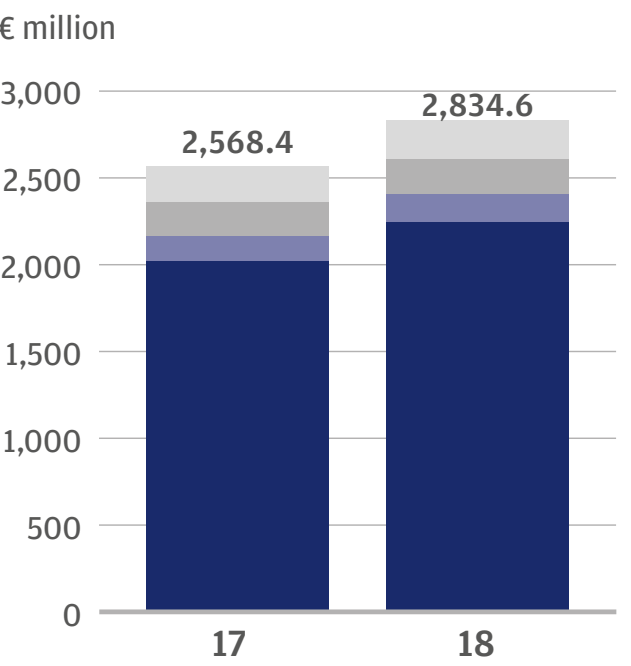


¹ Revenue from non-core businesses is reclassified from revenue to other operating income. Comparative periods have been restated accordingly from the beginning of 2015 onwards.

Number of passengers

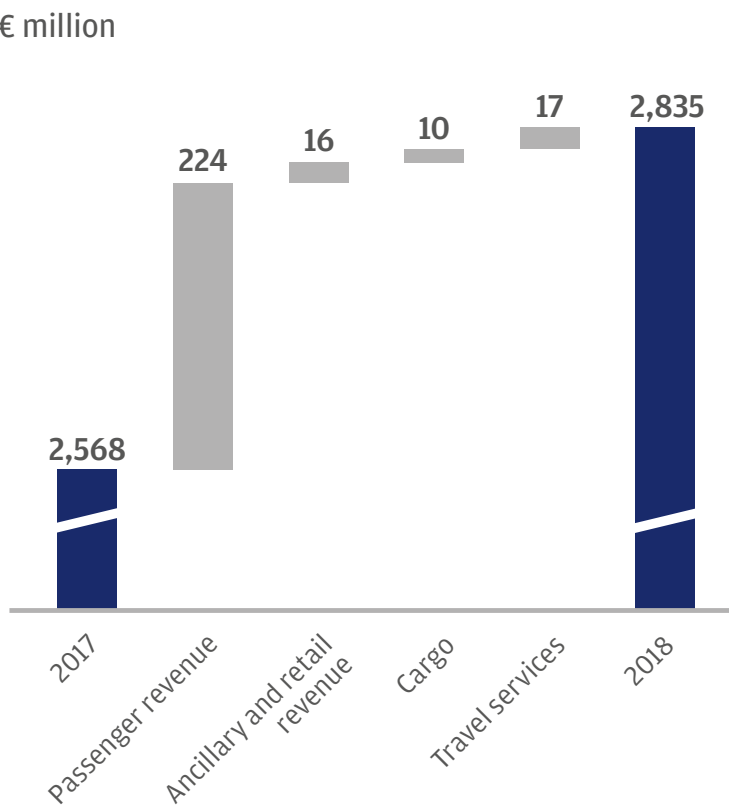


Revenue by product



- Passenger revenue
- Ancillary revenue
- Cargo
- Travel services

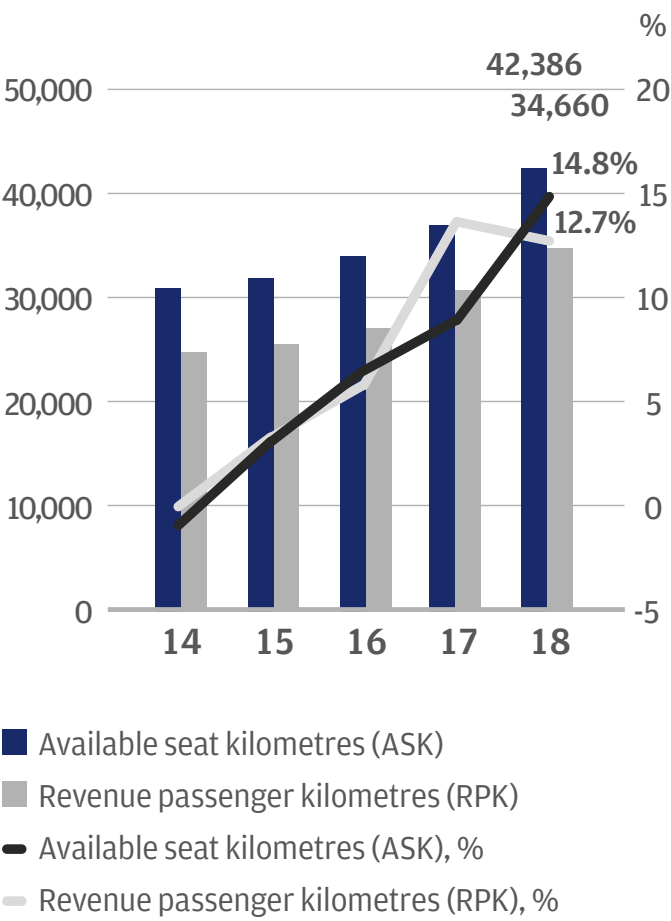
Revenue bridge by product



Revenue by product EUR mill.	2018	2017	Change %
Passenger revenue	2,244.3	2,020.8	11.1
Ancillary and retail revenue	160.8	144.6	11.2
Cargo	206.9	197.4	4.8
Travel services	222.5	205.6	8.2
Total	2,834.6	2,568.4	10.4

NEW DESTINATIONS IN 2018 WERE NANJING, STUTTGART, LISBON, LYON AND MINSK.

Available seat kilometres (ASK) and revenue passenger kilometres (RPK)



year-round flights to New York, and offered flights to seasonal destinations (Miami, Puerto Vallarta, Puerto Plata and Havana in the winter seasons; flights to Chicago and San Francisco in the summer season) with extended schedules to early December. RPKs increased by 13.6 per cent and the PLF rose by 0.5 percentage points to 83.8 per cent.

In European traffic, ASKs grew by 15.2 per cent in 2018 due to the new A321 aircraft which entered revenue service in 2017 and 2018, and because of the densification of the current Airbus narrow-body fleet. The growth was focused on the latter half of the year. The new capacity was allocated to additional departures from Helsinki to other Nordic countries and destinations in Northern Europe in particular. Finnair also operated direct flights to Finnish Lapland

Ticket revenue and traffic data by area, 2018

Traffic area	Ticket revenue		ASK		RPK		PLF	
	EUR mill	Change %	Mill. km	Change %	Mill. km	Change %	Mill. km	Change %
Asia	999.3	13.3	21,052.1	14.7	17,999.6	13.1	85.5	-1.2
North Atlantic	137.5	15.7	3,135.6	13.0	2,626.3	13.6	83.8	0.5
Europe	898.1	7.0	16,297.8	15.2	12,804.9	12.1	78.6	-2.1
Domestic	178.0	2.3	1,900.2	15.9	1,229.5	11.2	64.7	-2.7
Unallocated	31.4	>200						
Total	2,244.3	11.1	42,385.8	14.8	34,660.4	12.7	81.8	-1.5

from London, Paris and Zürich in winter seasons. The rapid capacity increase in the second half caused imbalance between long- and short-haul capacity, which, together with the tightened competition put pressure on European load factors. Full year RPKs increased by 12.1 per cent as the PLF declined by 2.1 percentage points to 78.6 per cent.

Domestic traffic capacity increased by 15.9 per cent, as Finnair prepared for the growth of international passenger demand for travel to Lapland during the winter season. Finnair also added flights between Helsinki and destinations in Northern Finland in the summer season. RPKs grew in domestic traffic by 11.2 per cent and the PLF declined by 2.7 percentage points to 64.7 per cent.

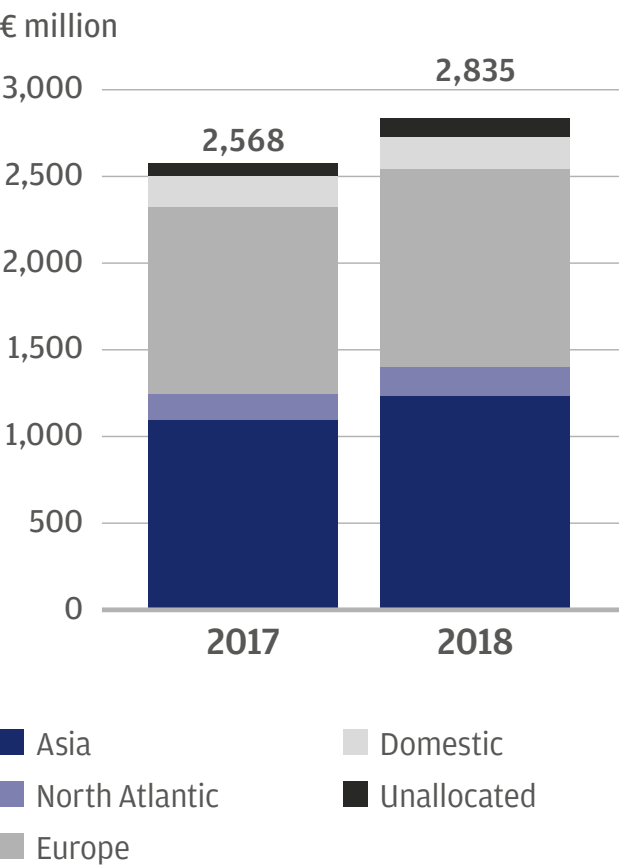
Ancillary

Ancillary and retail revenue increased by 11.2 per cent and amounted to 160.8 million euros (144.6), reflecting the growth in passenger volumes. On average customers spent 12.11 euros per passenger (12.15 euros). During the year, particularly advance seat reservations, travel class upgrades, extra luggage and inflight sales grew. The largest ancillary revenue source was advance seat reservations. Ancillary services development is discussed further in the Customer Experience section.

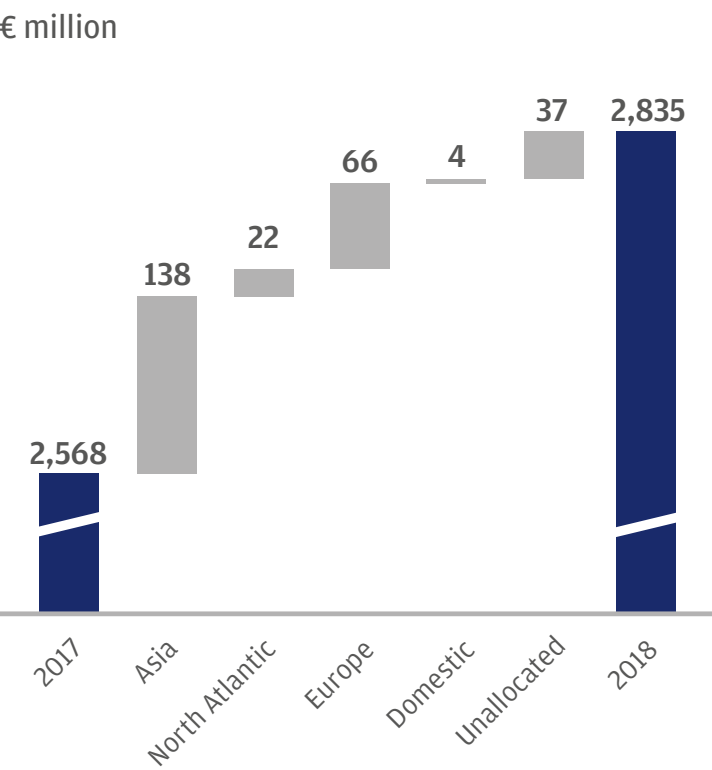
Cargo

Finnair took its new COOL Nordic Cargo terminal in use in the fourth quarter 2017, and the ramp-up of the new terminal operations was still visible in first half of the year when cargo revenue grew at a slower pace than other revenue areas. The operations started to pick-up quickly after the summer, and in the second half of the year Finnair Cargo made several records in cargo tonnes handled. In 2018, available scheduled cargo tonne kilometres increased by 17.1 per cent, and revenue cargo tonne kilometres increased by 11.5 per cent. The volume of cargo carried increased by 0.7 per cent

Revenue by traffic area



Revenue bridge by traffic area



to 158,140 tonnes (157,028). Cargo revenue increased by 4.8 per cent to 206.9 million euros (197.4).

Travel services

Revenue from the tour operating business (Aurinkomatkat and Finnair Holidays) increased by 8.2 per cent to 222.5 million euros (205.6). The number of Aurinkomatkat travellers increased by 10.7 per cent to 236,790 customers, and Aurinkomatkat retained its position as the largest tour operator in Finland measured by the number of customers. The load factor in Aurinkomatkat’s fixed seat allotment was 93.6 per cent (96.6), reflecting the challenging market conditions.

Finnair continued to develop its product offering for Finnish and international leisure travel customers alike. Finnair Holidays, a new leisure travel concept combining the best characteristics of self-service travel and package tours, was launched in Estonia in March. The concept was first introduced in Finland and Sweden in 2017.

Cost development

Finnair’s operating expenses increased by 10.7 per cent to 2,739.0 million euros

(2,475.0). Unit cost (CASK) decreased by 3.2 per cent and totalled 6.29 euro cents (6.49). CASK excluding fuel at constant currency decreased by 6.2 per cent.

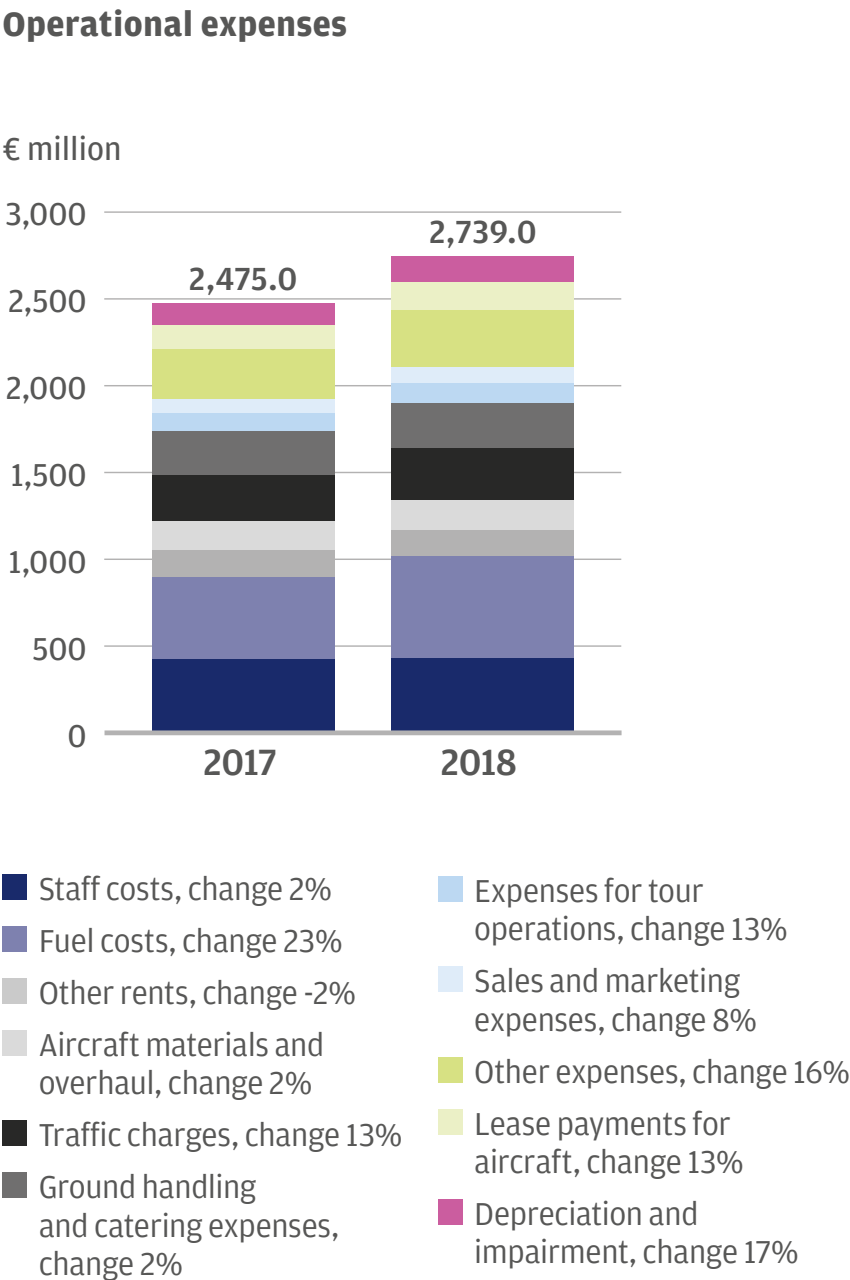
Operating expenses excluding fuel increased by 7.7 per cent and amounted to 2,158.0 million euros (2,002.9). Fuel costs, including hedging results and emissions trading costs, increased by 23.1 per cent to 581.0 million euros (472.2). Most of the cost increase was due to the higher fuel price, but Finnair’s high capacity growth also affected costs. Fuel efficiency (as measured by fuel consumption per ASK) improved by 2.5 per cent, particularly reflecting the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for developments in both passenger and cargo load factors, increased by 1.5 per cent. The increase was due to lower overall load factors (containing both passengers and cargo) caused by the high capacity growth.

Staff costs increased 2.4 per cent to 433.4 million euros (423.3). Staff costs were up due to the increase in the number of personnel but offset by one-off items. The comparison figure in 2017 included a 13 million euro reservation for the extra

reward to employees, which was paid in 2018, and an 11 million euro reservation for the pilots’ share-linked incentive scheme, which was reversed in the review period. Comparable staff costs increased by approximately 8 per cent. Fleet growth and renewal increased aircraft lease expenses and depreciation. Overhaul costs remained at the level of the previous year. Traffic charges increased in line with the traffic growth. Ground handling and catering costs grew at a slower pace than Finnair’s passenger numbers and capacity. Other costs increased mainly due to the capacity increase and to the investments made in digitalisation.

Result

Finnair’s comparable EBITDAR was 475.4 million euros (436.2), 16.8 per cent (17.0) of the revenue. Finnair’s EBITDAR margin target is 17 per cent over the cycle. The comparable operating result, or operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, was at the previous year’s level 169.4 million euros (170.4).



Comparable operating EBIT margin was 6.0 per cent (6.6), right on the targeted over the cycle level.

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -4.5 million euros (11.1). The items affecting comparability amounted to 42.6 million euros (43.3) and included a gain from the sale of one A350 aircraft

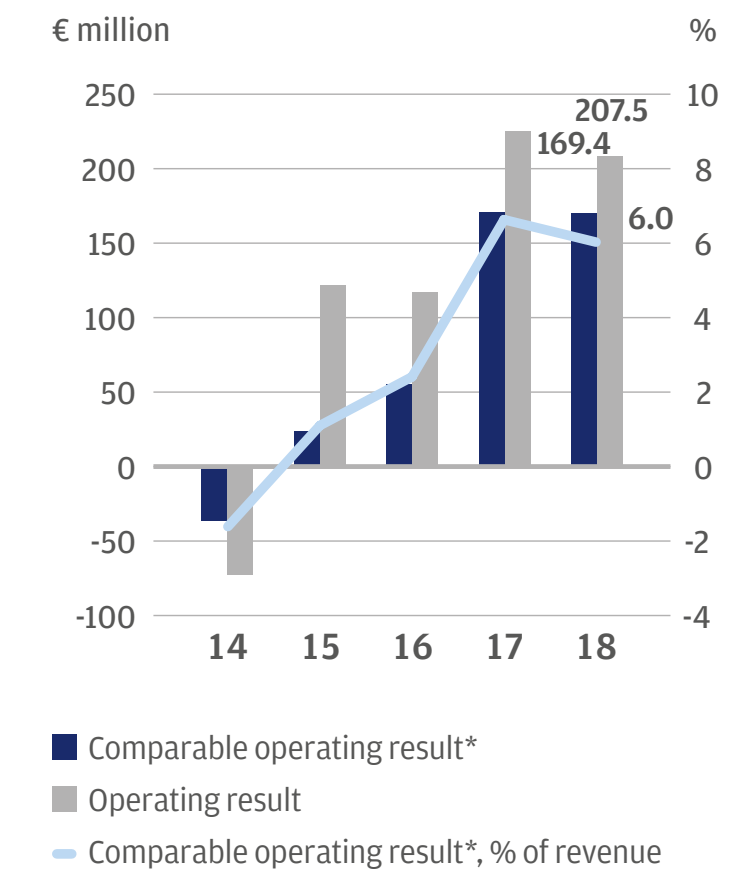
in the fourth quarter and some restructuring costs. Also in the comparison period, these items included a gain from the sale of an A350 aircraft and one-time expenses related to an A340 aircraft sold to Airbus. The operating result was 207.5 million euros (224.8), the result before taxes was 188.6 million euros (211.1) and the result after taxes was 150.7 million euros (169.4).

Key Figures – Revenue and profitability

		2018	2017	2016	2015	2014
Revenue*	EUR mill.	2,834.6	2,568.4	2,316.8	2,254.5	2,284.5
change from previous year	%	10.4	10.9	2.8	-1.3	-4.8
Comparable operating result	EUR mill.	169.4	170.4	55.2	23.7	-36.5
Comparable operating result of revenue	%	6.0	6.6	2.4	1.1	-1.6
Operating result	EUR mill.	207.5	224.8	116.2	121.7	-72.5
Comparable EBITDAR of revenue	%	16.8	17.0	11.7	10.3	7.7
Basic and diluted earnings per share (EPS)	EUR	1.08	1.23	0.55	0.57	-0.71
Unit revenue per available seat kilometre (RASK)	cents/ASK	6.69	6.96	6.83	7.08	7.40
Unit revenue per revenue passenger kilometre (yield)	cents/RPK	6.48	6.57	6.71	6.90	6.65
Unit cost per available seat kilometre (CASK)	cents/ASK	6.29	6.49	6.67	7.01	6.53
CASK excluding fuel	cents/ASK	4.92	5.22	5.22	5.14	4.49

* Revenue from non-core businesses is reclassified from revenue to other operating income from 2015 onwards.

Comparable operating result and operating result



Financial target: comparable operating result 6% or more over the cycle

* Comparable operating result excluding changes in the fair values of derivatives and in the value of foreign currency denominated fleet maintenance reserves sales gains and losses on aircraft and other transactions and restructuring costs.

FINANCIAL
POSITION
AND CAPITAL
EXPENDITURE

Balance sheet

The Group’s balance sheet totalled 2,947.3 million euros at the end of December (2,887.1). Advance payments related to A350 aircraft and the purchases of one A320 and one A350 aircraft increased the non-current assets by 109.0 million euros during the year. Trade and other receivables totalled 242.2 million euros (319.8).

The profitable result increased shareholder’s equity whereas changes in the fair value of derivatives used in hedge accounting and the dividends paid in April had a decreasing effect. Shareholders’ equity totalled 1,021.7 million euros (1,015.7), or 8.01 euros per

share (7.95). The changes in accounting principles recognised in equity related to implementations of IFRS 15 Revenue from Contracts with Customers and amendment of IFRS 2 Share-based Payment. The impacts were insignificant.²

Shareholders’ equity includes a fair value reserve that is affected by changes in the fair values of jet fuel and currency derivatives used for hedging as well as actuarial gains and losses related to pilots’ defined benefit plans according to IAS 19. The value of the item at the end of December was -27.2 million euros after deferred taxes (63.0).

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In 2018, net cash flow from operating activities amounted to 383.1 million euros (382.3). Net cash flow from investments amounted to -194.0 million euros (-157.5).

The equity ratio on 31 December 2018 stood at 34.7 per cent (35.2) and gearing was negative at -38.9 per cent (-24.2). Adjusted gearing was 67.2 per cent (69.9); the target level is below 175 per cent. Adjusted interest-bearing liabilities

amounted to 675.2 million euros (737.1) and interest-bearing net debt was negative at -397.9 million euros (-246.0).

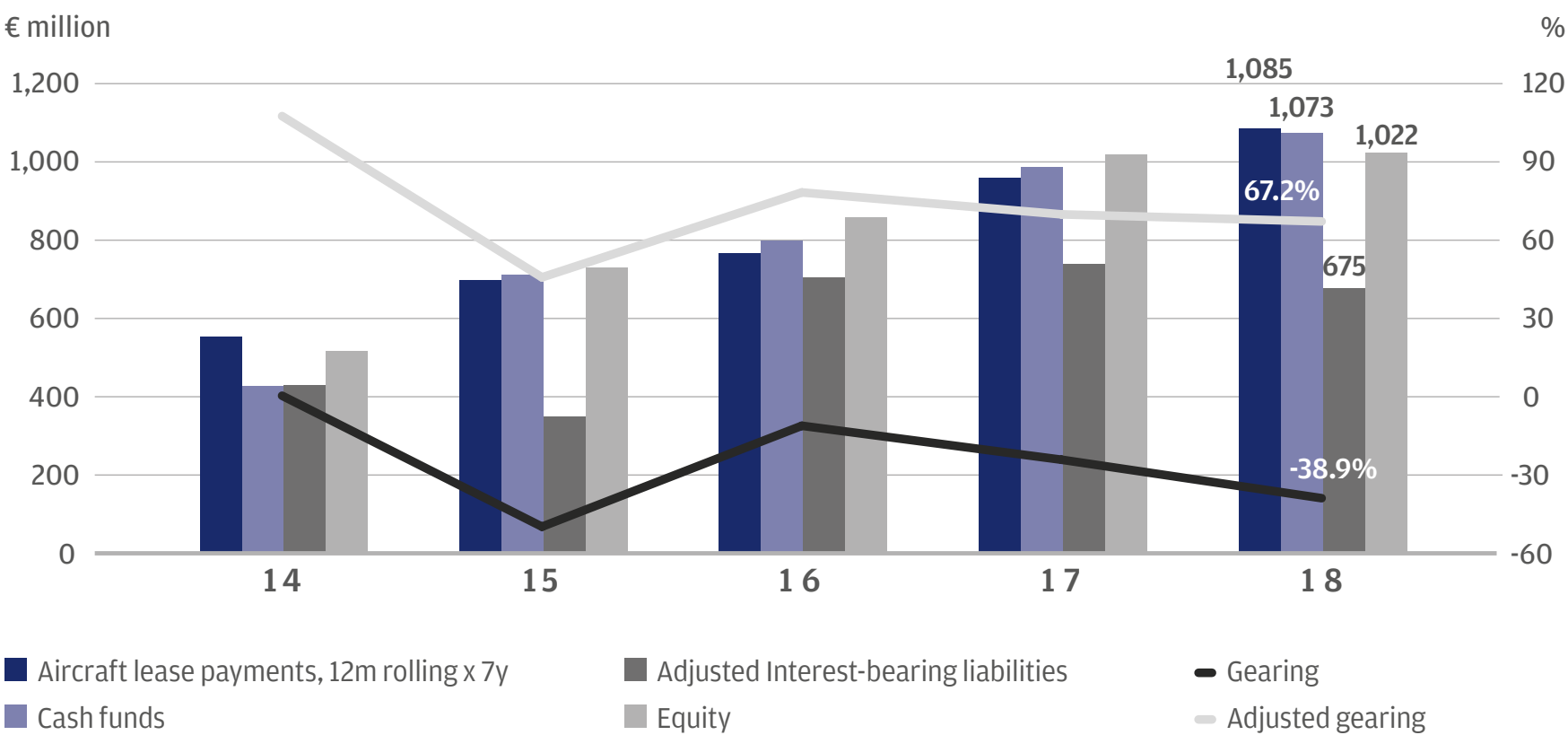
The company’s liquidity was strong during the year. The Group’s cash funds at period-end amounted to 1,073.1 million euros (983.2). At year-end, Finnair had an entirely unused 175 million euro unsecured syndicated revolving credit facility, intended for use as reserve funding, with a maturity date in June 2019. After the financial period, the unsecured syndicated revolving credit facility was refinanced, with the same size and terms substantially in line

Key Figures – Capital structure

		2018	2017	2016	2015	2014
Equity ratio	%	34.7	35.2	33.9	35.5	27.3
Gearing	%	-38.9	-24.2	-11.2	-49.8	0.3
Adjusted gearing	%	67.2	69.9	78.3	45.8	107.5
Interest-bearing net debt	EUR mill.	-397.9	-246.0	-95.8	-362.0	1.4
Adjusted interest-bearing net debt	EUR mill.	686.8	710.3	670.6	333.2	552.7
Adjusted net debt / Comparable EBITDAR		1.4	1.6	2.5	1.4	3.1
Gross capital expenditure	EUR mill.	331.0	519.0	518.9	329.7	82.4
Return on capital employed (ROCE)	%	11.9	13.6	8.9	12.2	-6.5

² More information is available in Note 4.7 Changes in Accounting Principles of the Financial Statements.

Gearing



with the previous facility. The new facility has a maturity date in January 2022, and it includes two one-year extension options.

Finnair has a 200 million euro short-term commercial paper program, which was unused at the end of the year. Net cash flow from financing amounted to -177.3 million euros (40.8). Financial income was -2.9 million euros (-0.3) due to negative interest rates, while financial expenses were -16.0 million euros (-13.4).

Capital expenditure

Finnair's capital expenditure in 2018 was mainly directed towards fleet renewal, adding seating capacity in most of its Airbus narrow-body fleet, the WiFi installation in its A320 fleet, and the development of digital tools and services for customers and personnel.

Capital expenditure excluding advance payments totalled 331.0 million euros (519.0) and was primarily related to fleet

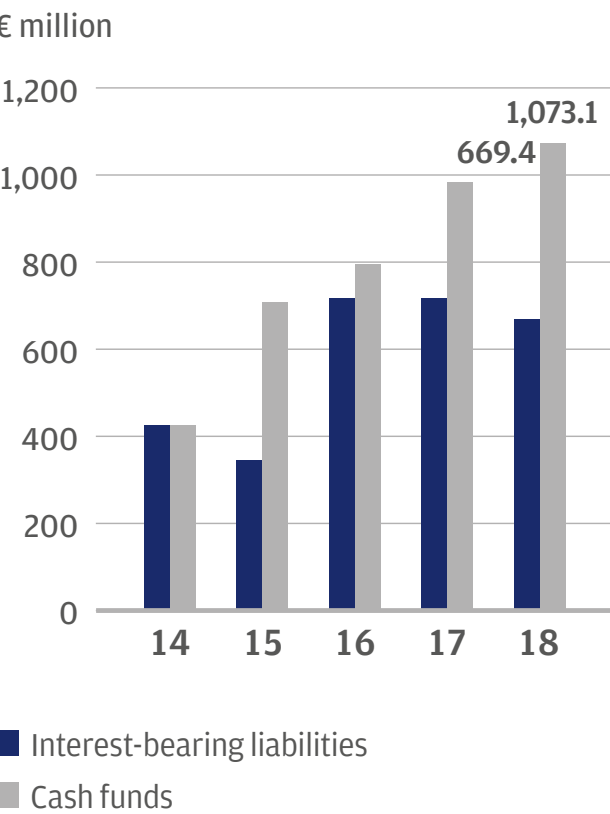
investments. Cash flow from investments totalled -327.1 million euros (-397.4), including advance payments. Net change in financial assets maturing after more than three months totalled -81.8 million (82.9). Net cash flow from investments amounted to -194.0 million euros (-157.5).

Cash flow investments for the financial year 2019 are expected to total 425 million euros, including advance payments. Investment cash flow includes both committed investments

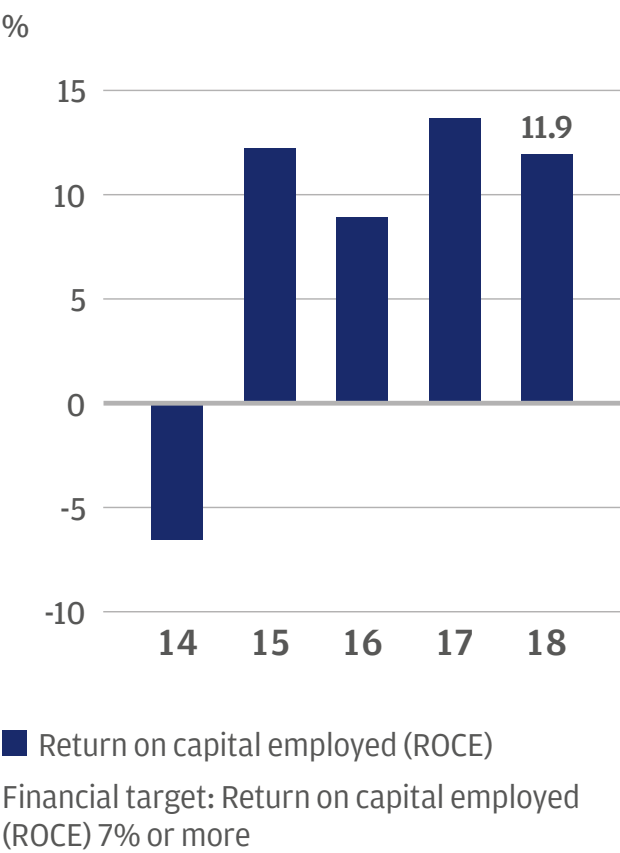
as well as estimates for planned, but not yet committed, investments.

The current favourable state of the credit markets and Finnair's good debt capacity support the financing of future fixed-asset investments on competitive terms. The company has 38 unencumbered aircraft, which account for approximately 65 per cent of the balance sheet value of the entire fleet of 1,240.6 million euros.

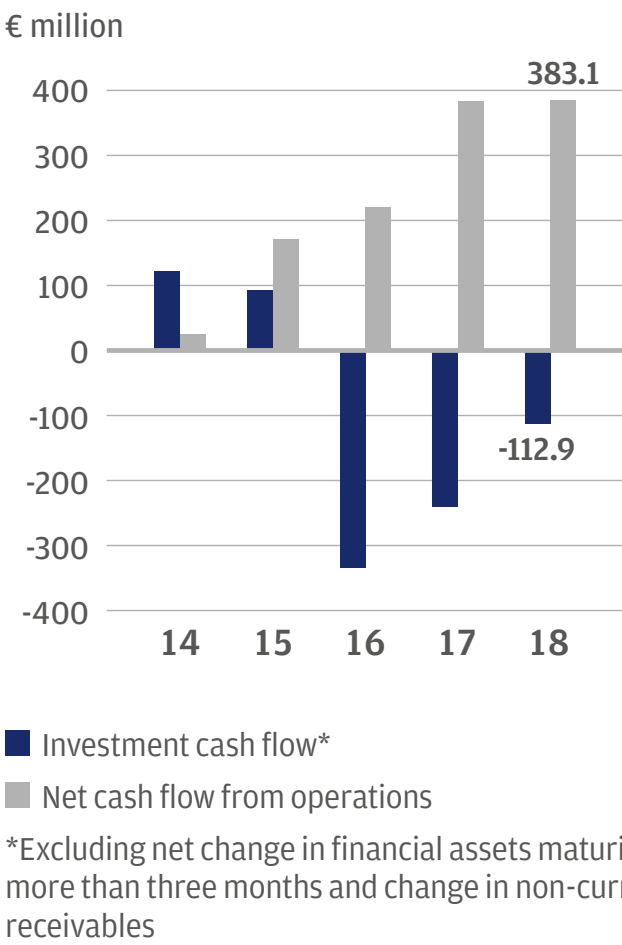
Interest-bearing liabilities and cash funds



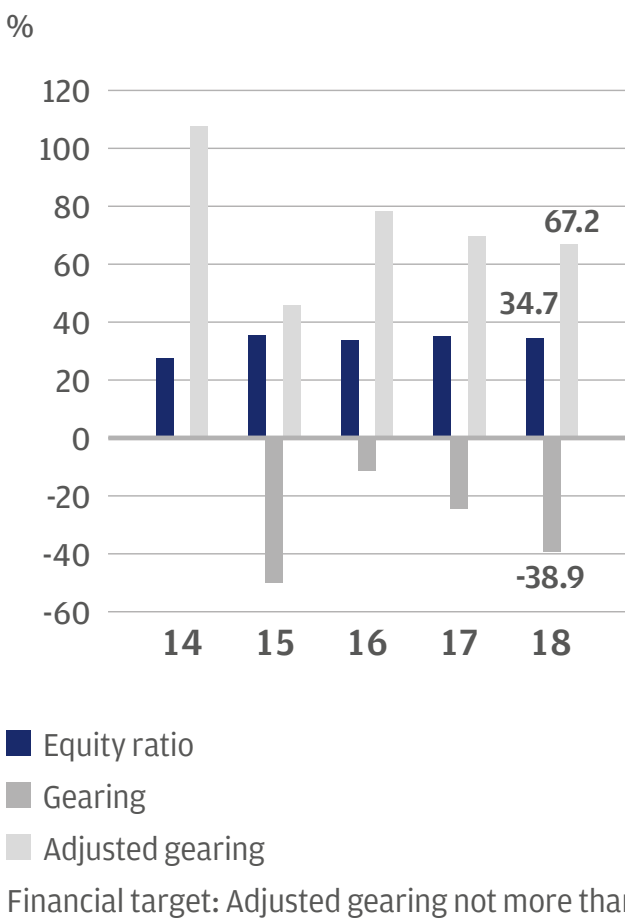
Return on capital employed (ROCE)



Cash flow of investments and net cash flow from operations



Equity ratio, gearing and adjusted gearing



FLEET

Finnair’s operating fleet

Finnair’s fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair. At the end of December, Finnair itself operated 57 aircraft, of which 20 were wide-body and 37 narrow-body aircraft. Of the aircraft, 27 were owned by Finnair Aircraft Finance Oy, 22 were on operating leases and eight on finance leases.

In 2018, one new A350 aircraft was purchased and added to the fleet and a sale and leaseback transaction on one used A350 aircraft was executed. In addition, one new A321 aircraft was added to the fleet on an operating lease agreement. At the end of the year, the average age of the fleet operated by Finnair was 9.6 years.

Fleet renewal

At the end of the year, Finnair operated twelve A350 XWB aircraft, which have been delivered between 2015-2018. In the first quarter of 2018, Finnair decided to advance the deliveries of two A350 aircraft. According to the current delivery schedule, Finnair will receive the remaining seven A350 XWB aircraft as follows: two in 2019, two in 2020, two in 2021 and one in 2022. Finnair’s investment commitments for property, plant and

equipment, totalling 975 million euros, include the upcoming investments in the wide-body fleet.

In addition to one new A321 that was added to Finnair fleet in 2018, seven new A321 aircraft were added already in 2017, contributing to the strong year-on-year

capacity growth in 2018 that was discussed under Financial performance.

Finnair has the possibility to adjust the size of its fleet for future outlook through the staggered maturities of its lease agreements and owned fleet.

Fleet operated by Norra (purchased traffic)

Nordic Regional Airlines (Norra) operates a fleet of 24 aircraft for Finnair on a contract flying basis. All of the aircraft operated by Norra are leased from Finnair Aircraft Finance Oy.

Fleet operated by Finnair* 31.12.2018								
	Seats	#	Change from 31.12.2017	Own**	Leased (Operating leasing)	Leased (Finance leasing)	Average age 31.12.2018	Ordered
Narrow-body fleet								
Airbus A319	138/144	8		7		1	17.6	
Airbus A320	165/174	10		8		2	16.4	
Airbus A321	209	19	1	4	13	2	7.6	
Wide-body fleet								
Airbus A330	289/263	8		1	4	3	9.2	
Airbus A350	297/336	12	1	7	5		2.1	7
Total		57	2	27	22	8	9.6	7

* Finnair’s Air Operator Certificate (AOC).

** Includes JOLCO-financed (Japanese Operating Lease with Call Option) A350 aircraft.



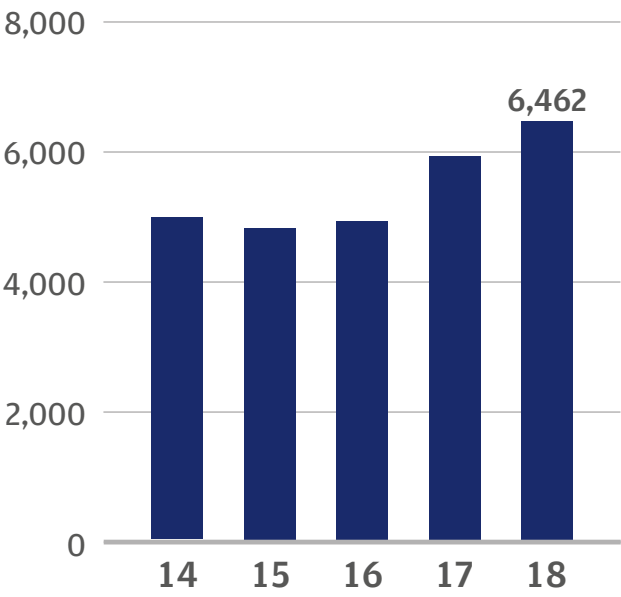
Fleet operated by Norra*							
	Seats	#	Change from 31.12.2017	Own	Leased (Operating leasing)	Average age 31.12.2018	Ordered
ATR	68-72	12		6	6	9.4	
Embraer E190	100	12		9	3	10.5	
Total		24	0	15	9	10.0	

* Nordic Regional Airlines Oy’s Air Operator Certificate (AOC).

“AT THE END OF THE YEAR, FINNAIR OPERATED TWELVE A350 XWB AIRCRAFT.”

STRATEGY IMPLEMENTATION

Number of persons employed by Finnair at year-end



During 2018, Finnair continued to implement its strategy in its four strategic focus areas, namely: People experience, Customer experience, Transformation and Growth. Two additional themes – embedded in all operations, supporting strategy implementation and value creation – were Sustainability and Efficiency.

People experience

Finnair sees that excellent people experience is a prerequisite for excellent customer experience and growth. It is generated by competent and committed personnel. Thus, development of competencies, leadership, new ways of working and well-being at work were the focus areas in the development of the people experience.

In 2018, the utilisation of digital tools and the development of flexible working methods remained at the core of the development work. Several new applications were developed for personnel to facilitate and speed up their work as well as to improve their ability serve customers in real-time. In 2018, the employee experience index remained at a good level, 3.77 (3.78) while biggest change was seen in leadership skills 3.94 (3.83). Comprehensive training for new flight crew

members continued, and altogether Finnair spent approximately 11 million euros on personnel development. Estimated training hours were 320,000 h.³

The Finnair Campus development program was launched to co-create a common ground for everyone working with and within Finnair by sharing ways of working and a digital and physical workplace. The re-designed head office, HOTT, opened in February 2018.

In the area of well-being at work, the strengthening of occupational safety was one of the focus areas. New Occupational Safety Management System was implemented in all units. Workplace safety and well-being is discussed in more detail on [page 23](#) of this report under Responsible Finnair.

Finnair employed an average of 6,360 (5,526)⁴ people during the year, which is 15.1 per cent more than in 2017. The number of personnel in continuing operations grew by 9.9 per cent year-on-year.

The number of employees increased by 544 or 9.2 per cent in 2018, totalling 6,462 at year-end (5,918). The change was due to growth in the number of cabin crew members, maintenance mechanics and

Helsinki Airport service agents, where more than 500 employees were hired in 2018. The attrition rate for 2018 was 3.3 per cent (3.4).

In 2018, according to research company Universum, Finnair was chosen as the most attractive employer amongst Finnish economics students for the third consecutive year.

Finnair values good cooperation with labour unions representing its various employee groups. During 2018 new Collective Labour Agreements (CLAs) were negotiated between Service Sector Employers Palta and Finnish Aviation Union IAU representing Finnair’s ground customer service employees, cargo, technical operations staff and Finnair Kitchen employees, and between Finnair Plc and

Key Figures – People Experience

	2018	2017	2016	2015	2014
Average number of employees	6,360	5,526	4,908	4,906	5,172
WeTogether@Finnair Personnel Experience overall grade, target at least 3.75 (scale 1-5)	3.77	3.78	3.69	3.65	-
Absences due to illness, target decrease from the previous year*	% 4.2	4.1	4.6	4.8	4.6
LTIF (Lost-time injury frequency), target less than 14.8**	11.7	15.6	16.6	18	13
Attrition rate	% 3.3	3.4	0.0	0.0	0.0
Code of Conduct awareness grade in WeTogether@Finnair survey, target at least 4 (scale 1-5)***	4.24	4.22	-	-	-

* Finnair Kitchen excluded in the figures of 2017.
** From 2017 onwards, LTIF includes Finnair Kitchen, that was acquired in spring 2017. In 2016 figures Finnair Kitchen is excluded. 2017 LTIF without Finnair Kitchen was 13.6.
*** Code of Conduct awareness was first measured in 2017.

³ Includes class-room and digital learning, excludes on the job learning.

⁴ The principle of calculating the number of personnel was revised as of the beginning of 2017 so that personnel in basic training are not yet included.

FINTO ry representing Finnair’s engineers and white-collar workers. At the end of 2018, Finnair or Palta had CLAs in force with:

- Transport Workers’ Union AKT representing travel agencies and applicable to Aurinkomatkat. CLA effective until 31 January 2020.
- Finnish Airline Pilots’ Association SLL. CLA effective until 31 March 2020.
- Finnish Aviation Union (IAU) representing technical workers. CLA effective until 15 January 2021.
- Trade Union Pro representing upper technical workers. CLA effective until 31 January 2021.
- Trade Union Pro representing ground customer service, ground handling, cargo, technical services and Finnair Kitchen employees. CLA effective until 31 January 2021.
- FINTO, representing upper white-collar workers. CLA effective until 29 February 2021.

The CLA with the cabin crew union SLSY expired on 31 January. A negotiated solution was reached in early February between Palta

and AKT, and the new CLA for Finnair cabin crew is valid from the beginning of February 2019 to 31 January 2022. The outcome of the negotiations still needs the approval by the governing bodies of the both parties.

Customer experience

To grow and win in the competitive airline market, Finnair must excel in everyday customer experience. During the year, customer experience development focused on launching new service concepts for customers, ensuring excellent customer experience and reliability of operations, and the expansion of the ancillary offering.

Finnair introduced two new service concepts in 2018. The Nordic Business Class concept, which was introduced on all long-haul routes, focused on making Finnair’s business class service more personal and able to cater to the individual needs of passengers. The Family travel concept intro-

duced new service elements for families travelling with children. New family travel services and elements cover all phases of travel, both in long- and short-haul flying.

Several initiatives to improve the customer experience on short-haul flights and on the ground were started. Finnair cooperates closely with the local airport operator Finavia on the renewal of Helsinki Airport both in designing the future and ensuring a smooth customer experience and operations during the airport’s expansion period. Finnair’s Schengen lounge at Helsinki Airport was renovated during the summer and the renewal of Non-Schengen lounges started in the fourth quarter of 2018.

Finnair and Finavia worked closely also to improve operations in times of exceptional weather conditions. Reliability is one of the cornerstones of Finnair’s customer experience. In 2018, Finnair’s punctuality suffered from delays and cancellations caused by the

New ancillary services launched in 2018 include

- New SkyBistro pre-order meal concepts Fresh &Tasty (on shorter European flights) and Hot Meals (on longer European flights)
- Seat & Meal ancillary package
- Seat & Meal Junior ancillary package
- Finnair’s own trip cancellation cover
- AirPortr baggage and check-in collection for London-based customers
- New Travel Comfort product selection on long-haul flights
- Electronic newspapers in inflight entertainment system (partly complimentary)
- Narrow-Body WiFi

Key Figures – Customer experience

	2018	2017	2016	2015	2014
Net Promoter Score (NPS), target to increase from previous year, long-term target 60	48	47	43	39	-
Arrival punctuality, target at least 89.5%	% 79.7	83.2	85.3	89.5	88.3

2018 awards

- The best European airline in China (TTG China Travel Awards)
- TripAdvisor’s Travelers’ Choice award in the Major Airline-Europe category
- The Best Airline in Northern Europe (The World Airline Awards by Skytrax), 9th consecutive year
- Five-Star Global Airline rating (APEX) based on customer reviews in September
- Future Travel Experience Ancillary Gold Award (2nd year in a row)
- The Aurinkomatkat app won the travel application and user experience/service design categories at the Red Dot Awards

harsh winter conditions at Helsinki Airport and other European hubs in winter season 2017/2018, and by the tight supply of narrow-body spare engines in the third quarter. The punctuality for the year was 79.7% (83.2). In January 2019, OAG’s Punctuality League publication ranked Finnair’s arrival punctuality in 2018 as the fifteenth highest among mainline airlines in the world.

Finnair’s ancillary offering was extended by introducing new ancillary services (see [page 16](#)) and making the existing services more widely available. Finnair also renewed its SkyBistro menus and travel retail selections.

Finnair also introduced complimentary electronic newspapers on its flights, trialled offering last-minute travel class upgrades inflight on some of its routes and tested the sale of Sky Bistro products through its inflight entertainment system on some long-haul flights. Complimentary games were introduced in the A350 fleet inflight entertainment system. On the ticketing side, Finnair introduced a Light economy class fare, which includes hand baggage only, on its Helsinki–New York route. The change was part of a joint effort by Finnair and its Atlantic Joint Business (AJB) partner to offer

more options and aligned fare types for their customers on selected North Atlantic routes.

Finnair performed well in several quality and customer satisfaction surveys conducted within the industry or among passengers during 2018. Finnair’s Net Promoter Score measuring customer satisfaction increased, despite the headwinds experienced, to 48 (47). In JACDEC’s 2018 Airline Safety Ranking, Finnair was listed as the safest airline in the world among the 100 largest airlines measured by RPKs.⁵

Finnair also recognises that, despite the progress made in customer experience, it can still improve its customer service, for example in possible disruption situations and by developing its customer feedback processes to be faster and smoother.

Key Figures – Transformation

		2018	2017
Share of digital direct ticket sales*	%	23.9	24.1
Share of digital direct ancillary sales*	%	55.1	56.5
Average number of monthly visitors at finnair.com**	mill.	1.9	2.4
Active users for Finnair mobile app	1,000	265.5	170.3

Digital key figures have been reported since 2017.
* In Finnair’s own digital channels.
** Measurement method changed due to EU GDPR in 2018.

Transformation

Finnair is on a transformation journey towards a more customer-oriented and experience-focused company. Digitalisation is one of the main drivers and enablers in this transformation. In 2018, digital transformation’s focus was on improving the user experience of Finnair’s services, on modernizing technical infrastructure and on improving cyber security, including GDPR compliance.

One of the most visible renewals in digital transformation was the introduction of a new high-speed internet service on narrow-body Airbus fleet on European flights in July. By the end of 2018, 28 narrow-body aircraft were equipped with internet connectivity and the rest of the

narrow-body Airbus fleet will be internet enabled during 2019. In addition, Finnair launched a substantial number of improvements to its existing digital services, including:

- an ability to monitor security queue waiting times at Helsinki airport via the Finnair app,
- an ability to digitally manage lost baggage,
- an ability to purchase fresh inflight meals directly from the Finnair app, and
- Finnish language in the Finnair application.

The development of new tools to support daily work in various parts of the organ-

⁵ Jet Airlines Crash Data Evaluation Centre (JACDEC). Three main risk/safety categories have an impact on the Risk Index, which is the basis for JACDEC’s safety rating: the Accident / Incidents, the Environmental Factors and Airline Operational Factors.

isation continued. Finnair rolled-out iPhones for its entire staff, with applications to support communication and work, during the year. Examples of these include:

- a new mobile application for reporting occupational safety observations,
- a new SkyGuest application for cabin crew members, delivering passenger data in digital format and supporting more personalised service to customers,
- a new AI assisted chat tool for helpdesk staff,
- a new Crew app facilitating the management of the inflight entertainment system on flights,
- a new work assignment application MyDay for Kitchen and Ground Customer Experience staff.
- Previously, SkyPay was taken to use by cabin crew to facilitate in-flight payment transactions.

During the first half of 2018, a substantial effort was made to ensure that all of Finnair’s digital tools and services fully comply with the EU’s data protection (GDPR) requirements.

Investments made in digital tools and channels were visible as growth in the number of users of Finnair’s digital services. The average number of monthly visitors to finnair.com totalled 1.9 million visitors (2.4)⁶. The number of users of the Finnair mobile application reached a new high 1.5 million and the number of active users increased by 55.9 per cent to 265,500. During the period under review, direct sales in Finnair’s digital channels represented 23.9 per cent (24.1) of all tickets sold and 55.1 per cent of ancillary sales (56.5). The relative share of direct sales declined during the year, as Finnair’s strong growth focused on Asian markets where traditional travel agents continue to hold strong positions in ticket sales.

Growth
Finnair’s goal is to create value for its shareholders, customers and employees alike. In 2018, Finnair continued to grow its airline business by opening new routes, by focusing on its selected strategic focus markets and by strengthening Finnair’s revenue optimisation and distribution. The growth was driven by the increase in capacity, described in detail in the Financial performance section.

As discussed earlier in this report, Finnair’s operating environment changed during 2018. Going forward, profitability will be in focus, as it will allow Finnair’s development in all these areas and value creation in the more challenging business environment. As a part of sustainable profitable growth, Finnair will invest into items that are key for its future, question the ways of working in a healthy manner, develop productivity and react to changes

in external environment. At the same time, the development our customer experience and people experience in long-term will continue. Aurinkomatkat and Finnair Holidays will provide a solid platform from which to strengthen Finnair’s position in the Nordic tourism and travel industry, and the new COOL Nordic Cargo terminal will enable solid growth for Finnair’s state-of-the-art cargo operations.

Key Figures – Growth and traffic		2018	2017	2016	2015	2014
Passengers	1,000	13,281	11,905	10,867	10,294	9,630
Ancillary revenue	EUR mill.	160.8	144.6	125.5	103.2	79.1
Ancillary revenue per passenger (PAX)	EUR	12.11	12.15	11.55	10.02	8.22
Flights	number	125,848	114,718	110,198	108,471	99,056
Available seat kilometres (ASK)	mill.	42,386	36,922	33,914	31,836	30,889
Revenue passenger kilometres (RPK)	mill.	34,660	30,750	27,065	25,592	24,772
Passenger load factor (PLF)	%	81.8	83.3	79.8	80.4	80.2
Fuel consumption	tonnes	1,031,125	921,520	874,148	834,512	738,865
CO ₂ emissions	tonnes/ASK	0.0766	0.0786	0.0812	0.0826	0.0831
CO ₂ emissions	tonnes/RTK	0.7917	0.7801	0.8358	0.8544	0.8526
17% reduction in CO ₂ emissions/RTK 2013–2020, cumulative compared to year 2013	%	-8.1	-9.4	-3.0	-0.8	-1.0
Reduction of CO ₂ emissions/ASK, change compared to previous year	%	-2.5	-3.2	-1.7	-0.6	0.4

⁶ Measurement method changed due to EU GDPR in the second quarter of 2018.

Other events in 2018

New majority owner for Nordic Regional Airlines AB (Norra)

Finnair sold 60 per cent of Nordic Regional Airlines AB (Norra) to Danish Air Transport (DAT) in October. Finnair held the 100 per cent stake in Norra on an interim basis after Norra's previous majority owners exited the business in November 2017. As such, the transaction had no impact on Norra's operations, personnel or the purchase agreement between Finnair and Norra. Norra operates Finnair's regional routes with a total of 24 ATR and Embraer aircraft.

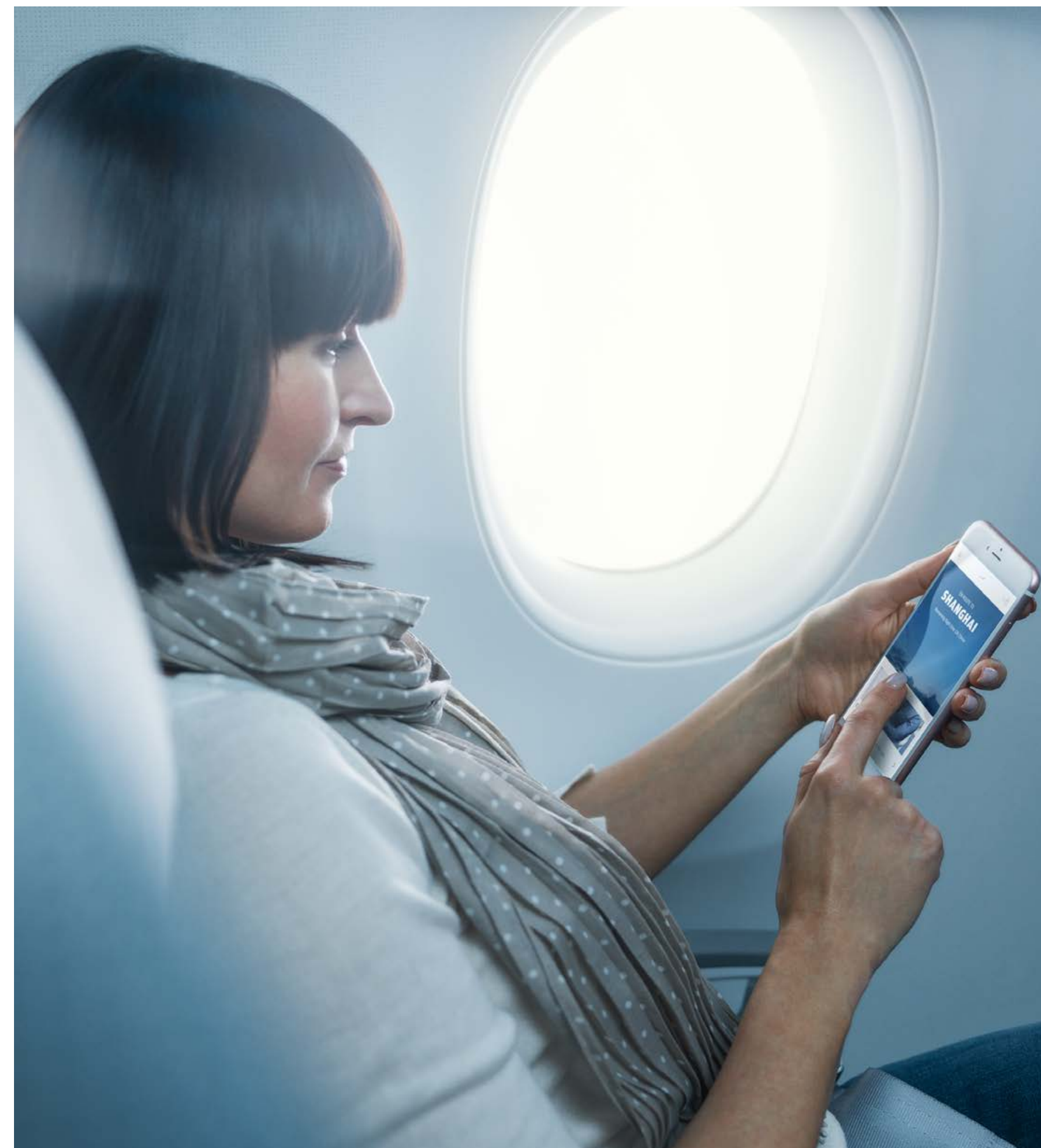
ATR cabin renewal and new Premium Economy class to long-haul

Finnair announced in autumn 2018 that it will renew the entire cabin of its ATR aircraft, which are currently used for domestic flights in Finland, on flights to the Baltics, to Gdansk in Poland and to Stockholm's Bromma airport. The flights are operated by Finnair's partner Norra. The ATR cabin renewal will start in 2019 and the refurbishment of the 12 aircraft will be completed by the end of the first quarter of 2020.

Finnair announced that it will introduce a new Premium Economy cabin class for its long-haul fleet starting in the fourth quarter of 2020. Located in its own cabin, the Premium Economy class will feature highly customised designs for Finnair and provide customers with increased space and comfort along with an enhanced service offering. The rollout is expected to be completed by the end of 2022. Detailed planning of the cabin design, service concept as well as the commercial aspects will be communicated in due course.

Furthermore, Finnair is, as a part of its normal fleet maintenance operations, preparing for a gradual cabin renewal in its current long-haul fleet. This renewal is expected to amount to approximately 200 million euros and focus on the years 2020 and 2021.

“THE PREMIUM ECONOMY CLASS WILL FEATURE HIGHLY CUSTOMISED DESIGNS FOR FINNAIR AND PROVIDE CUSTOMERS WITH INCREASED SPACE AND COMFORT.”



RESPONSIBLE FINNAIR – REPORTING OF NON-FINANCIAL INFORMATION

Finnair's vision is to offer its passengers a unique Nordic experience, and its mission is to offer the smoothest, fastest connections in the northern hemisphere via Helsinki and the best network to the world from its home markets. As a network airline specialising in both passenger and cargo traffic between Asia and Europe, Finnair is well-positioned to benefit from market growth – but growth can only be justified if Finnair can create sustainable value for its various stakeholders.

The creation of value for Finnair's shareholders and other stakeholders is based on:

- the company's ability to operate and grow its route network resource efficiently and profitably,
- the way it treats customers, employees and other stakeholders and gains their commitment to the company, and
- the ability to take environmental, social and other external impacts of operations into consideration.

Finnair's responsibility approach

Finnair's responsibility strategy is grounded in its values Commitment to Care, Courage and Simplicity. The Finnair

Code of Conduct and Finnair Supplier Code of Conduct lay the foundation of how the company conducts its business responsibly, in all areas. The values, Codes of Conduct and policies implemented thereunder set the standard for Finnair and its employees across the jurisdictions and environments in which the company operates.

The key areas of sustainability fall under the following themes: cleaner, caring and collaborative. The most significant environmental aspects are the combustion of fuel, energy usage in corporate facilities and aircraft noise. The most important social responsibility areas concern safety, personnel and customers as well as ethical business conduct and responsible sourcing.

In 2013, Finnair signed the United Nation's Global Compact initiative and undertook to comply with the Global Compact's ten principles of corporate responsibility. Finnair has been reporting on its corporate responsibility pursuant to the GRI G4 reporting guidelines since 2015 and from 2018 will follow the GRI standard framework.

The responsibility strategy is geared at preserving the license to operate from key stakeholders and contributing to good repu-



Value creation

INPUTS / RESOURCES

Human capital
Personnel of 6,360,
training hours 50.3/person, expertise

Financial
Adjusted interest-bearing debt
€675.2 million,
equity capital €1,021.7 million

Immaterial
Traffic rights, overflight rights
customer data, quality certifications,
route network, brand and customer base

Social and partnerships
Supplier and partners, joint businesses
(AJB/SJB) and alliance cooperation,
distribution channels, public affairs

Fleet and infrastructure
Modern and efficient fleet of 81 aircraft,
COOL Nordic Cargo Terminal, Helsinki hub

Natural resources
Jet fuel use 1,031,123 tonnes,
energy consumption of facilities 259,479 GJ,
use of renewable fuels

OUR VISION, PURPOSE AND
MISSION

OUR VALUES AND
CODE OF CONDUCT



PRODUCTS / OUTPUTS

Network
Over 130 destinations in
Finnair's network and
over 1,000 in **oneworld**
network

**Passenger
transportation**
13.3 million passengers,
ancillary services

Cargo transportation
158,140 tonnes

Travel services
Package tours,
dynamic travel products

STRATEGIC
FOCUS AREAS

- Growth
- Customer experience
- People experience
- Transformation

VALUE CREATED / IMPACTS

Value for society
Flight connections for business and
leisure travellers, GDP contribution,
taxes, innovative and sustainable
products

Value for shareholders
Market cap €907.8 million,
return on capital employed (ROCE) 11.9%

Value for customers
The fastest connections between Europe
and Asia, customer satisfaction NPS 48,
safe and reliable operations

Value for personnel
Salaries and benefits €428.6 million,
people experience 3.77/5

Environmental impacts
Greenhouse gas emissions
3,243,538 (jet fuel), noise and waste

SUSTAINABILITY

EFFICIENCY

tation and long-term shareholder value of Finnair. It also helps protect Finnair from the downside risk that breaches of environmental regulations, human rights abuses or governance issues, such as corruption, can bring to a company.

Finnair's risk management is discussed under the heading Risk management of this report on [page 34](#).

Environmental matters

Estimating the impacts of regulatory changes on an airline's operational activities and/or costs is difficult, and key risks relate to regulatory changes in the areas of market-based emission reduction schemes, noise regulation and other environmental regulations and their impact on cost competitiveness.

Finnair's environmental and energy efficiency policy lays out the targets for environmental management. Finnair's environmental responsibility is managed with the company's environmental management system, IATA Environmental Assessment (IEnvA) program, which complies with ISO 14001:2005. In this management system, Finnair has identified the most significant environmental factors and risks relevant

to its operations. Finnair's IEnvA program observes two perspectives: flight operations and energy usage in corporate facilities. It is assessed by third-party auditors authorized by IATA who are qualified to perform audits of environmental management systems.

Finnair's most significant environmental action has been investing in a modern fleet that is more energy efficient and quiet than

“FINNAIR HAS SET ITS OWN TARGET – TO CUT 17 PER CENT OF CARBON DIOXIDE EMISSIONS BY YEAR 2020.”

previous-generation aircraft. Finnair is committed to the aviation sector's common goals of carbon-neutral growth from 2020 onwards and cutting carbon dioxide emissions from the 2005 level in half by 2050. On top of that Finnair has set its own target - to cut 17 per cent of carbon dioxide emissions by year 2020 (from the year 2013 level).

As a part of Finnair's fuel efficiency program, a new vertical flight optimisation software (PACE) was implemented in the A350 fleet in May 2018. It provides the

pilot with a tool to make operations as efficient as possible and offers environmental benefits as CO₂ emissions drop in the same proportion as fuel consumption. During the summer Finnair also conducted a consumer research study to find out what Finns think of the different ways to reduce or compensate emissions resulting from aviation. According to the study's results, the majority of Finns are ready to pay to reduce the emissions caused by air travel but want the proceeds from possible additional charges to go directly to environmental work. Consequently, Finnair decided to introduce for its customers a new tool to make flying more environmentally responsible. As of early 2019, customers can choose to support either the use of biofuels or carbon capture initiatives when they fly with Finnair. Finnair will offer two alternatives: customers can either purchase biofuel to be included and blended on a later flight or support a carbon capture project with a sum of their choice.

Aircraft noise has an impact on the areas surrounding airports and under take-off and approach flight paths. Advances in aerodynamics and engine technology help mitigate aircraft noise. The noise level of the Finnair fleet has been significantly reduced thanks

to the on-going fleet modernisation and operational measures, such as CDA (Continuous Descent Approach) landings.

By joining a nation-wide energy efficiency agreement in the service sector, Finnair has committed to reduce its properties' energy consumption by 7 per cent from the 2016 level by 2025. In pursuit of this goal, Finnair has deployed solar power in its new COOL Nordig Cargo terminal building and various other technological improvements in its facilities.

Finnair has set long-term targets aiming for sustainability in inflight catering. Actions towards these goals are on-going and Finnair aims to reduce the environmental impact of inflight catering provided by reducing CO₂ emissions, reducing generated waste and improving waste material recycling. Specific actions will include reducing the use of single use plastics, improving plastic recycling and implementing responsible decision making in inflight services by 2022. The first visible action was replacement of plastic-made disposable milk packages with carton-packed Finnish milk on European and domestic flights in November 2018. It will be followed by removing plastic wrapping around renewed

amenity kits (from spring 2019). These small actions reduce generated waste by 5.0 tonnes and generated plastic waste by 10.0 tonnes annually. Finnair is also the first airline implementing the IATA environmental assessment catering module. The implementation has started and will be completed in 2019.

Social and employee matters

As Finnair is a significant employer, social responsibility is mainly related to the company's personnel and working conditions. A key risk relating to personnel is Finnair's inability to execute its strategy in the event of inadequate quality, commitment or resourcing of human capital.

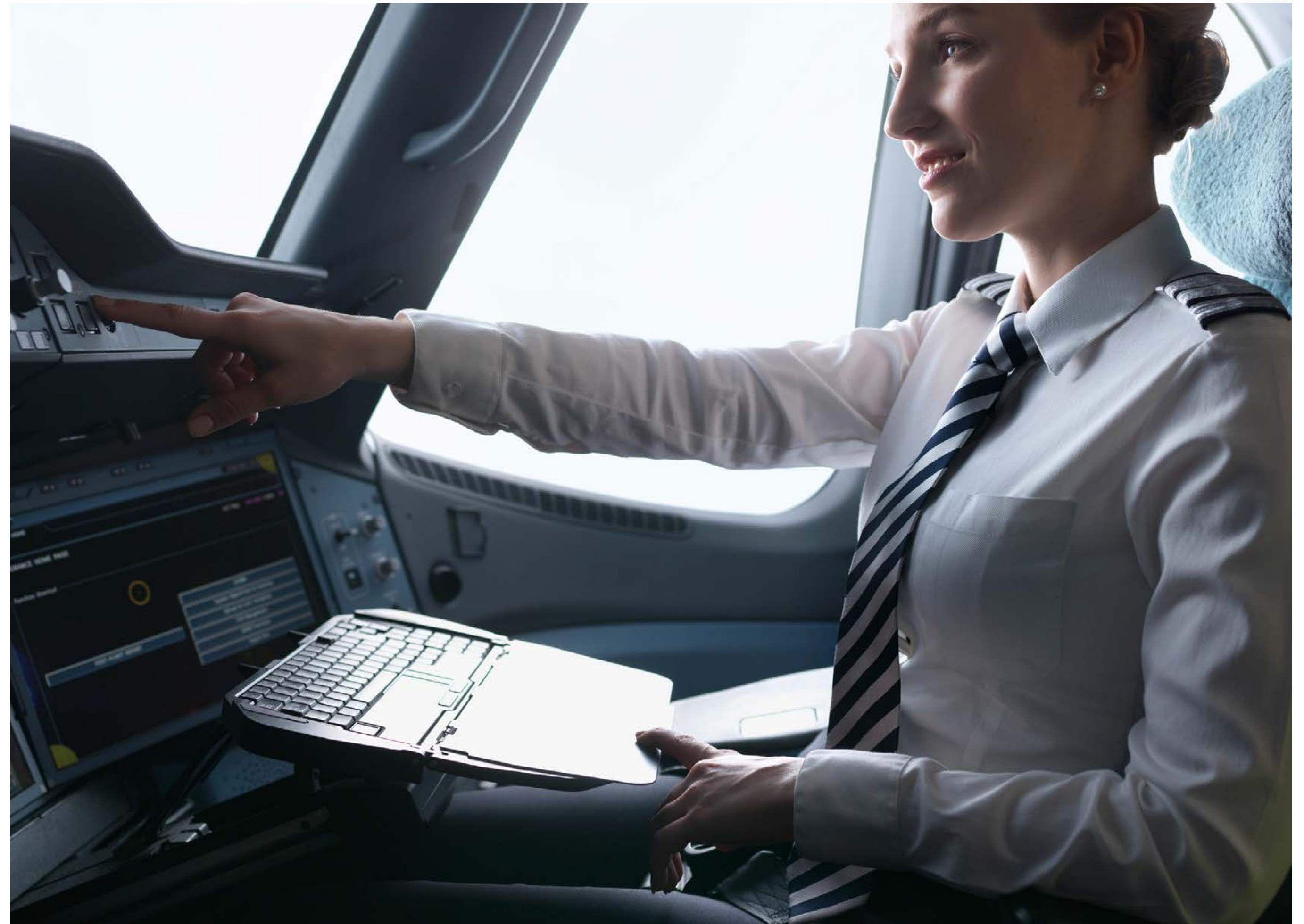
Finnair's personnel action plans and policies cover all aspects of social responsibility that have been identified as material and Finnair's annual employee survey, WeTogether@Finnair, helps the company decide upon developments in this area. Risks and effects on society are also identified and assessed bi-annually by the people and culture, corporate responsibility and risk management services as a part of the company's general risk management process.

Workplace safety and well-being

In the area of well-being at work, the strengthening of occupational safety is one of the focus areas at Finnair and a new Occupational Safety Management System was implemented in all units. Workability management and general wellbeing of employees are at the core of strategy and people processes. The WeTogether@Finnair Employee Engagement survey overall grade includes self-reported measures of the overall well-being of Finnair's personnel.

In occupational safety, Finnair's long-term target is zero accidents, both in its own operations as well as in its partners and contractors' operations. In March, Finnair published its own occupational safety policy, which is part of Finnair's occupational safety system that is currently being developed. Finnair also introduced a new mobile application for Finnair personnel for reporting occupational safety observations and eLearning in Physical occupational safety for managers and employees.

In 2018, LTIF (Lost Time Incident Frequency), which measures the frequency of accidents at the company level, decreased by 25.0 per cent to 11.7 (15.6).



The number of absences due to illness remained at the same level as in the comparison period and was 4.24 per cent (4.11).

To enhance Finnair’s strategic workability management, the company has built processes to support workability and offer the best possible means to rehabilitate employees back to their prior work, to find a new career within Finnair or to provide training and a new career outside of Finnair. Finnair’s focus is on prevention and on providing managers with good tools for recognising early signals of workability issues. Part of preventive actions in 2018 was renewal of Finnair’s substance abuse policy and tools. During 2018, Finnair implemented first modules of its new Workability Management System (Aino Health Manager).

To enhance people’s own motivation to keep good health and condition, the company also opened Fit for Future lectures in the areas of Health, Sleep, Nutrition, Exercise and Life balance for all Finnair employees. Finnair also introduced ePassi Sport to all employees in Finland from the beginning of year 2018, and to support work-life balance, a new summer camp concept was introduced for summer day-care of employees’ children.

Finnair has zero tolerance for bullying and any kind of harassment. Operating methods and procedures have been agreed upon together with the personnel to prevent harassment and inappropriate treatment, and efforts are made to enhance communication about these issues. In 2018, a program of internal conciliators was launched to enhance interaction and problem-solving skills and improve the working atmosphere and understanding between the different parties. Finnair also introduced eLearning Harmoniously at workplace to all employees.

Diversity, equality and non-discrimination

Finnair does not discriminate based on gender, age, ethnic or national origin, nationality, language, religion, conviction, opinion, health, disability, sexual orientation or other personal attributes or circumstances.

Finnair offers equal opportunities to everyone with regard to recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act and gives both men and women equal opportunities for balancing work and family life. The

working group for equality updates frequently the Equality and non-discrimination plan published internally and externally. The most recent update to the plan was done in 2018.

In 2011, Finnair signed the United Nations Women’s Empowerment Principles, which give guidance on the empowerment of women in the workplace, marketplace and community.

Finnair has signed the Diversity Charter Finland, by Finnish Business & Society (FIBS). By signing this Charter it pledges to develop management and service practices supporting diversity within its own organisation.

“IN 2018, FINNAIR CONDUCTED AN EXTENSIVE INTERNAL SAFETY PROMOTION CAMPAIGN “THEIR SAFETY. OUR PRIORITY.”

Equality and non-discrimination are embedded to Finnair values, and Finnair is committed to providing its customers, personnel and partners with equal opportunities. By working with Finland’s Paralympic committee and Association of disabled people, Finnair gets valuable informa-

tion about the accessibility of its services and how to develop them further. Special attention is paid to developing more accessible services and the design for all principle. In 2018, Finnair was also involved in the Confederation of Finnish Industries (EK) campaign against discrimination at work (Työ ei syrji campaign).

Customer experience

The second material theme for social responsibility at Finnair relates to our customers, and covers topics such as passenger well-being and safety, customer satisfaction and punctuality. The key risks in this area relate to Finnair being unable to ensure customer safety and well-being and drive increased customer satisfaction.

Finnair’s Safety Management System (SMS) covers all aspects of flight safety: safety policy, operational risk management, safety training and communications, safety assurance including continuous auditing of operations and the assessment of the potential impact of changes in the operating environment. Official regulations and standards set the minimum requirements, which the company aims to exceed in all areas.

A strong safety culture, objective monitoring of the company’s own operations, continuous improvement and implementing corrective measures, as well as open dialogue with the authorities, guarantee safe and high-quality airline operations. High-level objectives are set to improve even further Finnair’s flight safety, operational risk management and safety culture. In 2018, Finnair conducted an extensive internal safety promotion campaign “Their safety. Our Priority.”

Finnair also took measures to better accommodate different needs of passengers by changing its booking process and developing the Inflight Entertainment system to make services more accessible. The inflight entertainment system has now a special channel devoted to supporting Responsible Finnair concept communications.

Finnair collects customer satisfaction feedback continuously. Survey results and other customer feedback are reported to the unit concerned at least once per month. In 2018, Finnair’s overall customer satisfaction measured by Net promoter Score (NPS) was 48 (47). In 2018, customer feedback was utilised, for example, in defining the customer experience strategic targets and

roadmaps for development, as well as in targets of Finnair partners and employees. Finnair’s long-term goal for flight punctuality is 89 per cent. In 2018, Finnair’s flight punctuality was 79.7 per cent (83.2).

Human rights and responsible sourcing

Finnair’s own operations involve no significant direct human rights risks or impacts. However, indirect risks and implications may exist in relation to the supply chain and outsourced operations. In line with Finnair’s endorsement of the Global Compact, Finnair aims to prevent any violations of human rights and the use of forced or child labour both within its own operations and its supply chain. Finnair has its own ethical guidelines for suppliers, the Finnair’s Supplier Code of Conduct, and expects all suppliers and partners to comply with the Supplier Code or essentially similar ethical standards. All partners and subcontractors, moreover, are obliged to comply with the principles of the UN Universal Declaration of Human Rights as well as local legislation. Finnair’s Responsible Sourcing Manual complements the Supplier Code of Conduct as internal instructions for implementation.



Finnair cooperates with several partners in order to improve assessment of risks and the realisation of social responsibility and human rights in Finnair’s operations and in the supply chain. Finnair has implemented the SEDEX supplier auditing tool, chosen together with the **oneworld** alliance, into its purchasing processes in order to improve risk management, the evaluation of social impacts and traceability in the supply chain. Finnair is actively involved with the work of IOM (International Organisation for Migration) and IATA in order to combat and prevent human trafficking and advance human rights in the aviation sector.

In June 2018, Finnair signed the IATA Resolution against modern slavery and human trafficking as well as published the Finnair modern slavery and trafficking statement. Finnair is committed to raising the awareness of its crew members and ground personnel on this serious issue. In 2018, Finnair continued cooperation with the SEDEX system and altogether over 80 key suppliers have completed the SEDEX self-assessment. Best practices and development items in responsible sourcing were

identified in a project with students from the Haaga-Helia Aviation Business program, and development work in responsible sourcing will continue based on this. In 2018, Finnair also decided to renew its Whistleblowing line Finnair Ethics Helpline. The renewed channel will be opened in the first quarter of 2019 and will also include extremal stakeholders, such as the supply chain, thus increasing transparency.

Anti-corruption and bribery

Anti-corruption policies are outlined in Finnair’s Code of Conduct and Supplier Code of Conduct as well as in the Rules for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials. Finnair’s Code of Conduct includes an anti-corruption section, and the receiving and giving of bribes is strictly prohibited. During 2018, Finnair continued to train its employees on Finnair’s Code of Conduct in interactive workshops, and all new employees receive the mandatory e-learning module on the Code of Conduct. In the 2018 personnel survey (WeTogether@Finnair), the score for knowing and following Finnair’s Code of Conduct continued to be on a good level at 4,24/5.

Finnair requires that its suppliers comply with ethical standards essentially similar to those that Finnair complies with in its own operations. Finnair’s Supplier Code of Conduct provides clear principles to ensure ethical purchasing, including zero tolerance for corruption. Finnair’s Responsible Sourcing Manual complements the Code as internal instructions for implementation. Finnair’s aim is to include the Supplier Code of Conduct in all new supply and subcontracting agreements, as well as to existing contracts as these are renewed.

Finnair does not support any political parties or persons.

The identification and assessment of risks related to corruption are part of the general risk assessment of the company and its business units, and Finnair’s business units analyse risks related to corruption as part of the company’s general risk assessment process. Although, based on these assessments, Finnair’s own operations and services are not viewed as high risk from the perspective of corruption, Finnair aims to include responsible business practices in all elements of its operations. Preventing corruption is the responsibility of everyone

at Finnair, including the heads of business operations, compliance and the internal audit.

During 2018, no incidents of corruption were notified through Finnair’s Whistleblowing line called Finnair Ethics Helpline, nor were there any material corruption related investigations on-going in the company. Finnair decided to renew its Finnair Ethics Helpline to increase transparency and effectiveness of incident reporting. The new Whistleblowing system will be launched in the first quarter of 2019 and will be opened to both internal and external stakeholders.

KEY NON-FINANCIAL PERFORMANCE INDICATORS

Topic	Targets and KPIs	Performance 2018	Performance 2017	Key actions during reporting period
Environmental responsibility	17% reduction in CO ₂ emissions/RTK 2013–2020, cumulative compared to year 2013	-8.1	-9.4	Next generations A350 aircraft, efficient route planning, on-going Weight Watchers program, a single engine taxiing, APU engines, CDA landings, new vertical flight optimisation software (PACE). In addition Finnair decided to introduce its customers a service, where they can offset the CO ₂ emissions of their flights by supporting a CO ₂ emission reduction project or reduce emissions by buying biofuel.
	Reduction in CO ₂ emissions/ASK	-2.5	-3.2	
Social responsibility	Punctuality at least 89%	79.7	83.2	Most Reliable Airline development project including improvements in, for example, schedule planning and production processes, and service and catch-up abilities in irregularity situations. Close co-operation with airport operator Finavia during the expansion of Helsinki hub and in exceptional weather conditions.
	Customer satisfaction, NPS increase on the previous year, long-term target level 60	48	47	New Nordic Business Class and Family Travel service concepts, improving customer service in all encounters, the development of ancillary offering, more accessible services to all customers. Development of competencies and leadership; new ways of working incl. digital tools, customised apps and flexible working; education and training; OSH and new Safety Management System; Wellness programs, gender equality policy and plan, implementation of a new HR tool Workday.
	WeTogether@Finnair Personnel Experience overall grade of at least 3.75 on scale 1–5	3.77/5	3.78/5	
	Absences due to illness decrease from the previous year	4.24	4.22	
	LTIF (Lost-time injury frequency) of less than 14.8	11.7	15.6	
Ethical business conduct	Code of Conduct awareness grade in WeTogether@Finnair survey at least 4 on scale 1–5	4.24/5	4.22/5	Continuous training of employees, decision to renew Finnair Ethics helpline.

Read more about Finnair sustainability on our Corporate Responsibility [website](#).

CHANGES IN COMPANY MANAGEMENT

Finnair's Board of Directors appointed in September Topi Manner (M. Sc. Econ.), born 1974, as Finnair CEO as of 1 January 2019. Manner transferred to Finnair from Nordea, where he worked as a member of Nordea's Group Executive Management and as Head of Personal Banking. Finnair's previous CEO Pekka Vauramo, gave notice of his resignation in May and left the position on 4 September 2018. Pekka Vähähyppä, CFO, acted as interim CEO between 4 September and 31 December 2018.

Juha Järvinen, Chief Commercial Officer and a member of the executive board at Finnair, resigned from his post in November and left the company on 31 December 2018. Mika Stirkkinen, Vice president, Revenue Management and Pricing, was appointed as interim Head of Commercial unit and interim member of the Executive Board until Järvinen's successor is appointed.



SHARES AND SHAREHOLDERS

Shares and share capital

On 31 December 2018, the number of Finnair shares entered in the Trade Register was 128,136,115 and the registered share capital was 75,442,904.30 euros. The company’s shares are quoted on Nasdaq Helsinki. Each share has one vote at the General Meeting.

Share price development and trading

Finnair’s market capitalisation at year-end totalled 907.8 million euros (1,642.7). The closing price of the share on 31 December

2018 was 7.09 euros (12.82). In 2018, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 13.22 euros, the lowest price 5.59 euros and the average price 9.00 euros. Some 95.7 million company shares, with a total value of 861.5 million euros, were traded.

Dividend policy and the Board’s proposal for the distribution of profit

The aim of Finnair’s dividend policy is to pay, on average, at least one-third of the

earnings per share as a dividend over an economic cycle. The aim is to take into account the company’s earnings trend and outlook, financial situation and capital needs in the distribution of dividends. In 2018, earnings per share were 1.08 euros (1.23).

Earnings per share totalled 1.08 euros in 2018 (1.23). Finnair Plc’s distributable equity amounted to 392,868,533.76 euros on 31 December 2018. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.274 euros per share be distributed for 2018.

Key Figures – Share

		2018	2017	2016	2015	2014
Equity/share	EUR	8.01	7.95	6.73	5.69	4.02
Dividend for the financial year*	EUR mill.	35	38	13	0	0
Dividend/share*	EUR	0.274	0.30	0.10	0.00	0.00
Dividend/earnings*	%	25.4	24.4	18.2	0.0	0.0
Dividend yield*	%	3.9	2.3	2.5	0.0	0.0
Cash flow from operating activities/share	EUR	3.00	3.00	1.73	1.34	0.19
P/E ratio		6.56	10.43	7.32	9.46	-3.47

* The dividend for year 2018 is a proposal of the Board of Directors to the Annual General Meeting.

Finnair share 2014–2018



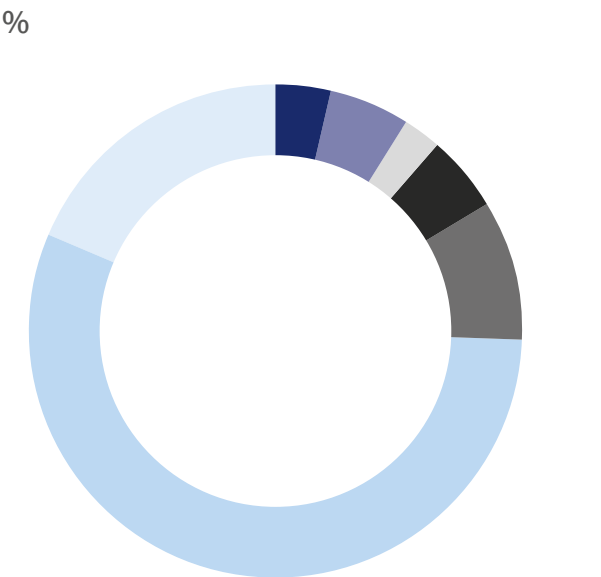
Comparison Nasdaq Helsinki



Comparison European Airlines



Shareholding by number of shares owned



- 1-1 000 3.7%
- 1 001-10 000 5.3%
- 10 001-100 000 2.4%
- 100 001-1 000 000 5.0%
- 1 000 001-10 000 000 9.4%
- 10 000 001- 55.8%
- Registered in the name of a nominee 18.4%

Shareholders

The number of Finnair shareholder increased by 51.5 per cent in 2018 to 24,600 shareholders (excluding nominee registered shareholders). The number of domestic households shareholders increased from 15 762 to 23 864, whereas their combined share of ownership increased by 3.8% per cent. Nominee registered or foreign investors held 18.4 per cent (19.2) of all shares.

Flagging notifications

No flagging notices were issued in 2018.

Government ownership

At the end of 2018, the Finnish Government owned 55.8 per cent of Finnair’s shares and votes. According to the decision made by the Finnish Parliament on 20 June 1994, the Government must own more than half of Finnair Plc’s shares. Decreasing the ownership below this level would require revision of the Parliament’s decision.

Share ownership by management

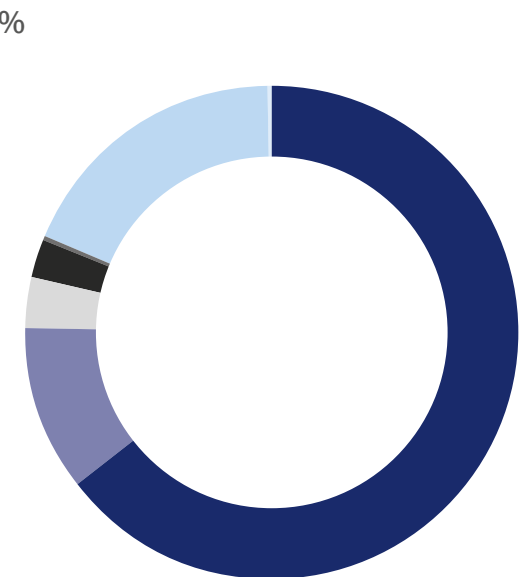
On 31 December 2018, members of the company’s Board of Directors did not own any Finnair shares, while the interim CEO

Pekka Vähähyppä owned 64,796 shares and the new CEO Topi Manner owned 15,000 shares. Members of the Executive Board, including the interim CEO and the new CEO, owned a total of 278,934 shares, representing 0.22 per cent of all shares and votes.

Own shares

The Board of Directors of Finnair exercised the authorisation granted by the AGM

Shareholding by type



- Public bodies 64.6%
- Households 10.9%
- Private companies 3.2%
- Financial institutions 2.7%
- Associations 0.2%
- Registered in the name of a nominee 18.4%
- Outside Finland 0.1%

Finnair Plc largest shareholders as at 31 December 2018

	Number of shares	%	Changes 2018
1 State of Finland; Office Council Of State	71,515,426	55.8	0
2 KEVA	6,250,875	4.9	50,000
3 Tiiviste-Group Oy	2,150,000	1.7	-50,000
4 Ilmarinen Mutual Pension Insurance Company	1,945,000	1.5	-22,271
5 The State Pension Fund	1,700,000	1.3	-400,000
6 Oy Etra Invest Ab	1,000,000	0.8	0
7 Veritas Pension Insurance Company Ltd.	850,000	0.7	118,952
8 Laakkonen Mikko Kalervo	740,000	0.6	100,000
9 Finnair Oyj	649,008	0.5	215,341
10 Evli Finland Select Fund	540,000	0.4	540,000
Nominee registered	23,525,526	18.4	-865,501
Others	17,270,280	13.5	
Total	128,136,115	100	

Shareholders by type at 31 December 2018

	Number of shares	%	Number of shareholders	%
Public bodies	82,790,486	64.6	11	0.0
Households	13,906,918	10.9	23,864	97.0
Private companies	4,080,208	3.2	564	2.3
Financial institutions	3,427,289	2.7	35	0.1
Associations	203,452	0.2	44	0.2
Finnish shareholders, total	104,408,353	81.5	24,518	99.6
Registered in the name of a nominee	23,525,526	18.4	10	0.0
Outside Finland	185,523	0.1	82	0.3
Nominee registered and foreign shareholders, total	23,711,049	18.5	92	0.4
Not converted into the book entry system	16,713	0.0	-	-
Total	128,136,115	100.0	24,610	100.0

to acquire its own shares. The maximum number of shares to be acquired was 600,000, corresponding to 0.47% of the total number of shares.

The share buy-back started on 5 December and ended on 10 January 2019. The shares were acquired through public trading on the Nasdaq Helsinki exchange at the market price prevailing at the time of purchase.

Acquired shares will be used for implementation of Finnair’s Employee Share Savings Plan (FlyShare) and long-term share-based incentive scheme for key personnel. The terms of the share plan and incentive scheme can be viewed on Finnair’s [website](#) under the section Governance/ Remuneration.

During the year, Finnair transferred, using the authorisation granted by the AGM, a total of 236,359 own shares as incentives to the participants of the FlyShare employee share savings plan and as a reward to the key personnel included in Finnair’s share-based incentive scheme 2016–2017. Of these shares, 10,400 were transferred in the fourth quarter.

On 31 December 2018, Finnair held a total of 649,008 own shares (433,367), representing 0.51 per cent (0.34) of the total

share capital. After share buy-backs that ended on 10 January 2018, Finnair held a total of 797,008 own shares, representing 0.62 per cent of the total share capital.

Shareholder agreements

Finnair is not aware of any shareholder agreements pertaining to share ownership or the use of voting rights.

Change of control provisions in material agreements

Some of Finnair’s financing agreements include a change of control clause under which the financier shall be entitled to request prepayment of the existing loan or to cancel the availability of a loan facility in the event that a person other than the Finnish state acquires control of Finnair either through a majority of the voting rights or otherwise.

Share-based incentive schemes

Employee share savings plan FlyShare

In December, Finnair’s Board of Directors decided to launch a new, in order the seventh, 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan established in 2013

Breakdown of shares at 31 December 2018

	Number of shares	%	Number of shareholders	%
1-200	1,149,898	0.9	14,728	59.8
201-1,000	3,617,951	2.8	7,157	29.1
1,001-10,000	6,761,799	5.3	2,569	10.4
10,001-100,000	3,108,646	2.4	122	0.5
100,001-1,000,000	6,394,281	5.0	19	0.1
1,000,001-10,000,000	12,045,875	9.4	4	0.0
10,000,001- >	71,515,426	55.8	1	0.0
Registered in the name of nominee	23,525,526	18.4	10	0.0
Not converted into the book entry system	16,713	0	-	-
Total	128,136,115	100.0	24,610	100.0

Acquisition and delivery of own shares and returns of shares

Period	Number of shares	Acquisition value, EUR	Average price, EUR
Jan 1 2014	279,168	808,241.18	2.90
2014	33,864	85,801.22	2.53
2014	-940	-2,334.40	2.48
2015	14,893	37,734.40	2.53
2015	-1,780	-6,764.00	3.80
2016	800,000	4,327,860.54	5.41
2016	-336,241	-975,326.55	2.90
2017	-355,597	-1,962,443.86	5.52
2018	452,000	3,206,965.70	7.10
2018	-236,359	-1,264,765.58	5.35
Dec 31 2018	649,008	4,254,968.65	6.56

is to encourage the employees to become shareholders in the company, and thereby strengthen the employees' interest in the development of Finnair's shareholder value and to reward them over the long term. The share savings plan is described in a stock exchange release issued on 19 December 2018, in the Remuneration Statement 2018 and on the company's [website](#).

Share-based incentive plan for key personnel

In December, the Board of Directors of Finnair also approved a new individual performance share plan covering the years 2019-2021. Within the plan, the participants have the opportunity to earn Finnair shares as a long-term incentive reward, if the performance targets set by the Board of Directors for the plan are achieved. The potential share rewards will be delivered to the participants in the spring of 2022. The plan applies to some 70 people, and it is described in a stock exchange release issued on 19 December 2018, in the Remuneration Statement 2018 and on the company's [website](#).

Share-linked long-term incentive plan for Finnair pilots

The share-linked long-term incentive plan for Finnair pilots was discontinued in October, because the saving targets set as a prerequisite for implementing the plan were not to be reached over the agreed time period. Finnair and the pilots had not been able to find additional savings, which could have compensated for the difference. All related hedging arrangements and liabilities accrued during the program, totalling approximately 11 million euros, were reversed in the fourth quarter. The cancellation had a positive effect on Finnair's 2018 comparable operating profit.

Authorisations granted by the Annual General Meeting 2018

The Annual General Meeting (AGM) of Finnair Plc, held on 20 March 2018, authorised the Board of Directors to decide on the repurchase of the company's own shares and/or on the acceptance as pledge and on the disposal of own shares held by the company. The authorisation shall not exceed 5,000,000 shares, which corre-

sponds to approximately 3.9 per cent of all the shares in the company. The authorisations are effective for a period of 18 months from the resolution of the AGM.

The AGM also authorised the Board of Directors to decide on donations up to an aggregate maximum of EUR 250,000 for charitable or corresponding purposes. The authorisation is effective until the next Annual General Meeting.

The resolutions of the AGM are available in full on the company's [website](#).



IFRS 16 IMPLEMENTATION AND ESTIMATED IMPACTS

In 2018, Finnair continued preparations for the adaptation of the new IFRS 16 Leases standard. IFRS 16 will be effective from 2019 onwards and replaces the previous standard (IAS 17 Leases). Finnair will adopt the standard from 2019 onwards and will apply the full retrospective method to each prior reporting period presented.

The new standard will have a significant impact on Finnair's financial statements and key ratios. The most significant impacts are described below.

From 1 January 2019 onwards, the present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements will be recognised as right-of-use assets and as interest-bearing lease liabilities on the balance sheet. Currently, future lease payments for operating leases are presented in the notes as operating lease commitments at their nominal value. Finnair estimates that its assets will increase by 1.0 billion euros due to recognition of right-of-use assets, and that its liabilities will increase in total by 1.1 billion euros due to the recognition of lease liabilities. The comparative information will be restated, and the cumulative effect of

initially applying IFRS 16 is made as an adjustment to opening equity of 1.1.2018. The impact to equity will be 0.1 billion euros. As a consequence of these changes Finnair expects its equity ratio to decrease by more than 10 percentage points, and its gearing to increase significantly (by more than 100 percentage points), to approximately 70 per cent. Finnair's key figure "Adjusted gearing", which takes operating lease payments into account, will be given up following the adoption of the new standard.

The leasing standard will also impact Finnair's income statement. From 2019 onwards, operating lease expenses will be no longer presented, but instead the depreciations of the right-of-use assets (affecting the comparable operating result) and the interest costs associated with the liability (affecting finance net) will be presented in the income statement. The interest costs for the liability are at their highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortised. Currently, operating lease expenses are accrued over the lease term primarily on a straight-line basis and recognised in the operating

result as lease payments for aircraft and other rents, according to the lease contract terms. This improves Finnair's operating result and EBITDA. Finnair estimates that its 2018 comparable operating result will improve by approximately 30 per cent due to adopting the new standard. Depreciation will increase due to depreciation of right of use assets, but the qualifying operating lease payments will no longer be included in operating result and will be instead included in lease liability repayments and financial expenses.

Finnair's net result in 2018 will, however, decrease by an estimated 30 per cent due to interest expenses and foreign exchange losses associated with USD denominated aircraft lease payments and liability. The majority of the decrease in Finnair's net result is derived from unrealized foreign exchange losses caused by the translation of the USD denominated liability. The amount of the foreign currency exchange effect could be positive or negative, depending on the USD-rate at the closing date. As at January 2019, Finnair aims to mitigate the foreign exchange volatility introduced by this difference by adjusting its hedging policy. The annual effect in net

result going forward is dependent on the size of the qualifying operating lease portfolio and the duration of the leases.

In the cash flow statement, repayments of lease liabilities will be moved from operating cash flow to financing cash flow in accordance with IFRS 16. Operating cash flow in 2018 will increase by approximately 30 per cent, with a corresponding negative adjustment in financing cash flow.

More information on the implementation of the standard and its estimated effects is available in Note 4.7 Changes in Accounting Principles in Finnair Financial Statements 2018.

**"THE NEW STANDARD WILL
HAVE A SIGNIFICANT
IMPACT ON FINNAIR'S
FINANCIAL STATEMENTS
AND KEY RATIOS."**

RISK
MANAGEMENT

Finnair’s risk management principles and process

Finnair operates in a global and highly competitive environment that is sensitive to economic fluctuations. In executing its strategy, Finnair and its operations are exposed to a broad range of risks and opportunities. To exploit opportunities to create value, Finnair is prepared to take and manage risks within the limits of its risk appetite. In relation to flight safety matters, compliance with laws and regulations, and reliability of reporting, Finnair’s objective is to minimise risks. The purpose of risk management is to provide a systematic approach to the management of rewarded and unrewarded risks in all sections of Finnair’s operations.

Policy and framework

The Finnair Risk Management Policy defines the overall framework for risk management at Finnair. The Board of Directors holds the ultimate responsibility for the Enterprise Risk Management system in Finnair. It is responsible for approving the Risk Management Policy, setting Finnair’s Risk Appetite and overseeing the effectiveness of risk management.

Finnair’s CEO holds the responsibility for the appropriateness of the risk management and oversight of the Risk Management Policy implementation.

Enterprise Risk Management process

Finnair has an Enterprise Risk Management process in place to assess and manage uncertainties associated with set objectives. The process is designed to take a corporate-wide portfolio view of risks to ensure that the risks and uncertainties are analysed and managed within the boundaries of Finnair’s risk-bearing capacity.

”TO EXPLOIT OPPORTUNITIES TO CREATE VALUE, FINNAIR IS PREPARED TO TAKE AND MANAGE RISKS WITHIN THE LIMITS OF ITS RISK APPETITE.”

Based on the COSO Enterprise Risk Management Framework, the objectives are split into four categories, i.e. strategic, operational, compliance and reporting. The Enterprise Risk Management process integrates the assess-

ment and management of risks and uncertainties against these objectives.

Risk assessments are executed according to the Annual Cycle defined in the Risk Management Policy. Finnair’s risk assessment process takes place as an integral part of strategy process and operational objective setting across the organisation to enable a holistic view of risks and opportunities. Risk assessment in Finnair includes the following phases:

- Identification of external and internal events affecting the achievement of objectives;
- Distinction between risks and opportunities;
- Analysis of identified risks;
- Integration (aggregation) of risks;
- Evaluation and prioritisation of risks based on their impact and likelihood.

Finnair’s risk model and criteria for risk evaluation have been established to ensure comprehensive risk identification and systematic risk evaluation. Assumptions behind strategic objectives are analysed

and validated as a part of strategic risk assessment. A dedicated Risk Coordinator Forum has been established to support the execution and coordination of systematic risk assessment activities in units, functions and subsidiaries, and to ensure that these activities conform to the requirements set in the Risk Management Policy.

Risk response strategies are applied to prioritised risks in order to reach reasonable assurance that their outcomes fall within an acceptable level.

The Executive Board members are risk owners and they are responsible for planning and implementing control measures, i.e. risk mitigation activities, within units, functions and subsidiaries to ensure an acceptable level of residual risk.

Relevant information is identified, captured, and communicated in a form and

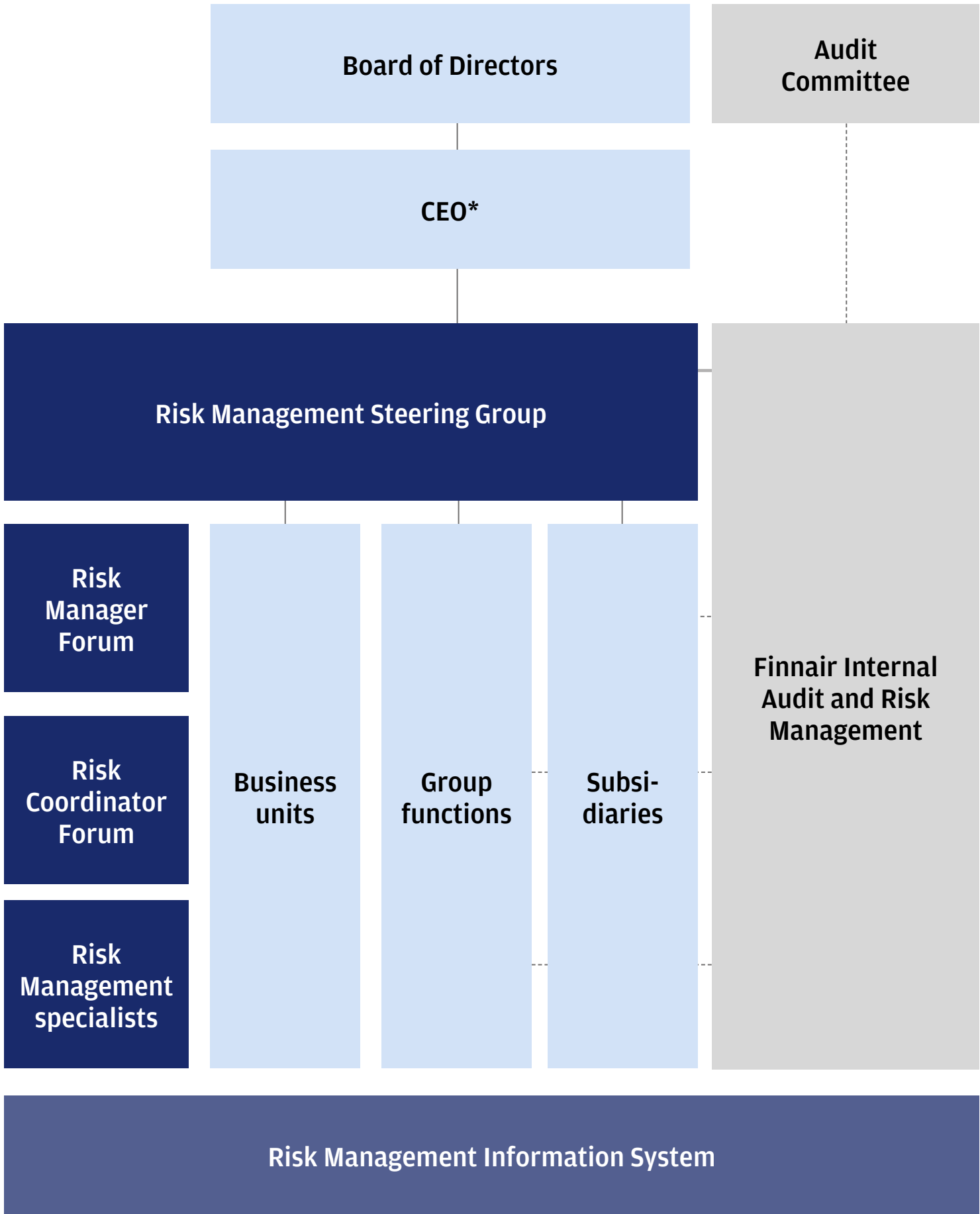
timeframe that enable Finnair employees to carry out their responsibilities.

Finnair's Enterprise Risk Management process is subject to both on-going and periodical monitoring activities to gain reasonable assurance of its appropriateness and effectiveness.

Major risks

Risk and uncertainties that are considered to potentially have a significant effect on Finnair's business, financial results and future prospects are further classified under five main categories that are business environment, financial, business operations, partnerships, and safety and security. The risks and Finnair's risk responses are further discussed on the company's [website](#). Significant near-term risks and uncertainties are described on [page 36](#).

GOVERNANCE MODEL AND REPORTING LINES



SIGNIFICANT NEAR-TERM RISKS AND UNCERTAINTIES

The risks and uncertainties described below are considered as potentially having a significant impact on Finnair's business, financial result and future outlook within the next 12 months. This list is not intended to be exhaustive.

Exceptional variations in the fuel price affect capacity growth in Finnair's main markets. This together with changes in ticket prices pose a risk to Finnair's revenue development, as do sudden adverse changes in the foreign exchange rates and slowing growth in demand. Generally, Finnair aims to pass exceptional variations in the fuel price on to customers via ticket prices, however in case of intense competition and overcapacity in a market this may not be possible.

Capacity increases and product improvements among Finnair's existing or new competitors may have an impact on the demand for, and yield of, Finnair's services. In addition, joint operations involving closer cooperation than airline alliances and joint businesses are expected to develop further. Potential industry consolidation could have a significant impact on the competitor landscape.

The achievement of the additional revenue and efficiency improvements sought through Finnair's digital business transformation and new services involves risks, as does the implementation of Finnair's strategy and fleet renewal. Finnair's growth plan and its resourcing could generate further cost pressure and operational challenges in the short term.

The aviation industry is affected by a number of regulatory projects at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory projects include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy and consumer protection and the decisions made by the Court of Justice of the European Union regarding flight passengers' rights. Interpretation of these decisions involves risks, such as those relating to the injunction sought by the Finnish Consumer Ombudsman regarding Finnair's compensation practices. On 4 January 2019, the Market Court of Justice rejected the Consumer Ombudsman's action

against Finnair. The Consumer Ombudsman has said that it will apply for a leave to appeal the case in the Supreme Court. In addition to the abovementioned topics, regulations on the reporting of non-financial information (corporate responsibility) and other stakeholder requirements have increased substantially.

Geopolitical uncertainty, the threat of trade wars, the threat of terrorism and other potential external disruptions may, if they materialise, significantly affect the demand for air travel and Finnair's operations. Potentially increasing protectionism in the political environment may also hinder the market access required for the implementation of Finnair's growth plan. With respect to Brexit, it is unclear whether, when and on which terms Brexit may occur. In the event of a no-deal Brexit, one of the likely consequences is that the traffic rights of UK and European airlines regarding flights between and via UK and EU will be reduced, which may have a considerable effect on the airlines' businesses, including that of Finnair. Such effects may be negative or positive and may not be the same for all airlines.

The construction work associated with the extension of Helsinki Airport, which will continue until 2020, may cause traffic disruptions. Finnair is engaged in close cooperation with Finavia in order to minimise the negative impacts of the expansion project on Finnair's operations. The expansion will facilitate the increase of the airport's annual passenger volume to 20 million and enable the implementation of Finnair's growth strategy.

Finnair's risk management and risks related to the company's operations are described in more detail on the company's [website](#).

SEASONAL VARIATION AND SENSITIVITIES IN BUSINESS OPERATIONS

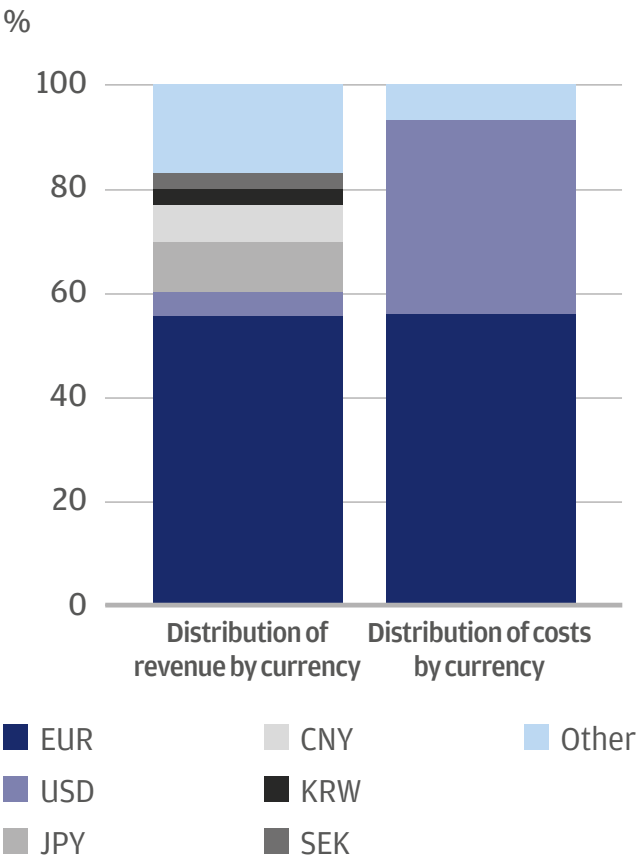
Due to the seasonal variation of the airline business, the Group’s revenue and profit are generally at their lowest in the first quarter and at their highest in the third quarter of the year. The growing proportional share of Asian traffic increases seasonal fluctuation due to destination-specific seasons in Asian leisure and business travel.

In addition to operational activities and market conditions, fuel price development has a key impact on Finnair’s result, as fuel costs are the company’s most significant expense item. Finnair’s foreign exchange risk arises primarily from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, over-flight royalties and foreign currency revenue. Significant dollar-denominated expense items are fuel costs and aircraft lease payments. The largest investments, namely the acquisition of aircraft and their spare parts, are also mainly denominated in US dollars. The most significant income currencies after the euro are the Japanese yen, the Chinese yuan and the Swedish krona.

The company hedges its currency, interest rate and jet fuel exposure using a variety

of derivative instruments, such as forward contracts, swaps and options, in compliance with the risk management policy approved annually by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months.

Distribution of revenue and costs by currency in 2018



Sensitivities in business operations, impact on comparable operating profit

(rolling 12 months from date of financial statements)	1 percentage (point) change
Passenger load factor (PLF, %)	EUR 31 million
Average yield of passenger traffic	EUR 24 million
Unit cost (CASK excl. fuel)	EUR 26 million

Fuel sensitivities

(rolling 12 months from date of financial statements)	10% change without hedging	10% change, taking hedging into account	Hedging ratio	
			H1/2019	H2/2019
Fuel	EUR 59 million	EUR 25 million	75%	58%

Currency distribution, %

Currency sensitivities USD and JPY (rolling 12 months from date of financial statements for operational cash flows)

Sales currencies	2018	2017	10% change without hedging	10% change, taking hedging into account	Hedging ratio for operational cash flows (rolling next 12 months)
EUR	55	55	-	-	
USD*	4	4	see below	see below	see below
JPY	10	10	EUR 32 m	EUR 15m	64%
CNY	7	7	-	-	
KRW	3	3	-	-	
SEK	3	4	-	-	
Other	17	17	-	-	
Purchase currencies					
EUR	56	57	-	-	
USD*	37	35	EUR 85 m	EUR 33 m	65%
Other	7	7			

* Hedging ratio and sensitivity analysis for USD basket, which consists of net cash flows in USD and HKD. The sensitivity analysis assumes that the correlation of the Hong Kong dollar with the US dollar is strong.

OUTLOOK

Global airline traffic is expected to continue growing in 2019. Finnair expects increased competition as capacity is added, particularly on routes linking Europe with Asia as well as in short-haul traffic. The slowdown in the economy of Finnair’s key markets and the continued uncertainties surrounding global trade, including from Brexit, could impact the demand for air travel and cargo.

Finnair plans to increase its capacity by approximately 10 per cent in 2019, down from its 14.8 per cent capacity growth in 2018. This growth is mainly focused on the Asian market. Revenue is expected to grow at a somewhat slower pace than capacity in 2019.

In line with its disclosure policy, Finnair will issue guidance on its full-year comparable operating result as part of its half-year report in July.

CALCULATION OF KEY RATIOS

Alternative performance measures	Calculation	Reference to reason to use the measure	Reference to reconciliation
Items affecting comparability	Unrealized changes in foreign currencies of fleet overhaul provisions + Fair value changes of derivatives where hedge accounting is not applied + Sales gains and losses on aircraft and other transactions + Restructuring costs	Presentation of Consolidated Income Statement and Balance Sheet, Presentation of alternative performance measures, Note 1.3.6 Items excluded from comparable operating result	Note 1.3.6 Items excluded from comparable operating result
Comparable operating result	Operating result - Items affecting comparability	Presentation of Consolidated Income Statement and Balance Sheet, Presentation of alternative performance measures	Income statement, Note 1.3.6 Items excluded from comparable operating result
Comparable EBITDAR	Comparable operating result + Depreciation and impairment + Lease payments for aircraft	Presentation of Consolidated Income Statement and Balance Sheet	Income statement
Adjusted interest-bearing liabilities	Interest-bearing liabilities + Cross currency interest rate swaps in derivative financial instruments	Component used in calculating adjusted gearing	Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing
Cash funds	Cash and cash equivalents + Other financial assets	Component used in calculating gearing and adjusted gearing. Liquid funds represent the total amount of financial assets that are available for use within short notice. Therefore, liquid funds provide the true and fair view of the Group’s financial position.	Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing, Notes to consolidated cash flow statement
Interest-bearing net debt	Adjusted interest-bearing liabilities - Cash funds	Presentation of Consolidated Income Statement and Balance Sheet, Presentation of alternative performance measures	Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing
Adjusted interest-bearing net debt	Interest-bearing net debt + 7 x Lease payments for aircraft	Presentation of alternative performance measures	Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing
Adjusted gearing, %	Adjusted interest-bearing net debt / Equity x 100	Presentation of alternative performance measures	Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing

Other key ratios – Revenue and profitability

Earnings per share (EPS)	(Result for the period - Hybrid bond expenses net of tax) / Average number of outstanding shares during the period
Unit revenue per available seat kilometre (RASK)	Unit revenue (RASK) represents the Group’s revenue divided by available seat kilometres (ASK). Unit revenue (RASK) with constant currency aims to provide a comparative, currency neutral measurement for unit revenues. All the currency changes and currency hedging results are excluded from the measurement.
Unit revenue per revenue passenger kilometre (yield)	Passenger Revenue by product divided by Revenue passenger kilometres (RPK).
Unit cost per available seat kilometre (CASK)	Unit cost (CASK) represents the Group’s operational costs divided by available seat kilometres. Other operating income is deducted from operational costs. Unit cost (CASK) with constant currency aims to provide a comparative, currency neutral measurement for unit costs. All the currency changes and currency hedging results are excluded from the measurement.
EBITDA	Operating result + Depreciation and impairment

Other key ratios – Capital structure

Equity ratio, %	Equity / Equity and liabilities total x 100
Gearing, %	Interest-bearing net debt / Equity x 100
Gross capital expenditure	Investments in intangible and tangible assets excluding advance payments
Return on capital employed (ROCE)	(Result before taxes + Financial expenses) / (Equity + Interest-bearing liabilities, average of reporting period and comparison period)

Other key ratios – Growth and traffic

Available seat kilometres (ASK)	Total number of seats available × kilometres flown
Revenue passenger kilometres (RPK)	Number of revenue passengers × kilometres flown
Passenger load factor (PLF)	Share of revenue passenger kilometres of available seat kilometres

Other key ratios – Share

Equity/share	Equity / Number of outstanding shares at the end of period
Dividend/earnings, %	Dividend per share / Earnings per share (EPS) x 100
Dividend yield, %	Dividend per share / Share price at the end of period x 100
Cash flow from operating activities/share	Net cash flow from operating activities / Average number of outstanding shares during the period
P/E ratio	Share price at the end of period / Earnings per share (EPS)

FINANCIAL STATEMENTS

How to read Finnair Financial Statements?
Finnair has made efforts to facilitate reading these financial statements and to clarify the overall picture that can be derived from them. The notes of Finnair’s financial statements have been combined to business related sections in order to give a more relevant and less complex picture of the whole. Each section sets out the accounting principles applied in producing these notes together with any critical accounting estimates and sources of uncertainty. Secondly, interesting figures and other highlights are explained in a text box marked with a star. Thirdly, illustrating charts have been inserted in various sections of the financial statements so as to facilitate understanding the figures.

i Notes to the financial statement have been combined into sections based on their context. The aim is to give a more relevant picture of the Finnair Group and its business. The content of each section is described and explained in the beginning of that section and marked with **i**.

A Specific accounting principles are attached to the relevant note. The accounting principles can be recognised from character **A**.

i Critical accounting estimates and sources of uncertainty have been presented together with the relevant note and specified with character **i**.

★ Highlights related to the section are explained in a separate text box to underline significant matters.

42	Consolidated income statement	50	1.3.1 Operational expenses by currency	66	3.7 Offsetting financial assets and liabilities
42	Consolidated statement of comprehensive income	50	1.3.2 Leasing expenses	66	3.8 Derivatives
43	Consolidated balance sheet	50	1.3.3 Other expenses	69	3.9 Equity-related information
44	Consolidated cash flow statement	50	1.3.4 Other liabilities		
45	Consolidated statement of changes in equity	50	1.3.5 Provisions	70	4 CONSOLIDATION
		51	1.3.6 Items excluded from comparable operating result	70	4.1 General consolidation principles
46	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	52	1.3.7 Employee benefits	71	4.2 Subsidiaries
		52	1.3.7.1 Employee benefit expenses and share-based payments	71	4.3 Acquisitions and disposals
46	Accounting principles	54	1.3.7.2 Pensions	71	4.4 Investments in associates and joint ventures
46	Description of the company			72	4.5 Assets and liabilities held for sale
46	Basis of preparation	56	2 AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE ASSETS AND LEASING ARRANGEMENTS	72	4.6 Related party transactions
46	Presentation of consolidated income statement and balance sheet	57	2.1 Tangible assets	73	4.7 Changes in accounting principles
46	Presentation of alternative performance measures	58	2.2 Leasing arrangements	75	5 OTHER NOTES
47	Use of estimates	59	2.3 Intangible assets	75	5.1. Income taxes
47	Critical accounting estimates and sources of uncertainty			76	5.2 Disputes and litigation
		59	3 CAPITAL STRUCTURE AND FINANCING COSTS	76	5.3 Events after the closing date
47	1 OPERATING RESULT	59	3.1 Financial income and expenses		
47	1.1 Segment reporting	60	3.2 Financial assets	77	6 PARENT COMPANY FINANCIAL STATEMENTS
47	1.2 Operating income	60	3.2.1 Other current financial assets		
48	1.2.1 Revenue by product and traffic area	60	3.2.2 Cash and cash equivalents	87	BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND
49	1.2.2 Revenue by currency	60	3.3 Financial liabilities		
49	1.2.3 Trade and other receivables	62	3.4 Contingent liabilities		
49	1.2.4 Deferred income and advances received	62	3.5 Management of financial risks	88	AUDITOR’S REPORT
50	1.3 Operating expenses	65	3.6 Classification of financial assets and liabilities		

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Consolidated income statement

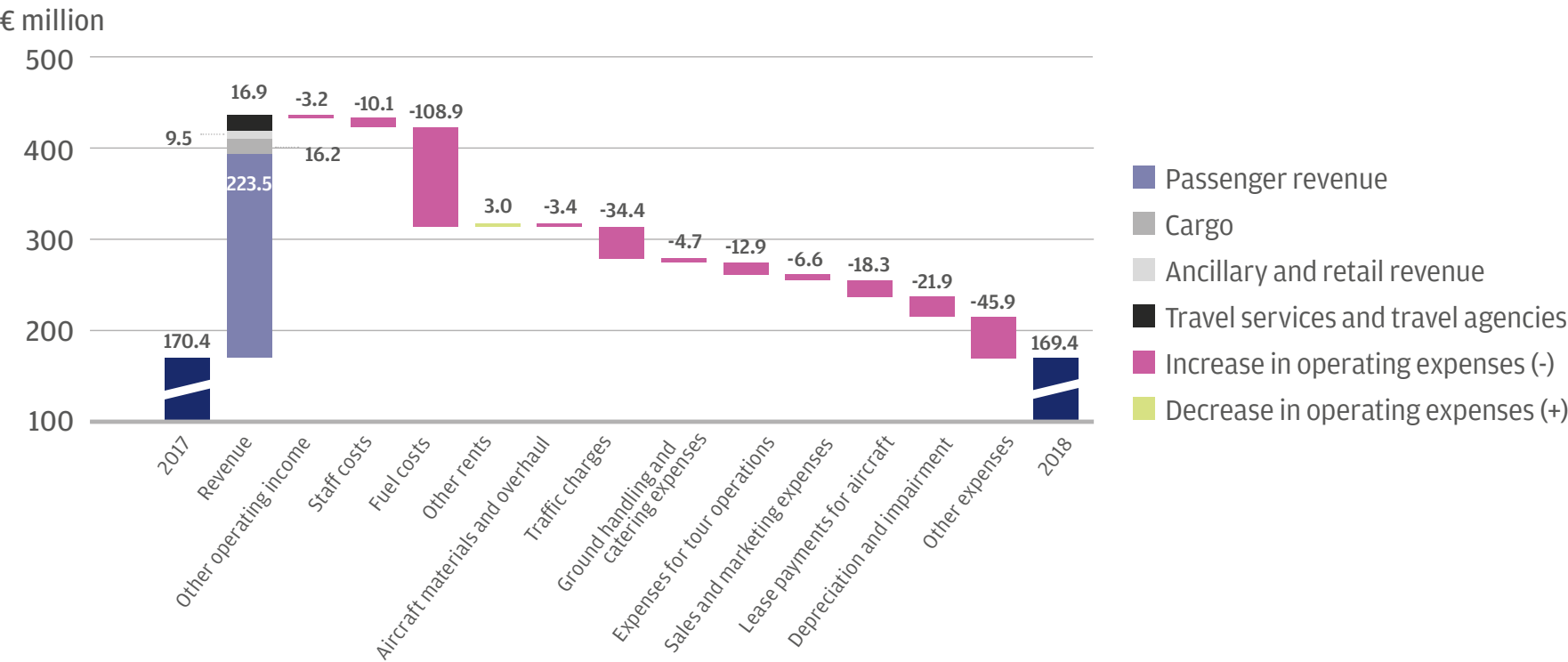
EUR mill.	Note	2018	2017
Revenue	1.1, 1.2	2,834.6	2,568.4
Other operating income		73.7	77.0
Operating expenses			
Staff costs	1.3.7	-433.4	-423.3
Fuel costs		-581.0	-472.2
Other rents	1.3.2	-154.9	-157.9
Aircraft materials and overhaul		-169.1	-165.7
Traffic charges		-300.8	-266.5
Ground handling and catering expenses		-256.9	-252.2
Expenses for tour operations		-113.4	-100.5
Sales and marketing expenses		-92.4	-85.8
Other expenses	1.3.3	-330.9	-285.1
Comparable EBITDAR		475.4	436.2
Lease payments for aircraft	1.3.2	-155.0	-136.6
Depreciation and impairment	2.1, 2.3	-151.1	-129.2
Comparable operating result		169.4	170.4
Unrealized changes in foreign currencies of fleet overhaul provisions	1.3.6	-4.7	10.9
Fair value changes of derivatives where hedge accounting is not applied	1.3.6	0.2	0.3
Sales gains and losses on aircraft and other transactions	1.3.6	42.7	44.1
Restructuring costs	1.3.6	-0.1	-0.9
Operating result		207.5	224.8
Financial income	3.1	-2.9	-0.3
Financial expenses	3.1	-16.0	-13.4
Result before taxes		188.6	211.1
Income taxes	5.1	-37.9	-41.7
Result for the financial year		150.7	169.4
Attributable to			
Owners of the parent company		150.7	169.4
Earnings per share attributable to shareholders of the parent company. EUR (basic and diluted)		1.08	1.23

★ **Profitability remained on good level despite increased fuel price**
Comparable operating result 169.4 was on last year's record-high level (170.4), while operating result 207.5 was a bit below 2017 (224.8) due to unrealised USD changes of maintenance provision. Thanks to declining unit costs, profitability remained on good level despite the increase in fuel price and decline in unit revenue.

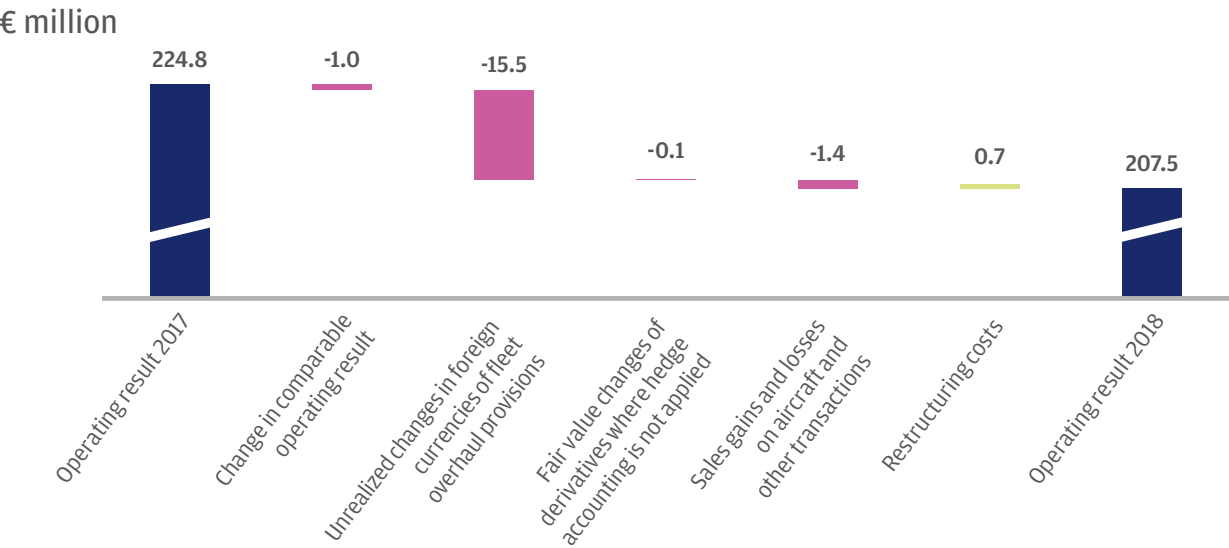
Consolidated statement of comprehensive income

EUR mill.	Note	2018	2017
Result for the financial year		150.7	169.4
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		-113.5	-18.5
Tax effect		22.7	3.7
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.7.2	0.7	35.9
Tax effect		-0.1	-7.2
Other comprehensive income items total		-90.2	14.0
Comprehensive income for the financial year		60.5	183.4
Attributable to			
Owners of the parent company		60.5	183.4

Change in comparable operating result 2018



Change in operating result 2018



CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

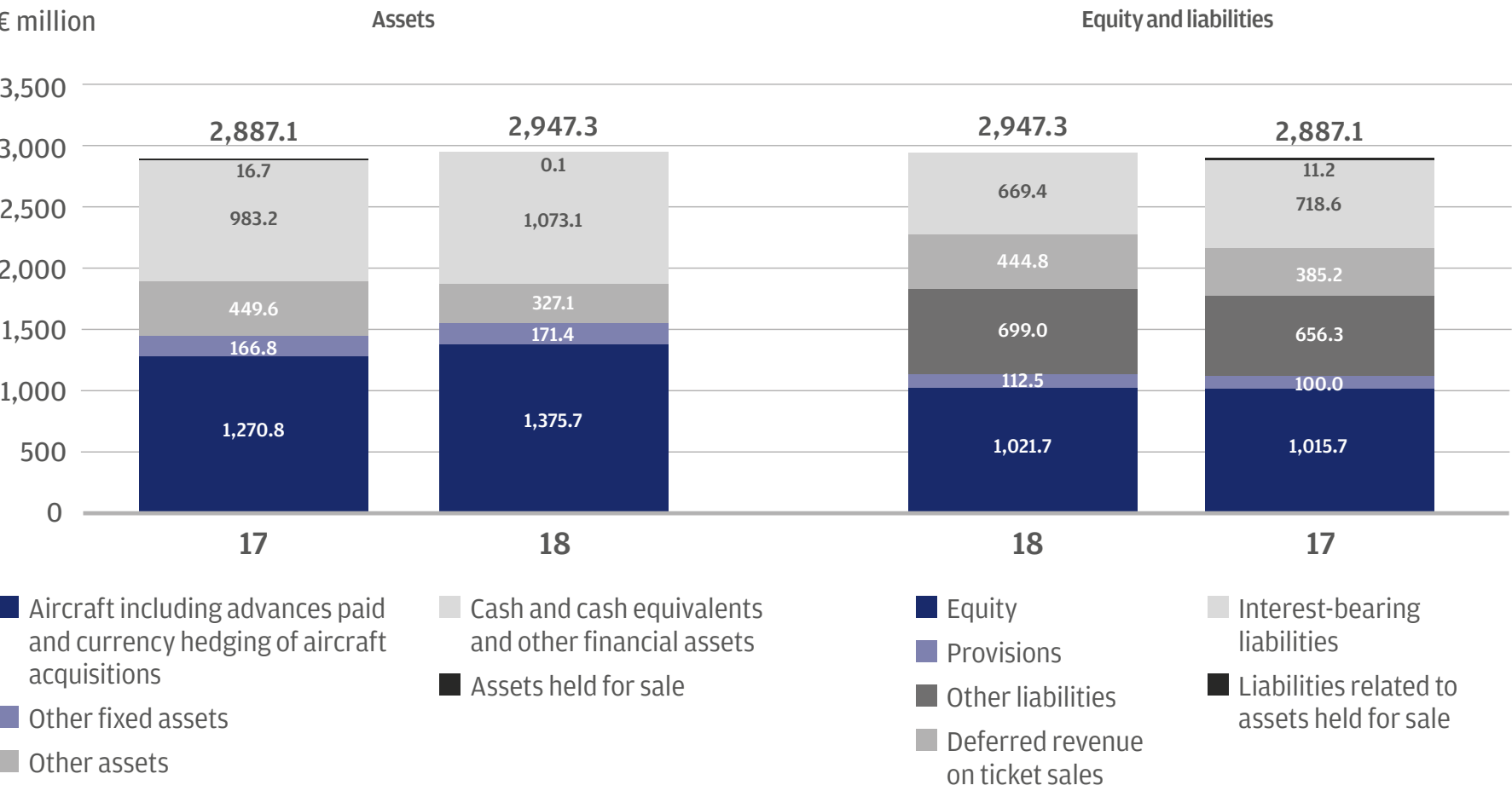
AUDITORS’S REPORT

Consolidated balance sheet

EUR mill.		Note	31 Dec 2018	31 Dec 2017
ASSETS				
Intangible assets	O	2.3	20.4	15.5
Tangible assets	O	2.1	1,526.6	1,422.1
Investments in associates and joint ventures	O	4.4	3.3	2.5
Loan and other receivables	O		4.3	5.6
Non-current assets total			1,554.7	1,445.7
Inventories	O		25.1	17.2
Trade and other receivables	O	1.2.3	242.2	319.8
Derivative financial instruments	O/IA*	3.8	52.1	104.5
Other financial assets	IA	3.2.1	892.2	833.0
Cash and cash equivalents	IA	3.2.2	180.9	150.2
Current assets total			1,392.5	1,424.6
Assets held for sale	O	4.5	0.1	16.7
Assets total			2,947.3	2,887.1

★ **Fleet growth continued**
In 2018, Finnair fleet continued to grow with one A350 and one A321, in line with capacity growth of 14,8%. Final payments for previously sold A340s were received.

Balance sheet



EUR mill.		Note	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES				
Share capital	E		75.4	75.4
Other equity	E		946.2	940.3
Equity total			1,021.7	1,015.7
Deferred tax liabilities	O	5.1	73.5	73.9
Interest-bearing liabilities	IL	3.3	561.0	586.2
Pension obligations	O	1.3.7.2	17.0	6.4
Provisions	O	1.3.5	91.3	79.0
Other liabilities	O	3.3	4.8	1.1
Non-current liabilities total			747.6	746.7
Provisions	O	1.3.5	21.2	21.1
Interest-bearing liabilities	IL	3.3	108.4	132.4
Trade payables	O		72.6	90.7
Derivative financial instruments	O/IL*	3.8	107.1	81.3
Deferred income and advances received	O	1.2.4	548.9	475.3
Liabilities related to employee benefits	O	1.3.7.1	105.6	139.2
Other liabilities	O	1.3.4	214.2	173.4
Current liabilities total			1,178.0	1,113.4
Liabilities related to assets held for sale	O	4.5		11.2
Liabilities total			1,925.6	1,871.4
Equity and liabilities total			2,947.3	2,887.1

Finnair reports its interest-bearing debt, net debt and adjusted gearing to give an overview of Finnair’s financial position. Balance sheet items included in interest-bearing net debt are marked with an “IA” or “IL”. The calculation of capital employed includes items marked with an “E” or “IL”. Other items are marked with an “O”.

Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing	31 Dec 2018	31 Dec 2017
Interest-bearing liabilities	669.4	718.6
Cross currency Interest rate swaps*	5.8	18.5
Adjusted interest-bearing liabilities	675.2	737.1
Other financial assets	-892.2	-833.0
Cash and cash equivalents	-180.9	-150.2
Interest-bearing net debt	-397.9	-246.0
Lease payments for aircraft for the last twelve months (LTM) * 7	1,084.7	956.4
Adjusted interest-bearing net debt	686.8	710.3
Equity total	1,021.7	1,015.7
Adjusted gearing, %	67.2%	69.9%

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in Note 3.8 Derivatives, is considered an interest-bearing liability in the net debt calculation.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Consolidated cash flow statement

EUR mill.	2018	2017
Cash flow from operating activities		
Result for the financial year	150.7	169.4
Depreciation and impairment	151.1	129.2
Other adjustments to result for the financial year		
Financial income and expenses	18.9	13.6
Income taxes	37.9	41.7
EBITDA	358.6	353.9
Gains and losses on aircraft and other transactions	-42.7	-44.1
Non-cash transactions*	25.7	33.4
Changes in working capital	50.0	56.8
Financial expenses paid, net	-8.4	-17.1
Income taxes paid		-0.7
Net cash flow from operating activities	383.1	382.3
Cash flow from investing activities		
Investments in intangible assets	-9.8	-11.3
Investments in tangible assets	-317.3	-393.6
Investments in group shares	0.1	7.5
Divestments of fixed assets and group shares	214.1	156.9
Net change in financial assets maturing after more than three months	-81.8	82.9
Change in non-current receivables	0.8	0.0
Net cash flow from investing activities	-194.0	-157.5
Cash flow from financing activities		
Proceeds from loans		199.3
Loan repayments and changes	-119.4	-130.0
Hybrid bond interests and expenses	-15.8	-15.8
Purchase of own shares	-3.7	
Dividends paid	-38.4	-12.8
Net cash flow from financing activities	-177.3	40.8
Change in cash flows	11.8	265.5
Liquid funds, at beginning	643.9	378.4
Change in cash flows	11.8	265.5
Liquid funds, at end**	655.8	643.9

★ Strong financing position supports development of operations and financing of fleet transition

Finnair’s liquidity remained strong despite heavy investments and the cash funds at year-end amounted to 1 073.1 million euros (983.2). Strong cash position was boosted by strong operating cash flow driven by steady profits, one sale-and-lease-back of A350 and approximately 100 million euro receivables received related to four A340s sold during 2017.

Notes to consolidated cash flow statement

* Non-cash transactions

EUR mill.	2018	2017
Employee benefits	3.0	16.0
Change in provisions	24.9	17.8
Other adjustments	-2.1	-0.4
Total	25.7	33.4

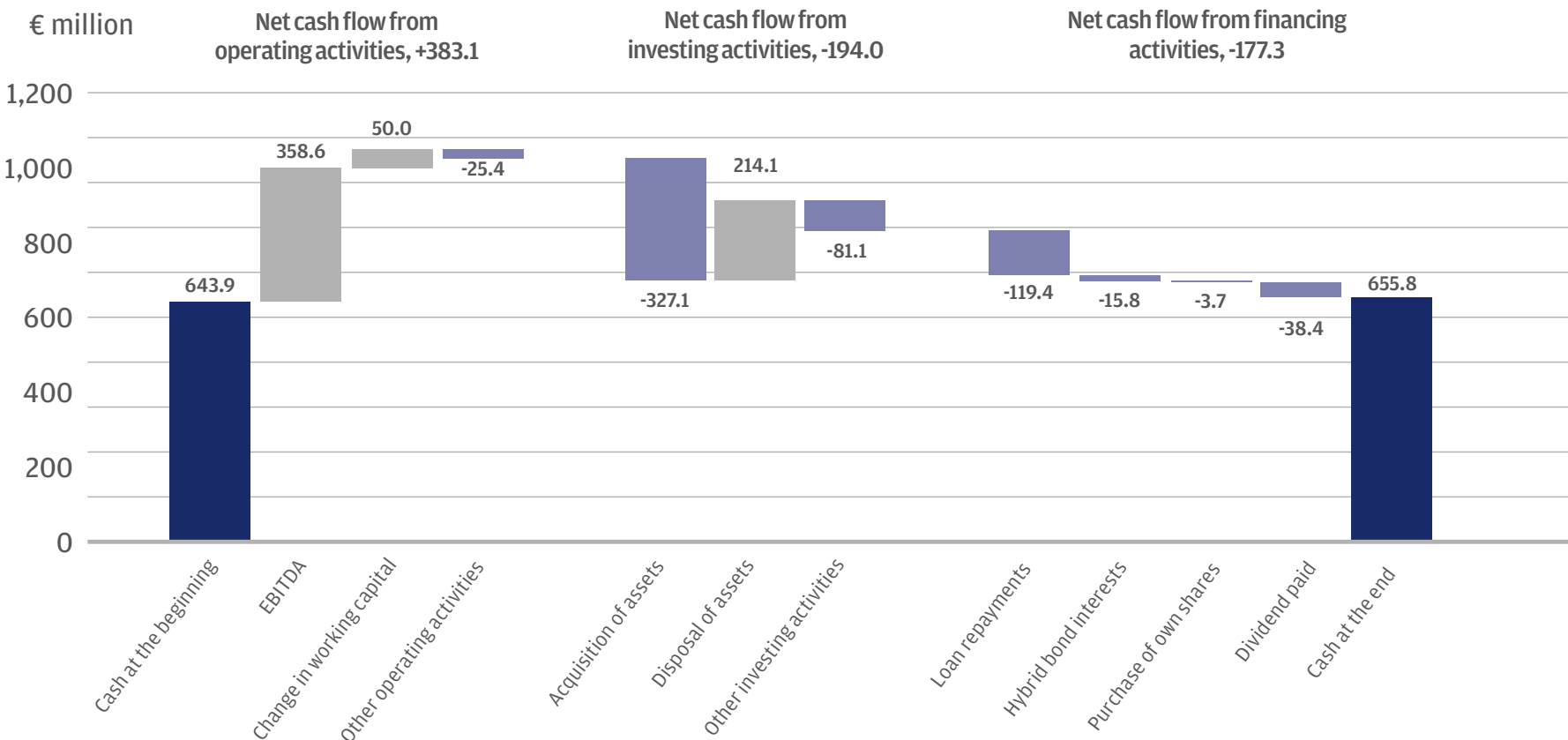
Other adjustments mainly include changes in maintenance and other provisions.

** Liquid funds

EUR mill.	2018	2017
Other financial assets	892.2	833.0
Cash and cash equivalents	180.9	150.2
Cash funds	1,073.1	983.2
Maturing after more than three months	-417.3	-339.2
Liquid funds	655.8	643.9

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, are disclosed in the note 3.3 Financial liabilities.

Cash Flow change 2018, 11.8€ million



CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Consolidated statement of changes in equity

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 31 Dec 2017	75.4	168.1	63.0	250.3	260.7	198.2	1,015.7
Change in accounting principles (IFRS 2 and IFRS 15)				3.8	-4.7		-1.0
Equity 1 Jan 2018	75.4	168.1	63.0	254.0	256.0	198.2	1,014.7
Result for the financial year					150.7		150.7
Change in fair value of hedging instruments			-90.8				-90.8
Actuarial gains and losses from defined benefit plans			0.6				0.6
Comprehensive income for the financial year	0.0	0.0	-90.2	0.0	150.7	0.0	60.5
Hybrid bond interests and expenses					-12.6		-12.6
Dividend					-38.4		-38.4
Purchase of own shares					-3.7		-3.7
Share-based payments				1.1			1.1
Equity 31 Dec 2018	75.4	168.1	-27.2	255.2	351.9	198.2	1,021.7

Retained earnings was adjusted with -4.7 million euros due to implementation of IFRS 15 Revenue from Contracts with Customers. Unrestricted equity funds increased 3.8 million euros due to amendment to IFRS 2 Share-based Payment. More detailed information in note 4.7 Changes in accounting principles.

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 31 Dec 2016	75.4	168.1	33.9	248.6	132.8	198.2	857.0
Change in accounting principles (IFRS 9)			15.2		-16.1		-0.9
Equity 1 Jan 2017	75.4	168.1	49.0	248.6	116.6	198.2	856.1
Result for the financial year					169.4		169.4
Change in fair value of hedging instruments			-14.8				-14.8
Actuarial gains and losses from defined benefit plans			28.7				28.7
Comprehensive income for the financial year	0.0	0.0	14.0	0.0	169.4	0.0	183.4
Hybrid bond interests and expenses					-12.6		-12.6
Dividend					-12.8		-12.8
Share-based payments				1.6			1.6
Equity 31 Dec 2017	75.4	168.1	63.0	250.3	260.7	198.2	1,015.7

★ Equity remained on last year’s level: positive results netted by negative effect from unrealised fuel hedges. Equity ratio at 34.7% (35.2%).

Finnair’s equity 1,021.7 remained on last year’s level (1,015.7). Positive effect from net result 150.7 was mainly netted by negative effects on fair value changes of fuel and other hedging instruments (-90.8) and dividends paid (-38.4). Realized hedging gains in profit and loss during FY2018 and a rapid decline of jet fuel price during Q4-2018 contributed to a negative change in the fair value of hedging reserve. Finnair hedges against jet fuel price fluctuations with jet forward contracts and options according to its risk management policy. The policy is explained in more detail in the note 3.5 Management of financial risks.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Notes to the consolidated financial statements

Accounting principles

How should the Finnair’s accounting principles be read?
Finnair describes the accounting principles in conjunction with each note in the aim of providing enhanced understanding of each accounting area. Basis of preparation is described as part of this note (accounting principles), while the ones more directly related to a specific note are attached to the corresponding note. The Group focuses on describing the accounting choices made within the framework of the prevailing IFRS policy and avoids repeating the actual text of the standard, unless Finnair considers it particularly important to the understanding of the note’s content. Refer to the table below to see which notes, accounting principles and IFRS standards are related.

Accounting principle	Note	Nr.	IFRS
Segment reporting	Segment information	1.1	IFRS 8
Revenue recognition, other income and trade receivables	Operating income	1.2	IFRS 15, IFRS 9, IFRS 7
Provisions and contingent liabilities	Provisions	1.3.5	IAS 37
Employee benefits and share-based payments	Employee benefits	1.3.7	IAS 19, IFRS 2
Pensions	Pensions	1.3.7.2	IAS 19
Tangible assets	Tangible assets	2.1	IAS 16, IAS 36
Operating and finance lease arrangements	Leasing arrangements	2.2	IAS 17
Intangible assets	Intangible assets	2.3	IAS 38
Interest income and expenses	Financial income and expenses	3.1	IFRS 7, IAS 18, IAS 32
Financial assets and impairment of financial assets	Financial assets	3.2	IFRS 9, IFRS 7
Cash and cash equivalents	Financial assets	3.2	IFRS 9, IFRS 7
Financial liabilities	Financial liabilities	3.3	IFRS 9, IFRS 7
Derivative contracts and hedge accounting	Derivatives	3.8	IFRS 9, IFRS 7
Equity, dividend and treasury shares	Equity-related information	3.9	IAS 32, IAS 33
Consolidation principles of subsidiaries	Subsidiaries	4.2	IFRS 10
Non-controlling interests and transactions with non-controlling interests	Subsidiaries	4.2	IFRS 10
Investments in associates and joint ventures	Investments in associates and joint ventures	4.4	IFRS 11
Assets held for sale	Assets and liabilities held for sale	4.5	IFRS 5
Income and deferred taxes	Income taxes	5.1	IAS 12

Description of the company

The Finnair Group engages in worldwide air transport operations and supporting services. The Group’s parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 9, Vantaa. The parent company is listed on the NASDAQ OMX Helsinki Stock Exchange. The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 14 February 2019. Under Finland’s Limited Liability Companies Act, shareholders have the option to accept, change or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc’s consolidated financial statements for 2018 have been prepared according to the International Financial Reporting Standards (IFRS) and IFRIC interpretations in effect on 31 December 2018 and as adopted by the European

Union. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law. New and amended standards applied in 2018 and future periods are described in the Note 4.7 Changes in accounting principles.

The 2018 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euro. This means that the sum of the individual figures may differ from the total shown.

Presentation of Consolidated Income Statement and Balance Sheet

IAS 1 Presentation of Financial Statements standard does not define ‘operating result’. The Group has defined it as net amount of operating income and expenses, including revenue and other operating income, less operating expenses, such as employee benefits, fuel costs, maintenance expenses, lease payments for aircraft and depreciations. Exchange rate differences and realised changes in fair values of derivatives are included in operating result if they arise from items related to business operations; otherwise they are recognised in financial items. Operating result excludes financial items, share of results from associates and joint ventures and income taxes.

Consolidated income statement includes, in addition to operating result, comparable operating result and EBITDAR which are presented to better reflect the Group’s business performance when comparing results to previous periods (see also below, presentation on alternative performance measures). Comparable operating result does not include capital gains and losses, changes in the value of foreign currency denominated fleet maintenance reserves, changes in the unrealised fair value of derivatives or restructuring costs. The basis for this is explained in more detail in the note 1.3.6 Items excluded from comparable operating results. Comparable EBITDAR is a common measure in airline business which aims to reflect comparable operating result excluding capital cost, independent of whether aircraft are owned or leased. Therefore, comparable EBITDAR is calculated by excluding depreciations and operating lease payments for aircraft from comparable operating result.

In Consolidated balance sheet, assets and liabilities are classified as current when they are expected to realise within 12 months or when they are classified as liquid funds or financial assets or liabilities classified at fair value through profit or loss. Other assets and liabilities are classified as non-current assets or liabilities. Interest-bearing liabilities include bonds, loans taken for aircraft financing (JOLCO-loans), bank loans, finance lease liabilities, commercial papers and loans from internal bank (“huoltokonttori”). Interest-bearing net debt is the net amount of interest-bearing assets and liabilities and cross-currency interest rate swaps that are used for hedging the currency and interest rate risk of interest-bearing loans.

Presentation of alternative performance measures

Finnair uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators.

Finnair’s alternative performance measures reported in financial statements are comparable operating result and EBITDAR (defined above) and adjusted net debt and gearing. Comparable operating result is reconciled in the note 1.3.6 Items excluded from comparable operating results. Finnair applies consistent principles when excluding items from comparable operating results. The main principles are described in above in relation to presentation of Consolidated Income Statement and in more detail, in the note 1.3.6 Items excluded from comparable operating results.

Adjusted gearing is used to measure Finnair’s indebtedness. In addition to interest-bearing loans, adjusted gearing also takes into account off-balance sheet lease commitments to better reflect Finnair’s financial position. Finnair reconciles the calculation of interest-bearing net debt and adjusted gearing by giving additional information to the balance sheet. Calculation principles of key ratios are also defined in The report of the Board of Directors, in the section Calculation of key ratios. Changes in accounting principles (see more in note 4.7) did not have an effect on calculating alternative performance measures.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Use of estimates

The preparation of financial statements in accordance with IFRS standards requires Group management to make certain estimates and judgements in applying the accounting principles. Information about the judgement exercised by management in applying the Group’s accounting principles and the areas where estimates and judgements have biggest impact in the financial statements are presented in the following paragraph Critical accounting estimates and sources of uncertainty.

Critical accounting estimates and sources of uncertainty

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcome may differ from the estimates and assumptions made. In addition, discretion has to be exercised in applying the accounting principles of the financial statements. Estimates are based on management’s best estimate at the balance sheet date. Changes in estimates and assumptions effect the financial statements in the period the changes occur, and in all the subsequent financial periods.

! The identified main critical estimates and sources of uncertainty are presented in connection to the items considered to be affected, attached to the corresponding note. The table below shows where to find more information about those estimates and uncertainties. !

Critical accounting estimates and sources of uncertainty	Note number	Note
Finnair Plus Customer Loyalty Program	1.2	Operating income
Maintenance reserves of the fleet	1.3.5	Provisions
Pension obligations	1.3.7.2	Pensions
Impairment testing	2.1	Tangible assets
Judgements of classifying lease arrangements	2.2	Leasing arrangements

- i = Content of the section
- A = Accounting principles
- ! = Critical accounting estimates

1 Operating result

i Operating result include notes related to revenue and operating result from the point of view of income statement and balance sheet. i

1.1 Segment reporting

A Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group’s Executive Board. Segments are defined based on Group’s business areas. Group has one business and reporting segment: Airline business. A

Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is not reported.

The revenue by product and geographical area is presented in the note 1.2.1 Revenue by product and traffic area. The division is based on the destination of the Finnair flight. Finnair operates international and domestic routes, but the assets are almost solely owned in Finland. The fleet composes major part of the non-current assets (see note 2.1 Tangible assets). Fleet is owned or leased by Finnair’s Finnish subsidiary and the aircraft are operated flexibly across different traffic (geographical) areas. More details about fleet management and ownership can be found in the management report in the section “Fleet”.

Finnair transported 13.3 million passengers in 2018. Due to the large number of customers and nature of business, sales to any individual customer is not material compared to Finnair’s total revenue.

1.2 Operating income

i Operating income section includes both income statement and balance sheet notes that relate to revenue. The aim is to provide more coherent picture of income related items effecting Finnair’s result and financial position. Trade receivables and deferred income containing mainly prepaid flight tickets and travel tour services are presented in connection with this section, because those are an essential part in revenue recognition. i

A Revenue recognition

Revenue is recognised when goods or services are delivered. Revenue is measured at fair value of the consideration received or receivable, net of discounts and indirect taxes.

Passenger revenue includes sale of flight tickets, and is recognised as revenue when the flight is flown in accordance with the flight traffic program. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger.

Passenger revenue is deducted with the costs resulting from Finnair Plus’ Customer Loyalty Program. Finnair loyalty customers can earn Finnair Plus Points from tickets or services purchased, and use the earned points to buy services and products offered by Finnair or its cooperation partners. The points earned are fair valued according to IFRS 15, and recognised as a decrease of revenue and debt at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the points and the customer selection between different awards based on historical customer behaviour. In addition, the fair valuation takes into account the expiry of the points. The debt is derecognised when the points are used or expire.

Ancillary revenue includes sale of ticket related services, like advance seat reservations, additional baggage fees as well as different service fees, and sale of goods in the aircraft. The service revenue is recognized when the flight is flown in accordance with the flight traffic program, since it is considered as a contract modification instead of separate revenue transaction. The sale of goods is recognized when the goods are delivered to the customer.

Cargo revenue is recognized when the cargo has been delivered to the customer.

Tour operations revenue includes sale of flight and hotel considered as separate performance obligations, which are recognized as service is delivered.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

A = Accounting principles
I = Critical accounting estimates

Trade receivables

Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other operating expenses. **A**

I Finnair Plus Customer Loyalty Program

Valuation and revenue recognition related to Finnair Plus debt requires management judgment especially related to fair valuation of points and timing of revenue recognition related to points expected to expire. The fair value of the point is defined by allocating the point to award selection based on historical behaviour of customers, after which the fair value of each award is defined. The liability is calculated by taking the total amount of points earned by customers, decreased with the expected expiry of the points. These points are then fair valued as described above, and the result is recognised as liability at balance sheet. **I**

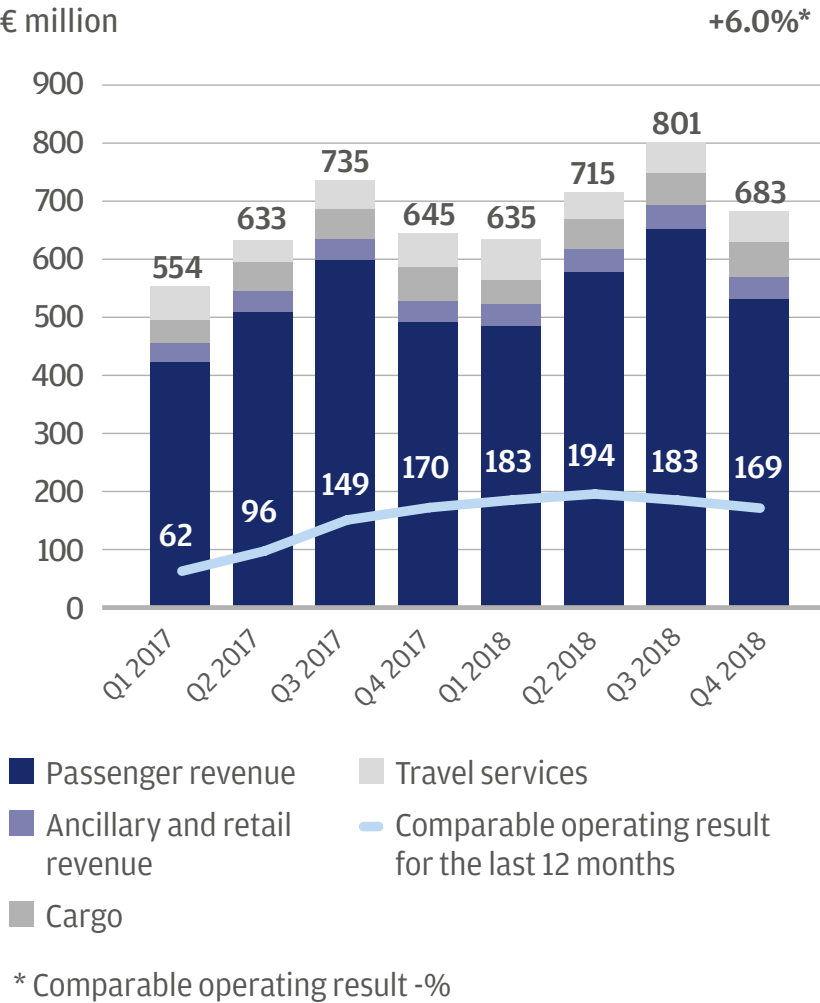
1.2.1 Revenue by product and traffic area

2018							
EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	999.3	137.5	898.1	178.0	31.4	2,244.3	79.2
Ancillary and retail revenue	45.3	7.5	40.7	4.4	62.9	160.8	5.7
Cargo	155.7	12.0	32.4	0.6	6.2	206.9	7.3
Travel services	35.9	13.3	165.2	1.3	6.9	222.5	7.9
Total	1,236.2	170.3	1,136.4	184.4	107.4	2,834.6	
Share, % of revenue by traffic area	43.6	6.0	40.1	6.5	3.8		

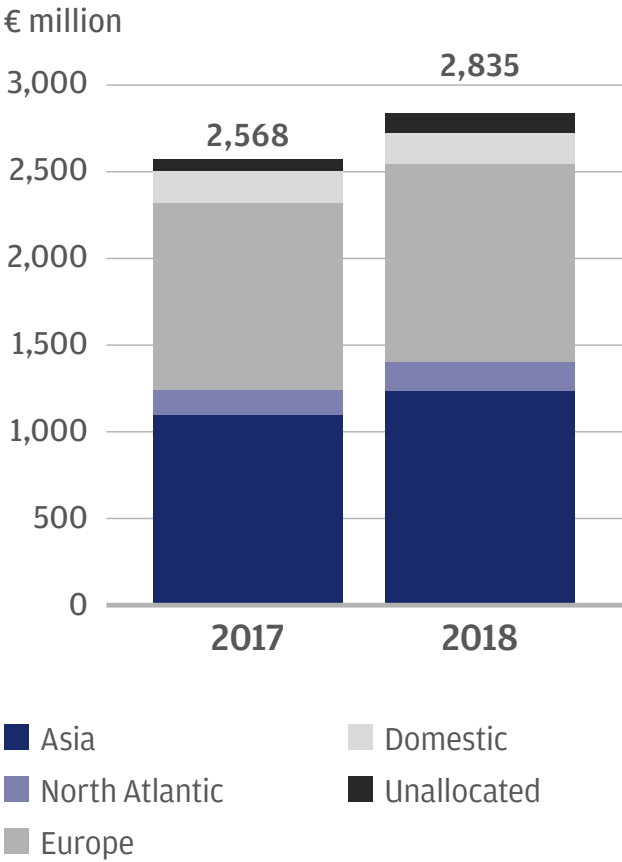
The division of revenue by traffic area is based on the destination of the Finnair flight. In 2018, revenue was 5.4 million euros smaller due to IFRS 15 (passenger revenue +3.0, ancillary and retail revenue -2.3 and travel services -6.1 million euros). Correspondingly expenses for tour operations were 2.8 million euros smaller. Net effect before income taxes was -2.6 million euros and -2.1 million euros net of tax. Effects of IFRS 15 are described more detailed in note 4.7 Changes in accounting principles.

2017							
EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	881.7	118.8	839.0	174.1	7.2	2,020.8	78.7
Ancillary and retail revenue	34.9	5.6	41.4	4.4	58.3	144.6	5.6
Cargo	147.1	10.9	31.0	1.8	6.5	197.4	7.7
Travel services	34.7	13.0	159.3	0.5	-1.9	205.6	8.0
Total	1,098.4	148.3	1,070.7	180.8	70.2	2,568.4	
Share, % of revenue by traffic area	42.8	5.8	41.7	7.0	2.7		

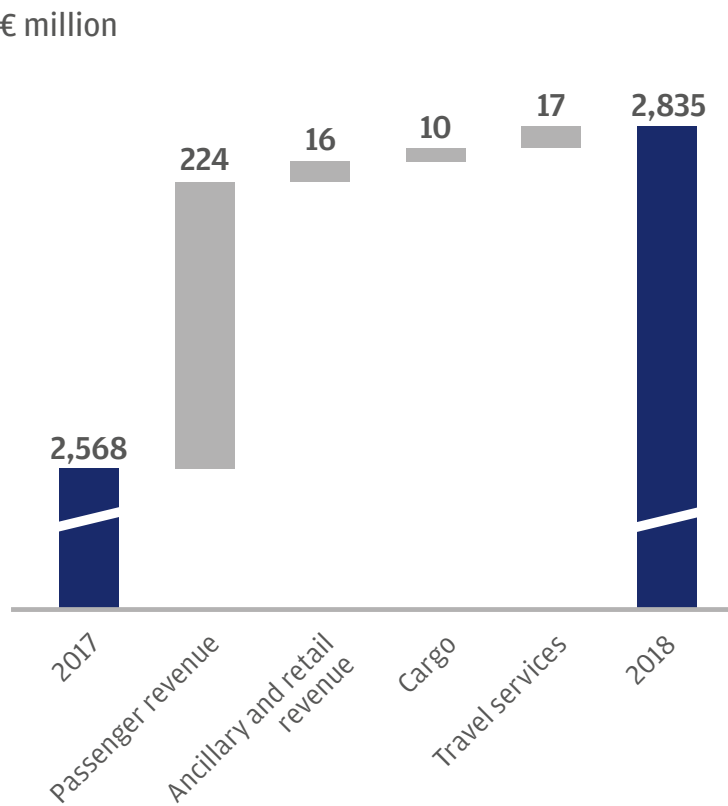
Revenue and comparable operating result
(unaudited)



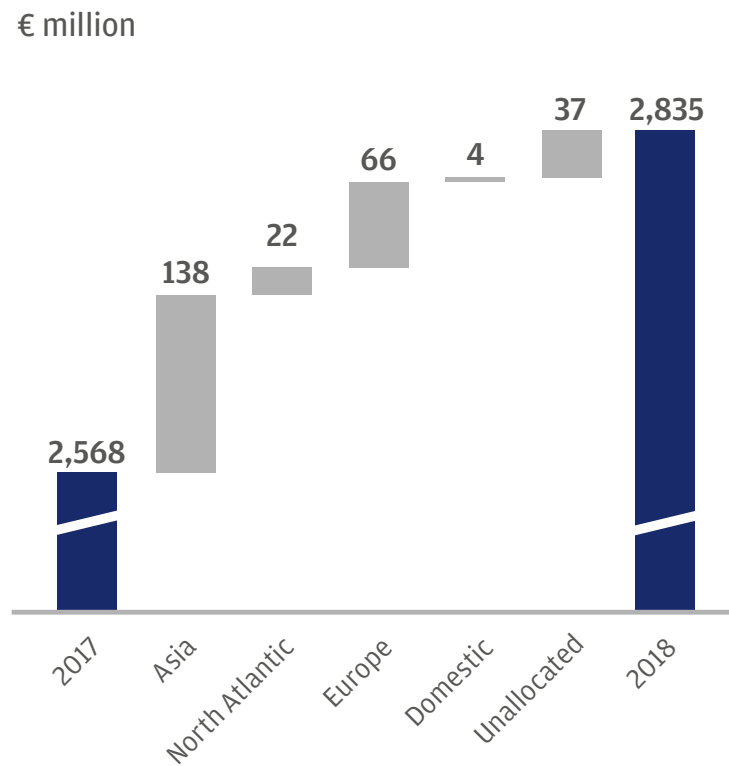
Revenue by traffic area



Revenue bridge by product



Revenue bridge by traffic area



CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

1.2.2 Revenue by currency

EUR mill.	2018	2017
EUR	1,551.2	1,404.8
JPY	296.8	245.5
CNY	199.3	181.9
USD	113.9	105.3
SEK	98.7	104.8
KRW	84.1	80.7
Other currencies	490.7	445.4
Total	2,834.6	2,568.4

Hedging policies of currency are described in the note 3.5 Management of financial risks.

1.2.3 Trade and other receivables

EUR mill.	2018	2017
Trade receivables	116.8	225.0
Prepaid expenses, accrued income and other receivables total	125.4	94.8
Aircraft materials and overhaul prepayments	45.5	28.1
Accrued income	35.6	43.6
VAT receivables	7.6	3.2
Prepaid aircraft operating leases	6.3	5.8
Employee benefit related receivables	1.6	7.5
Other items	28.8	6.5
Total	242.2	319.8

Fair value of trade receivables does not materially differ from balance sheet value. Trade receivables have decreased mainly due to four Airbus A340 aircraft, which were redelivered to Airbus during 2017 in accordance with a previous agreement. The remaining payment from this transaction, approximately 100 million euros, was received during 2018.

Aging analysis of trade receivables	2018			2017		
	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.
Not overdue	107.9	0.7%	0.8	215.1	0.4%	0.8
Overdue less than 60 days	5.0	0.5%	0.0	5.5	1.4%	0.1
Overdue more than 60 days	4.0	1.1%	0.0	4.5	2.5%	0.1
Total	116.8	0.7%	0.8	225.0	0.4%	1.0

The Group has recognised total 0.5 million euros (1.2) of credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2018	2017
EUR	55.1	74.1
USD	11.5	107.7
JPY	10.7	6.2
CNY	5.8	5.3
SEK	5.2	4.2
GBP	5.1	4.7
HKD	5.1	4.9
KRW	3.3	2.8
Other currencies	15.1	15.0
Total	116.8	225.0

1.2.4 Deferred income and advances received

EUR mill.	2018	2017
Deferred revenue on ticket sales	444.8	385.2
Loyalty program Finnair Plus	45.4	40.6
Advances received for tour operations	44.9	36.0
Other items	13.8	13.5
Total	548.9	475.3

Deferred income and advances received includes prepaid, yet unflown flight tickets and package tours, whose departure date is in the future. Finnair Plus liability is related to Finnair’s customer loyalty program, and equals to the fair value of the earned unused Finnair Plus points.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

1.3 Operating expenses

i Operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this operating expenses section. Accrued expenses, like liabilities related to jet fuel and traffic charges, are also presented in this section. All the income statement and balance sheet items related to employee benefits are also presented at the end of this section as a separate note. Employee benefits include the different forms of benefits, like share-based payments and pensions as well as their effect to staff costs and balance sheet, as well as information on management remuneration. **i**

1.3.1 Operational expenses by currency

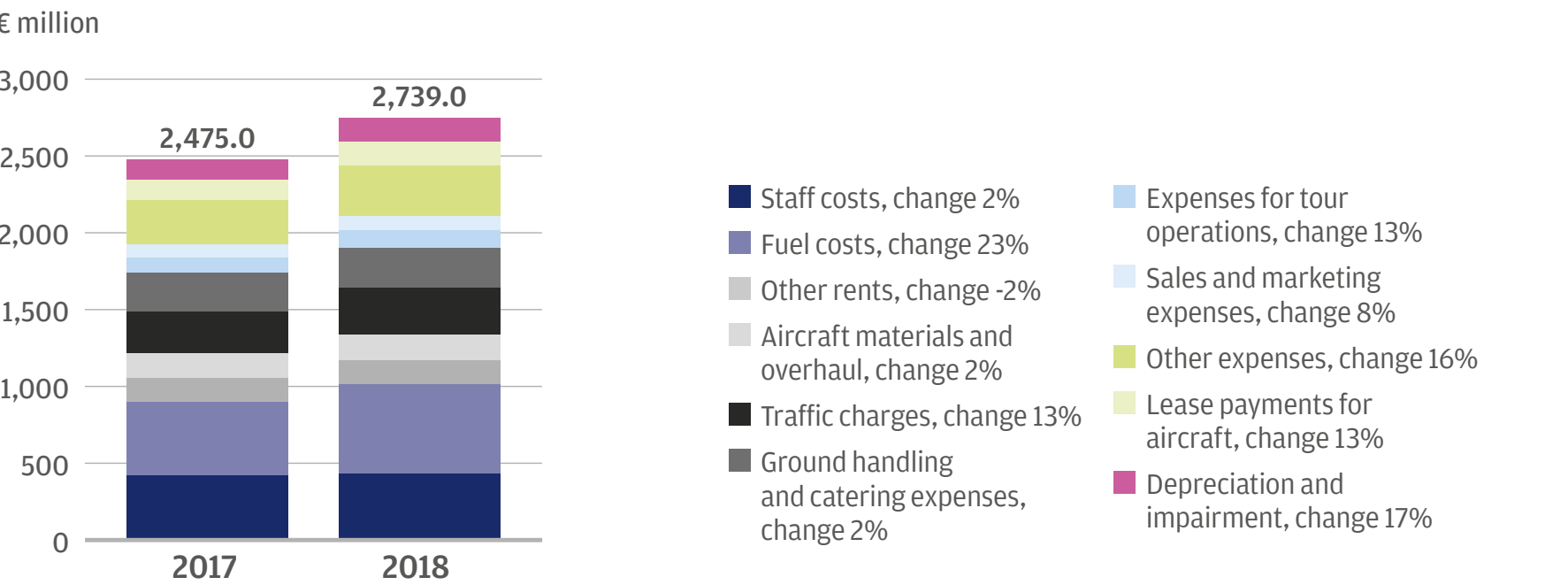
EUR mill.	2018	2017
EUR	1,530.7	1,414.0
USD	1,009.9	878.1
Other currencies	198.4	183.0
Total	2,739.0	2,475.0

Hedging policies of currency are described in the note 3.5 Management of financial risks.

1.3.2 Leasing expenses

EUR mill.	2018	2017
Payments for purchase traffic, cargo capacity and wet leases	122.7	122.9
Office and other rents	32.2	35.0
Other rents total (included in operational EBITDAR)	154.9	157.9
Lease payments for aircraft (dry leases)	155.0	136.6
Total	309.9	294.6

Operational expenses



i = Content of the section
A = Accounting principles

1.3.3 Other expenses

EUR mill.	2018	2017
IT expenses and booking fees	128.0	112.7
Other items	202.9	172.4
Total	330.9	285.1

Audit fees in other expenses

EUR mill.	2018	2017
PricewaterhouseCoopers		
Auditor's fees	0.3	0.3
Tax advising	0.1	0.1
Other fees	0.2	0.3
Total	0.5	0.7

PricewaterhouseCoopers Oy has provided non-audit services to entities of Finnair Group in total 194,000 euros (380,000) during the financial year 2018. These services included auditors's statements 85,000 euros (62,000) and other services 109,000 euros (318,000).

1.3.4 Other liabilities

EUR mill.	2018	2017
Jet fuels and traffic charges	89.5	74.7
Aircraft materials and overhaul	11.8	8.2
Liabilities for tour operations	11.7	13.2
Income tax liabilities	11.1	
Interest and other financial items	8.0	8.2
Other items	82.2	69.2
Total	214.2	173.4

Other items consists of several items, none of which are individually significant.

1.3.5 Provisions

A Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event, the fulfilment of the payment obligation is probable, and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as provision corresponds to the management’s best estimate of the expenses that will be necessary to meet the obligation at the end of the reporting period.

The Group is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance and engine life limited part provisions. The provision is defined as the difference between the current condition and redelivery condition of these maintenance components. The provision is accrued based on flight hours flown until the next maintenance event or the redelivery and recognised in the aircraft overhaul costs in the income statement. The provision is reversed at the maintenance event or redelivery. The price for the flight hour depends on the market price development of the maintenance costs. Estimated future cash flows are discounted to the present value. The maintenance market prices are mainly denominated in US dollars, which is why the amount of maintenance provision changes due to currency fluctuation of the dollar. The unrealised changes in currencies are recognised in changes in exchange rates of fleet overhauls.

Restructuring provisions are recognised when the Group has prepared a detailed restructuring plan and has begun to implement the plan or has announced it. **A**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

1 Aircraft maintenance provision
The measurement of aircraft maintenance provision requires management judgement especially related to timing of main-
tenance events and valuation of maintenance costs occurring in the future. The future maintenance costs and their timing
are dependent on, for example, how future traffic plans actually realise, market price development of maintenance costs
and the actual condition of the aircraft at the time of maintenance event. **1**

EUR mill.	Aircraft maintenance provision	Other provisions	2018	Aircraft maintenance provision	Other provisions	2017
Provision at the beginning of period	97.3	2.7	100.0	81.6	4.2	85.8
Provision for the period	39.9	0.5	40.4	45.8	0.8	46.6
Provision used	-33.2	-2.2	-35.4	-20.8	-2.3	-23.2
Unwinding of discount	2.7		2.7	1.7		1.7
Exchange rate differences	4.7		4.7	-10.9		-10.9
Total	111.4	1.0	112.5	97.3	2.7	100.0
Of which non-current	91.0	0.3	91.3	78.0	1.0	79.0
Of which current	20.4	0.8	21.2	19.4	1.7	21.1
Total	111.4	1.0	112.5	97.3	2.7	100.0

Non-current aircraft maintenance provisions are expected to be used by 2030. Other provisions include items related to
group’s restructurings.

1.3.6 Items excluded from comparable operating result
Comparable operating result aims to provide a comparable view on business development between periods. Therefore,
items effecting comparability are excluded from the comparable operating result. The principles related to income
statement presentation and principles related to usage of alternative performance measures are described under the
section Notes to the financial statements. Calculation principles of alternative performance measures are also defined
in The report of the Board of Directors, in the section Calculation of key ratios. The detailed content of items affecting
comparability and the reasoning behind excluding those from comparable operating results is described below.
Unrealised exchange rate differences of US dollar denominated aircraft maintenance provisions are excluded from
comparable operating result. These exchange rate effects are included in the comparable operating result only when
the maintenance event or redelivery occurs and the exchange rate differences realise over a long period of time.
Finnair provides for the redelivery condition related to leased aircraft according to the principles described in the note
1.3.5. Provisions.
Further, unrealised fair value changes of derivatives where hedge accounting is not applied, are not included in the
comparable operating result, as the business transactions which they are hedging are recognised to the comparable
operating result only when they occur. The treatment of realised gains and losses on these derivatives is described in
the note 3.8 Derivatives.
In addition to above, gains and losses on aircraft and other transactions and restructuring costs are not included in
the comparable operating result, as those events are considered exceptional transactions that happen within unexpected
intervals and may vary significantly between periods, and are not related to normal course of business operations. Gains
and losses on transactions include sales gains and losses as well as other items that can be considered to be directly
related to the sale of the asset. For example, a write-down that might occur when an asset is classified as “Assets held for
sale” in accordance with IFRS 5, is included in gains and losses on the transactions. Restructuring costs include termination
benefits and other costs that are directly related to the restructuring of operations.

1 = Critical accounting estimates

Below table demonstrates, which income statement items in operating result the items affecting comparability have
effected.

EUR mill.	2018		Comparable operating result	2017		Comparable operating result
	Operating result	Items affecting comparability		Operating result	Items affecting comparability	
Revenue	2,834.6		2,834.6	2,568.4		2,568.4
Sales gains on aircraft and other transactions	44.1	-44.1		53.9	-53.9	
Other operating income	73.7		73.7	77.0		77.0
Operating expenses						
Staff costs	-433.5	0.1	-433.4	-424.2	0.8	-423.3
Fuel costs	-581.0		-581.0	-472.2		-472.2
Other rents	-154.9		-154.9	-157.9		-157.9
Aircraft materials and overhaul	-173.8	4.7	-169.1	-154.9	-10.9	-165.7
Traffic charges	-300.8		-300.8	-266.5		-266.5
Ground handling and catering expenses	-256.9		-256.9	-252.2		-252.2
Expenses for tour operations	-113.4		-113.4	-100.5		-100.5
Sales and marketing expenses	-92.4		-92.4	-85.8		-85.8
Sales losses on aircraft and other transactions	-1.3	1.3		-9.8	9.8	
Other expenses	-330.8	-0.1	-330.9	-284.8	-0.2	-285.1
EBITDAR	513.5	-38.1	475.4	490.6	-54.4	436.2
Lease payments for aircraft	-155.0		-155.0	-136.6		-136.6
Depreciation and impairment	-151.1		-151.1	-129.2		-129.2
Operating result	207.5	-38.1	169.4	224.8	-54.4	170.4

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

1.3.7 Employee benefits

1.3.7.1 Employee benefit expenses and share-based payments

A

Share-based payments

Finnair provides a number of share-based compensation plans for its employees, under which the Group receives servic-es from employees as consideration for share-based payments. Regarding share-based incentive plans for key personnel, the awards are paid only if performance criteria set by the Board of Directors is met. Share-based savings plan for employ-ees (FlyShare) requires the employees to remain in Finnair’s service for the defined period, but payment does not depend on any performance criteria.

The total expense for share-based payments is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Share-based payments that are settled net of taxes are considered in its entirety as equity-settled share-based payment transactions. The reward is valued based on the market price of the Finnair share as of the grant date, and recognised as an employee benefit expense over the vesting period with corresponding en-try in the equity. Income tax paid to tax authorities on behalf of employee is measured based on the market price of the Fin-nair share at the delivery date and recognised as decrease in equity.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when-ever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination bene-fits when it is demonstrably committed to a termination. Group is demonstrably committed when it has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Accounting principles related to pension benefits are described in the note 1.3.7.2 Pensions.

A

Staff costs		
EUR mill.	2018	2017
Wages and salaries	339.2	331.0
Pension expenses	76.4	70.1
Defined contribution schemes	63.2	59.2
Defined-benefit schemes	13.2	10.9
Other social expenses	17.8	22.2
Total	433.4	423.3
Staff costs included in items affecting comparability	0.1	0.8
Total staff costs in income statement	433.5	424.2

In Finnair, the total salary of personnel consists of fixed pay, allowances, short- and long-term incentives, fringe benefits and other personnel benefits. The total amount of short-term incentives excluding social security costs recognised for 2018 were 6.8 million euro (12.1). In 2017 salaries included a special reward of 9.9 million euros (13 million euros including social security costs), related to Finnair’s turnaround, that was paid for the personnel.

Items affecting comparability include personnel related restructuring costs of 0.1 million euros (0.8) as agreed in the Group’s statutory employer-employee negotiations. Including items affecting comparability, total staff costs amounted to 433.5 million euros (424.2).

Transfer to Personnel Fund

Finnair has a Personnel Fund that is owned and controlled by the personnel. A share of Finnair’s profits is allocated to the fund. The share of profit allocated to the fund is determined based on the targets set by the Board of Directors. The participants of the performance share plan (LTI) are not members of the Personnel Fund. Personnel Fund is obliged to

A = Accounting principles

invest part of the bonus in Finnair Plc’s shares. In 2018, the comparable operating result exceeded the limit set by the Board of Directors. Therefore Finnair has recognised 6.8 million euros to the staff costs and liability, to be transferred to the personnel fund. In 2017, 6.7 million euros were allocated to the fund.

Liabilities related to employee benefits		
EUR mill.	2018	2017
Holiday payments	75.8	70.0
Other employee related accrued expenses	29.9	69.2
Liabilities related to employee benefits	105.6	139.2

Other employee related accrued expenses mainly include withholding tax and accrued expenses related to social security costs and remunerations. The decrease mainly relates to remunerations, such as the discontinued share-linked incentive plan for pilots and extra reward paid to personnel in 2018. In addition, restructuring provisions related to termination benefits (see note 1.3.5 Provisions) amounted to 0.9 million euros (2.0).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	Interim President and CEO Pekka Vähähyypä, from 4.9.2018 onwards*	President and CEO Pekka Vauramo, until 31.10.2018**	Executive Board*	Total 2018	President and CEO Pekka Vauramo	Executive Board	Total 2017
Fixed pay	119	682	1,743	2,544	649	1,677	2,326
Short-term incentives***	23	77	261	361	294	809	1,103
Fringe benefits	5	2	73	80	3	73	76
Share-based payments	35	-89	508	455	358	988	1,347
Pensions (statutory)****	23	154	410	586	160	444	604
Pensions (voluntary, defined contribution)		104	51	155	124	57	180
Total	204	931	3,047	4,182	1,588	4,048	5,636

* Pekka Vähähyypä’s compensation is included in Executive Board until 3 September 2018.

** Pekka Vauramo was Finnair’s CEO until 4 September 2018, but service term ended 31 October 2018. He no longer was eli-gible for share-based payments for 2016-2018, 2017-2019 and 2018-2020 plans and the related costs were reversed in 2018.

*** Short-term incentives for the financial year 2018 are estimates as at the balance sheet date the final review of targes has not been done. Short-term incentives for 2017 realised 11 thousand euros bigger than expected in 2017 financial statements. The difference has been reported, according to accrual basis, in 2018.

**** Statutory pensions include Finnair’s share of the payment to Finnish statutory “Tyel” pension plan.

Management remuneration is presented on an accrual basis. Share-based payments include LTI plans and employee share savings plans and are recognised over the vesting period until the end of lock-up period, according to IFRS 2. Therefore the costs accrued and recognised for the financial year include effects from several share-based payment plans independent of when the shares are delivered. Management has not been provided any other long-term incentives in addition to share-based payments.

The voluntary pension plans of the CEO and two members of the Executive Board have been arranged through Finnish pension insurance company. For the CEO, the retirement age is the earliest possible statutory retirement age, and for the two members of the Executive Board it is 63. The plans are defined contribution plans.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

More information on share-based payment schemes can be found later in this note and in a separate Remuneration statement. Remuneration statement also includes information on remuneration policies and structures and compensation paid to senior management.

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2018	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2017
Board of Directors	469,577	275,100	171,000	23,477	375,497
Barrington Colm	70,500	35,700	34,800	0	
Brewer Montie, from 20 Mar 2018 onwards	41,700	22,500	19,200	0	
Du Mengmeng	57,908	30,000	25,200	2,708	
Friman Maija-Liisa	51,200	32,850	11,400	6,950	
Itävuori Jussi, until 20 Mar 2018	13,771	8,550	4,800	421	
Karvinen Jouko	89,308	61,200	19,800	8,308	
Kjellberg Henrik, from 20 Mar 2018 onwards	45,713	22,500	22,800	413	
Mårtensson Jonas	52,200	30,000	22,200	0	
Tuominen Jaana	47,276	31,800	10,800	4,676	

The compensation paid to the members of the Board of Directors include annual remuneration and meeting compensation. The members of the Board of Directors are entitled to a compensation for travel expenses in accordance with Finnair’s general travel rules. In addition, the members of the Board of Directors and their spouses have a limited right to use staff tickets in accordance with Finnair’s staff ticket rules. Under the rules, the Directors and their spouses are entitled to four return or eight one-way tickets on Finnair flights per calendar year in Economy or Business Class. The fare of these tickets is zero, exclusive of any airport taxes, fees and charges, which are payable by the Directors and their spouses. These tickets constitute taxable income in Finland and are reported as fringe benefits in the table above.

Share-based payments

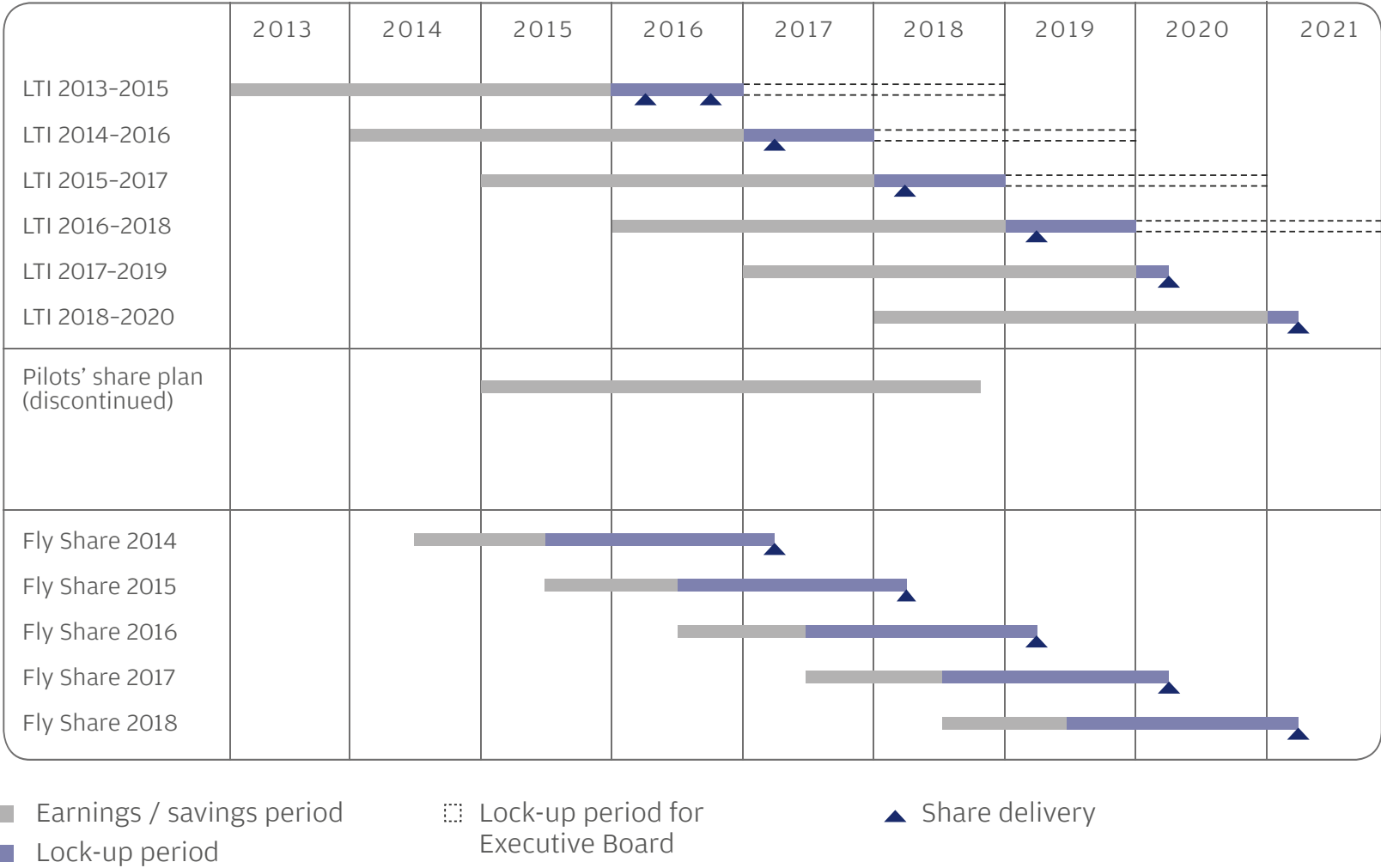
The note below provides description and information on effects of the Group’s share-based incentive schemes. More information on share-based personnel bonus schemes can be found in Remuneration statement.

Performance share plan for key personnel (LTI) from 2013 onwards

Finnair’s share based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement, and the commencement of each new plan is subject to a separate decision made by Finnair’s Board of Directors. The purpose of these plans is to encourage the management to work to increase long-term shareholder value. The Finnish Government’s guidance regarding the remuneration of executive management and key individuals have been taken into consideration when designing the plans.

Plans launched during 2013–2016 are four-six-year share plans and there are four plans ongoing (2013–2015, 2014–2016, 2015–2017 and 2016–2018). Each LTI plan contains a three-year performance period which is followed by a restriction period, during which the participant may not sell or transfer the shares received as a reward. The restriction period is three years for the members of Finnair’s Executive Board and one year for other participants. In addition, the President and CEO, and members of Finnair’s Executive Board are required to accumulate and, once achieved, to maintain, a share ownership in Finnair corresponding to his or her annual base salary as long as he or she holds a position as a member of Finnair’s Executive Board.

Finnair share-based payment plans



In 2017, a new LTI arrangement was launched and there are two plans ongoing (2017–2019 and 2018–2020). In the revised structure the annually commencing performance share plans include a three-year performance period like before. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the participants’ free disposal after delivery. The members of Finnair’s Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the Executive Board.

The potential reward will be delivered in Finnair shares. The shares are delivered to the participants during the year following the performance period. The payout opportunity is defined in the beginning of each plan in relation to the participants annual base salary. For the plans commencing during 2013–2016, the payout opportunity is defined in a fixed euro amount. In the plans commencing in 2017 and 2018, the payout opportunity is defined as a fixed share amount and therefore changes in the share price during the performance period impacts the value of the payout opportunity. If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board participating in the plans will be 30% of his or her annual base salary in the plans commencing 2013–2016 and 20% in the plans commencing in 2017–2018. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60% of the participant’s annual base salary. The maximum level for incentives for other key personnel is 25–50% of the person’s annual base salary.

According to the rules of the 2017–2019 and 2018–2020 share plans, the maximum combined value of all variable compensation paid to an individual participant in any given calendar year may not exceed 120 per cent of the participant’s annual gross base salary. The amounts of shares paid are stated before tax. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the incentive at the time of payment.

The performance criteria applied to the plans 2014–2016, 2015–2017 and 2016–2018 are Return on Capital Employed (ROCE, 50% weight) and Total Shareholder Return (TSR, 50% weight). The performance criteria applied to the plans

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1.	OPERATING RESULT
2.	AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE ASSETS AND LEASING ARRANGEMENTS
3.	CAPITAL STRUCTURE AND FINANCING COSTS
4.	CONSOLIDATION
5.	OTHER NOTES
6.	PARENT COMPANY FINANCIAL STATEMENTS

2017-2019 and 2018-2020 are earnings per share (EPS, 50% weight) and revenue growth (50% weight). The target levels and maximum levels set for the criteria are based on the long-term strategic objectives set by the company’s Board of Directors. Criteria are monitored against the performance on a quarterly basis. The performance criteria of the plan for 2015-2017 were met at 192% level while the target was at 100% and the maximum earning level at 200%. In the comparison period, the performance criteria applied to the 2014-2016 plan was met at 118% level.

The total expense for the share-based payments is recognised over the vesting period, which is 4-6 years in the plans commencing 2013-2016 and 3 years in the plans commencing 2017-2018. For the plans commencing 2013-2016, the compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. In the plans commencing 2017-2018, the grant date is at the beginning of performance period and the compensation is measured in shares. The expense recognised for 2018 amounted to 1.1 million euros (3.1). Amount expected to be transferred to the tax authority to settle the employee’s tax obligation is 3.7 million euros. The whole cost effect is recognised in equity according to the amendment to IFRS 2 standard. Effects of the amended standard are described in the note 4.7 Changes in accounting principles.

	2013-2015	2014-2016	2015-2017	2016-2018	2017-2019	2018-2020	Total
Maximum earning, million euros	3.4	2.5	2.8	2.3	4.1*	1.9*	16.9
Maximum earning, million shares	0.5	0.4	0.4	0.3	0.6*	0.3*	2.4
Target earning, million euros	1.7	1.2	1.4	1.2	1.4	0.6	7.5
Target earning, million shares	0.2	0.2	0.2	0.2	0.2	0.1	1.1
Expenses recognised for the financial year, LTI’s total (million euros)	0.0	0.1	0.3	0.1	0.3	0.3	1.1
Shares granted, million shares**			0.2		0.6	0.3	1.1

* Maximum earnings for 2017-2019 and 2018-2020 plans are capped at 120% of participants’ annual base salary.
** At the end of the performance period of 2015-2017 plan, the vested euros were translated into shares, and granted and delivered. In 2017-2019 and 2018-2020 programs shares are earned during vesting period, from the beginning of the program.

FlyShare employee share savings plan 2013 onwards

Finnair offers an annually commencing share savings plan for its employees. Commencing of each plan is subject to the decision of Finnair’s Board of Directors. First plan commenced in 2013, and for the time being there are three plans ongoing. The objective of the plan is to encourage employees to become shareholders in the company, and to thereby strengthen the employees’ interest in the development of Finnair’s shareholder value and reward them in the long-term.

Each plan consists of one year savings period followed by two year lock-up period. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8 per cent and the minimum 2 per cent of each participant’s gross base salary per month. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair’s interim reports.

Finnair awards 20 bonus shares to each employee that participates in the plan for the first time, and continues savings at least the first three months of the plan. The bonus shares are delivered in October each year, and the effect is recognised as expense for the period. The plan lasts for three years, and Finnair awards each participating employee with one share for each two shares purchased and held at the end of three-year period. The awarded bonus and additional shares are taxable income for the recipient. The cost related to additional shares delivered is recognised as expense during vesting period.

The expense recognised for FlyShare employee share saving plans in 2018 amounted to 0.8 million euros (1.6). Amount expected to be transferred to the tax authority to settle the employee’s tax obligation is 1.1 million euros.

A = Accounting principles
I = Critical accounting estimates

Long-term incentive plan for pilots

The long-term share-based cash-settled incentive plan for Finnair pilots was discontinued, because the saving targets set as a prerequisite for implementing the plan were not reached over the agreed time period. As a result of the incentive plan’s cancellation, liabilities accrued during the program were reversed. This cancellation had a positive effect on Finnair’s comparable operating profit, net of hedging effects, of 9.2 million euros in 2018.

The Finnair Board of Directors approved in 2014 a long-term incentive plan for Finnair pilots as part of the savings agreement between Finnair and the Finnish Air Line Pilots’ Association (SLL). The plan period was 2015-2018 and the prerequisite for rewarding pilots based on this plan was the materialisation of the agreed cost savings over this time period. In addition, the company share price had to be at least 4 euros at the end of the incentive plan. If these conditions would have been met, the pilots would have been entitled to a cash payment based on the Finnair share price. The total reward to pilots would have amounted to 12 million euros if the share price was 4 euros or a maximum of 24 million euros, if the share price was at least 8 euros. Finnair had hedged against the additional cost effects above the 4 euro share price with a market-based call option. The hedging arrangements have been reversed. The cost effects were accrued over the vesting period from grant date onwards (2014-2018), and the corresponding liability was fair valued at each reporting date. The liability accrued by the end of 2017 amounted to 17.5 million euros, which was reversed in 2018. In addition, derivative assets were reversed by 26.0 million euros and derivative liabilities by 14.7 million euros.

1.3.7.2 Pensions

A Defined benefit and defined contribution plans

Pension plans are classified as defined benefit and defined contribution plans. Payments made into defined contribution pension plans are recognised in the income statement in the period to which the payment applies. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year and it is recognised as staff cost. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuar-ies using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obli-gation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. **A**

I The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The note below includes a description of exposure to most significant risks and a sensitivity analysis on impacts of changes in actuarial assumptions. **I**

Description of pension plans in Finnair

The statutory pension cover of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The statutory pension cover is a defined-contribution plan. The Group's foreign sales offices and subsidiaries have various defined contribution plans that comply with local rules and practices. The voluntary pension plans of former CEO Pekka Vauramo and two members of the Executive Board are arranged in a pension insurance company. Due to the resignation of CEO Pekka Vauramo, no more contributions are paid by Finnair towards his voluntary pension plan after 2018. The retirement age of the CEO is the earliest possible statutory retirement age, and for the two members it is 63 years. These pension schemes are defined-contribution schemes. Other (voluntary)

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

pension cover of the Group’s domestic companies has been arranged mainly through Finnair Plc’s Pension Fund, in which the pension schemes are defined-benefit plans. These pension plans cover old age pensions, occupational disability and survivors’ pensions. The pension fund is fully funded in accordance with the provisions of Finnish law. 700 Finnair pilots have, in addition to voluntary pension arranged in Finnair Pension Fund, special defined-benefit pension scheme. This scheme applies only to pilots who work older than 58 years of age. Voluntary pensions of pilots recruited in 2015 or later are defined contribution schemes arranged through Finnish insurance company, except for the occupational disability benefit, which is a defined benefit plan arranged through the Finnair Pension Fund.

Exposure to most significant risks

Volatility of plan assets: Some of the plan assets are invested in equities which causes volatility but is in the long run expected to provide higher returns than corporate bonds. The discount rate of plan obligations is defined based on the interest rates of corporate bonds.

Changes in bond yield: A decrease in corporate bond yields increases plan obligations due to the fact that the pension obligation is discounted to net present value with a rate that is based on corporate bond rates. This increase in plan obligations is partially mitigated by a corresponding increase in the value of corporate bonds in plan assets.

Life expectancy: The most significant part of the provided pension benefits relate to old age pensions. Therefore, an increase in life expectancy rate results in an increase of plan obligations.

Inflation risk: Pension obligations are linked to inflation which is why higher inflation leads to increased obligations. As only some of the plan assets increase with inflation, an increase in inflation will likely decrease the solvency of the pension plan.

Defined benefit pension plans

EUR mill.	2018	2017
Items recognised in the income statement		
Current service costs	10.8	9.9
Past service cost	2.4	1.0
Service cost total, recognised in staff costs	13.2	10.9
The defined benefits related acquisitions or disposals, net*		0.2
Net interest expenses	0.1	0.5
Total included in the income statement	13.2	11.6
Amounts recognised through other comprehensive income		
Experience adjustment on plan obligation	4.0	-2.9
Changes is financial actuarial assumptions	-12.1	6.8
Net return on plan assets	7.2	-39.8
Amounts recognised through other comprehensive income total	-0.8	-35.9
Number of persons involved, pension fund	4,894	4,689
Number of persons involved, other defined benefit plans	175	175

*In 2017 Finnair acquired a new subsidiary, Finnair Kitchen Oy. The net liability related to defined pension plan was recognised as part of the gain related to items affecting comparability.

Items recognised in the balance sheet

EUR mill.	2018	2017
Present value of funded obligations	435.1	442.0
Fair value of plan assets	-418.1	-435.6
Net defined benefit liability	17.0	6.4

The net defined benefit liability in 2018 includes 16.5 million euros (4.1) related to defined benefit plans insured through the pension fund and 0.5 million euros (2.3) related to other defined benefit plans. In 2018, the pension obligation increased mainly due to service costs. Amounts recognised through other comprehensive income as actuarial gains and losses were netting each other.

Changes in pension obligations

EUR mill.	2018	2017
Fair value of pension obligations at 1 January	442.0	438.9
Current service costs	10.8	9.9
Past service cost	2.4	1.0
Interest expense	6.8	6.5
Acquisitions and disposals*		0.8
Expense recognised in income statement	20.0	18.2
Changes in actuarial assumptions	-12.1	6.8
Experience adjustment on plan obligation	4.0	-2.9
Remeasurements recognised through OCI	-8.0	3.9
Benefits paid	-18.9	-18.9
Net present value of pension obligations	435.1	442.0

Changes in plan assets

EUR mill.	2018	2017
Fair value of plan assets at 1 January	435.6	407.0
Interest income	6.7	6.0
Acquisitions and disposals*		0.6
Items recognised through profit and loss	6.7	6.6
Acturial gain (loss) on plan assets	-7.2	39.8
Items recognised through OCI	-7.2	39.8
Contributions paid	1.9	1.0
Benefits paid	-18.9	-18.9
Fair value of plan assets at 31 December	418.1	435.6

*In 2017 Finnair acquired a new subsidiary, Finnair Kitchen Oy. The net liability related to defined pension plan was recognised as part of the gain related to items affecting comparability.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Plan assets are comprised as follows

%	2018	2017
Listed shares	22.0	22.2
Debt instruments	52.7	53.3
Property	19.0	17.8
Other	6.3	6.7
Total	100.0	100.0

Plan assets of the pension fund include Finnair Plc shares with a fair value of 1.0 million euros (1.8) and buildings used by the Group with a fair value of 19.7 million euros (19.7).

Defined benefit plans: principal actuarial assumptions

	2018	2017
Discount rate %	1.66%	1.53%
Inflation %	1.08%	1.32%
Annual rate of future salary increases %	1.56%	1.47%
Future pension increases %	1.38%	1.62%
Estimated remaining years of service	10	10

Sensitivity analysis

Sensitivity analysis describes the effect of change in actuarial assumptions to net defined benefit obligation. The analyses are based on a change in an assumption while holding all other assumptions constant. The method used is the same as that which has been applied when measuring the defined benefit obligation recognised in the balance sheet.

Sensitivity analysis on principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate %	0.25%	-14.4	-3.4%	15.3	3.6%
Annual rate of future salary increases %	0.25%	4.6	1.1%	-4.5	-1.1%
Future pension increases %	0.25%	10.5	2.5%	-10.1	-2.4%
Life expectancy at birth	1 year	12.5	3.0%	-12.4	-2.9%

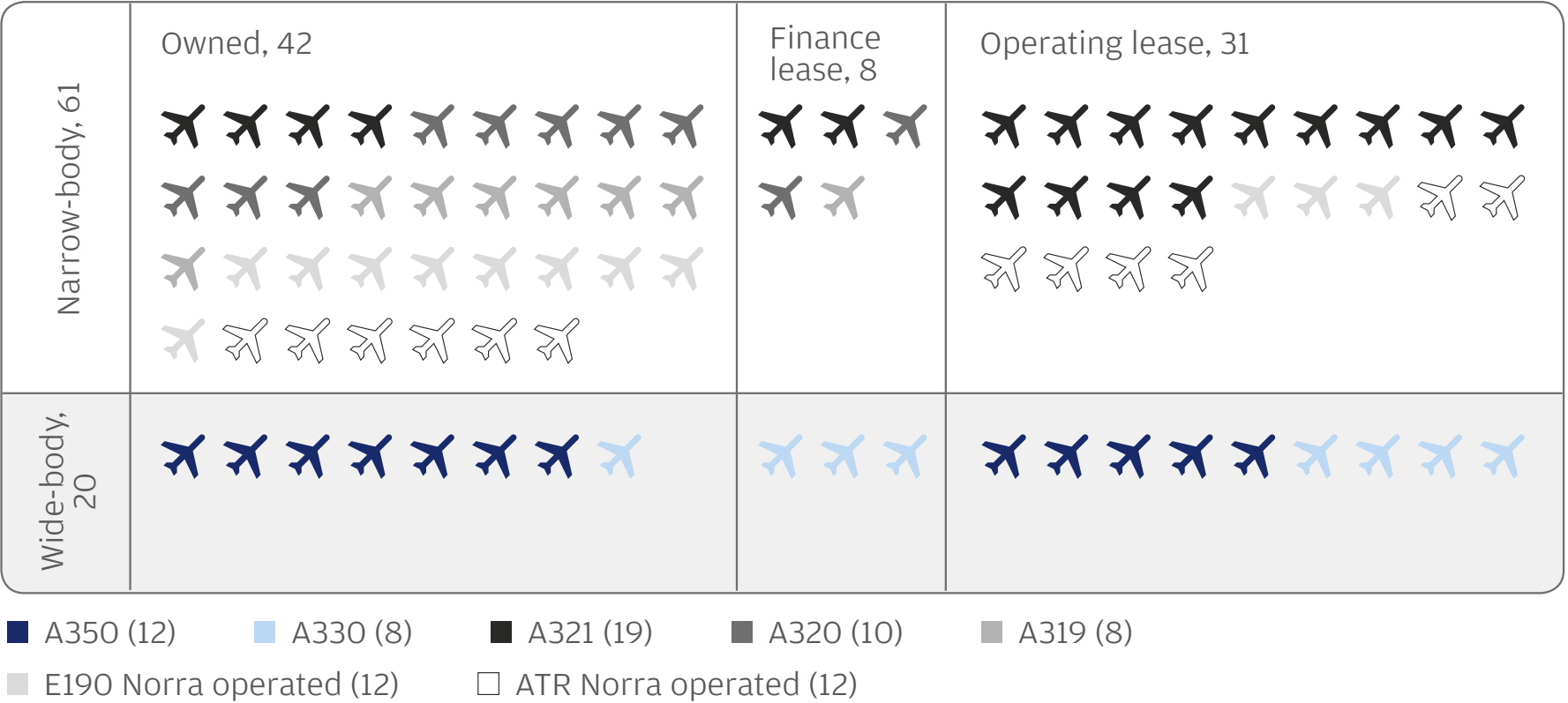
According to Finnish legislation, pension fund needs to be fully funded. Expected contribution payments for the future five years are approximately 46 million euros. The amount of payments depends on future returns on plan assets.
The duration of defined benefit obligation is 14 years. The duration is calculated by using discount rate of 1.66%.

2 Aircraft and other intangible and tangible assets and leasing arrangements

i Aircraft and other intangible and tangible assets and leasing arrangements include notes particularly related to aircraft fleet. Notes related to the aircraft operated by the Group are combined in this section so that the general view of the fleet would be easier to perceive. In addition to owned aircraft, the notes cover leased aircraft under different kind of aircraft lease arrangements. **i**

The assets owned and leased by Finnair consist mostly of aircraft operated by Finnair and Norra. Approximately half of the fleet operated is owned by Finnair. More detailed information regarding owned aircraft is found in Note 2.1 and regarding leased aircraft in Note 2.2.

Fleet



Fleet

Fleet in Finnair balance sheet

EUR mill.	2018	2017	Change
Advances paid for aircraft	120.4	96.0	24.4
Owned aircraft in use	1,096.9	1,002.5	94.4
Aircraft finance lease	143.7	152.9	-9.2
Book value total	1,361.1	1,251.4	109.6
Depreciation for the period	129.8	110.2	19.6
Operating leases of aircraft			
Operating lease commitments (nominal value)	1,213.8	1,163.6	50.2
Leasing expenses for the period (Lease payments for aircraft)	155.0	136.6	18.3

i = Content of the section

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

2.1 Tangible assets

A Tangible assets are stated at historical cost less accumulated depreciation and impairment loss if applicable. Tangible as-
sets include mainly aircraft. The acquisition cost of aircraft is allocated to the aircraft frame, engines and maintenace com-
ponents as separate assets. Maintenance components include heavy maintenance of aircraft frames and performance res-
toration and maintenance of life-limited parts of aircraft engines, and they are depreciated during the maintenance cycle. Aircraft frame and engines are depreciated over the useful life of the aircraft. Significant modifications of own or leased
aircraft are capitalised as separate items and depreciated over the expected useful life, which in the case of leased aircraft
cannot exceed the lease period. Replaced components are derecognised from the balance sheet. Rotable spare parts are
capitalised and depreciated during their expected useful life.

Advance payments for aircraft are recorded as tangible assets. Interest costs related to advance payments are capitalised
as acquisition cost for the period at which Finnair is financing the manufacturing of the aircraft. Fair value changes of de-
rivatives used in hedging of currency exchange rate risk related to firm commitments of aircraft purchases are recognised
in advance payments. Advance payments, realised fx hedges and capitalised interests are recognised as part of the aircraft
acquisition cost once the aircraft is delivered and taken to commercial use.

Depreciations of tangible assets are based on the following expected economic lifetimes:

- Aircraft and engines as well as flight simulators (other equipment) on a straight-line basis as follows:
 - Airbus A350 fleet, over 20 years to a residual value of 10%
 - Airbus A320 and Embraer fleet, over 20 years to a residual value of 10%
 - Airbus A330 fleet, over 18 years to a residual value of 10%
 - Turboprop aircraft (ATR fleet), over 12 years to a residual value of 10%
- Heavy maintenance of aircraft frame and performance maintenance and life limited parts of the engines, on a straight-line
basis during the maintenance period
- Rotable spare parts and components, over 15-20 years to a residual value of 10%
- Buildings, over 10-50 years from the time of acquisition to a residual value of 10%
- Other tangible assets, over 3-15 years

The residual values and estimated useful lives of the assets are assessed at each closing date and if they differ significantly
from previous estimates, the depreciation periods and residual values are changed accordingly.

Gains and losses on disposal of tangible assets are included in the items affecting comparability.

Impairment
On every closing date, the Group reviews if there is indication that an asset is impaired. An asset’s carrying amount is writ-
ten down immediately to its recoverable amount if it is greater than the recoverable amount.

The recoverable amount is defined for cash generating unit, and need for impairment is evaluated on the cash generating
unit level. The recoverable amount is the higher of the asset’s fair value less costs to sell or its value in use. The value in use
is based on the expected discounted future net cash flows obtainable from the asset or cash-generating unit. **A**

I Impairment testing
The recoverable amounts of cash generating units have been determined in calculations based either on the value in-use or
on the sale price less the expenses of the sale. The preparation of these calculations requires the use of estimates. Estimates
are based on budgets and forecasts, which inherently contain some degree of uncertainty. The main uncertainty factors
in calculations are the USD/EUR and JPY/EUR exchange rates, unit revenue, estimated sales volumes and jet fuel price. **I**

A = Accounting principles
I = Critical accounting estimates

Tangible assets 2018

EUR mill.	Aircraft	Buildings and land	Other equipment	Advances	Total
Acquisition cost 1 Jan 2018	1,973.0	89.2	67.6	124.1	2,253.9
Additions	248.7	0.3	10.9	105.5	365.3
Disposals	-85.5		-2.7		-88.5
Currency hedging of aircraft acquisitions				-34.9	-34.9
Reclassifications	35.0		17.6	-64.7	-12.2
Transfer to assets held for sale	0.1				0.1
Acquisition cost 31 Dec 2018	2,171.0	89.5	93.4	130.0	2,483.8
Accumulated depreciation and impairment 1 Jan 2018	-798.6	-5.9	-24.2	-3.1	-831.8
Disposals	15.5		2.6		18.1
Depreciation for the financial year	-132.9	-2.7	-7.8		-143.4
Accumulated depreciation and impairment 31 Dec 2018	-916.0	-8.6	-29.5	-3.1	-957.2
Book value 31 Dec 2018	1,255.0	80.9	63.9	126.9	1,526.6

The carrying value of rotable parts included in aircraft is 14.4 million euros (19.0). In addition, inventories include
non-rotable aircraft parts totalling 20.4 million euros (13.3). Currency hedging of aircraft acquisitions is described in
Notes 3.5 Management of financial risks and 3.8 Derivatives.

Tangible assets 2017

EUR mill.	Aircraft	Buildings and land	Other equipment	Advances	Total
Acquisition cost 1 Jan 2017	1,648.8	29.4	48.9	167.3	1,894.5
Additions from business acquisitions			0.4		0.4
Additions	294.5	21.8	14.7	45.8	376.8
Disposals	-103.9		-3.0		-106.9
Currency hedging of aircraft acquisitions				92.0	92.0
Reclassifications	127.1	38.0	6.7	-181.0	-9.2
Transfer to assets held for sale	6.3				6.3
Acquisition cost 31 Dec 2017	1,973.0	89.2	67.6	124.1	2,253.9
Accumulated depreciation and impairment 1 Jan 2017	-699.8	-4.2	-20.8	-3.1	-728.0
Disposals	16.4		1.9		18.3
Depreciation for the financial year	-115.2	-1.6	-5.2		-122.1
Accumulated depreciation and impairment 31 Dec 2017	-798.6	-5.9	-24.2	-3.1	-831.8
Book value 31 Dec 2017	1,174.4	83.3	43.4	121.0	1,422.1

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Capitalised borrowing costs

EUR mill.	Aircraft		Advances		Total	
	2018	2017	2018	2017	2018	2017
Book value 1 Jan	14.6	5.4	4.0	7.3	18.7	12.7
Additions			2.2	9.5	2.2	9.5
Disposals	-1.3			-3.0	-1.3	-3.0
Reclassifications	2.6	9.7	-2.6	-9.7		
Depreciation	-0.7	-0.4			-0.7	-0.4
Book value 31 Dec	15.3	14.6	3.6	4.0	18.8	18.7

In 2018, borrowing costs of 2.2 million euros (9.5) were capitalised in tangible assets related to the Airbus A350 investment program. Disposal is related to the sale and leaseback of one A350 aircraft. Finnair uses quarterly effective interest rate to calculate the capitalised borrowing costs, that represents the costs of the loan used to finance the investment. Average yearly interest rate in 2018 was 2.64% (9.63%). The higher interest rate in 2017 was mainly related to additional borrowing costs incurred from refinancing of the senior bond.

Pledged assets and other restrictions on tangible assets

Finnair does not have tangible assets pledged as a security for bank loans. Finnair has three A350 aircraft financed with JOLCO-loans (see 3.3 Financial liabilities) and three finance leased A330 aircraft where the legal title is transferred to Finnair after loans are repaid. On top of that, Finnair has five finance leased aircraft in the balance sheet where the legal title will not transfer to Finnair at the end of the lease term (see 2.2 Leasing arrangements). The value of these aircraft at the end of 2018 amounted to 359.8 million euro (377.1).

Impairment test

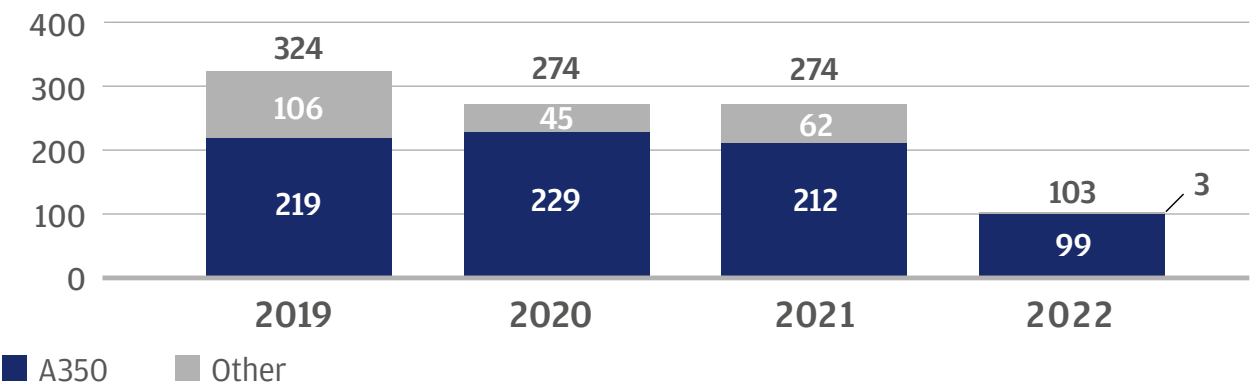
The impairment test of the aircraft based on the fair value less cost to sell has been done on the closing date. It did not cause any need for impairment. The test is sensitive to the exchange rate EUR/USD. The weakening of USD decreases the fair value of the aircraft. The fair value of the aircraft would still be higher than the carrying value, if USD would weaken by 10 per cent.

Investment commitments

At the end of the financial year investment commitments totalled 975 million euros (1,013) and it includes firm aircraft orders. The total commitment fluctuates between the order and the delivery of the aircraft mainly due to exchange rate EUR/USD and the escalation clauses included in airline purchase agreements. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery.

Investment commitments

€ million



A = Accounting principles
I = Critical accounting estimates

2.2 Leasing arrangements

A The Group as lessee

Lease agreements for tangible assets, where a substantial part of the risks and rewards of ownership are transferred to the Group, are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. A corresponding sum is recognised as a finance lease liability in the interest-bearing liabilities. The lease payments are allocated between interest expenses and the reduction of the outstanding liability. Assets acquired under finance lease arrangements are depreciated over the shorter of the useful life of the asset or the lease term.

Lease arrangements, where the lessor retains a substantial part of the risks and rewards of ownership, are classified as operating leases. Payments under operating leases are charged to the income statement over the lease term to lease payments for aircraft (not included in comparable EBITDAR) or to other rents for facilities, purchased traffic, wet leases and temporary aircraft leases.

The Group as lessor

Agreements, where the Group is the lessor, are accounted for as operating leases, when a substantial part of the risks and rewards of ownership are not transferred to the lessee. The assets are included in the tangible assets and they are depreciated during their useful life. Depreciation is calculated using the same principles as the tangible assets for own use. Under the provisions of certain aircraft lease agreements, the lessee is required to pay periodic maintenance reserves which accumulate funds for aircraft maintenance. Advances received for maintenance are recognised as liability, which is charged, when maintenance is done. The rents for premises and aircraft are recognised in the income statement as other operating income over the lease term.

Sale and leaseback transactions

If a sale and leaseback transaction results in a finance lease agreement, the difference between the selling price and the carrying amount of the asset sold is deferred and amortised over the lease period. If a sale and leaseback transaction results in an operating lease agreement, the difference between the selling price and the carrying amount of the asset sold is recognised in the income statement when the selling price is based on fair value. Otherwise the sales gain or loss is deferred and amortised over the lease period. **A**

I Critical accounting estimates and sources of uncertainty

The classification of aircraft lease arrangements in the Group to financial and other leases requires management discretion in interpretation and application of accounting standards. Those cases where the management has made a judgement that risks and rewards of ownership belong to Group the lease is handled as a financial lease otherwise as other lease. **I**

Finance lease arrangements

EUR mill.	Buildings	Aircraft	Other equipment	Total
Acquisition cost	13.5	247.8	3.5	264.8
Additions		6.7		6.7
Disposals			-0.7	-0.7
Accumulated depreciation	-1.8	-110.9	-1.8	-114.5
Book value 31 Dec 2018	11.7	143.7	1.0	156.4
Acquisition cost		247.8	4.5	252.3
Additions	13.5		1.1	14.6
Disposals			-2.0	-2.0
Accumulated depreciation	-0.7	-94.9	-1.6	-97.2
Book value 31 Dec 2017	12.8	152.9	2.0	167.6

Addition in the value of finance lease arrangements of aircraft is caused by the lease extension of one A319 aircraft during 2018, which led to its reclassification to finance lease arrangement.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Finance lease liabilities

	Minimum lease payments		Future financial expenses		Present value of minimum lease payments	
EUR mill.	2018	2017	2018	2017	2018	2017
less than one year	27.4	25.8	3.3	3.4	24.1	22.4
1-5 years	80.6	92.0	8.2	9.1	72.5	82.9
more than 5 years	18.4	24.7	3.3	4.4	15.1	20.4
Total	126.5	142.4	14.8	16.8	111.6	125.6

Finance lease liabilities mainly include one Airbus 319, two Airbus A320, two Airbus A321 and three Airbus A330 aircraft, whose minimum lease payments are 104.1 million euros (117.7), future financial expenses 5.8 million euros (6.8) and present value of minimum lease payments 98.2 million euros (110.9). In addition, liability includes finance lease agreements of buildings and ground transportation equipment.

Other lease arrangements

Minimum lease payments for irrevocable lease agreements, Group as lessee

	Aircraft		Premises and land		Other equipment	
EUR mill.	2018	2017	2018	2017	2018	2017
less than one year	158.7	146.6	21.5	23.0	9.4	6.8
1-5 years	617.8	551.2	73.2	78.3	6.6	8.4
more than 5 years	437.3	465.9	132.6	149.4		
Total	1,213.8	1,163.6	227.3	250.7	16.0	15.1

The Group has leased aircraft, premises and other fixed assets with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. The Group has leased 31 aircraft on leases of different tenors.

Minimum lease payments for irrevocable lease agreements, Group as lessor

	Aircraft		Premises	
EUR mill.	2018	2017	2018	2017
less than one year	43.1		2.1	3.0
1-5 years	116.3		8.3	11.4
more than 5 years			14.0	15.6
Total	159.4		24.4	30.1

The Group has leased premises with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. Lease agreements of 24 aircraft operated by Norra became internal leases when Norra transferred to the full ownership of Finnair in November 2017 but were returned back in October 2018 to external leases when 60% of the ownership in Norra was sold.

2.3 Intangible assets

A Intangible assets are stated at historical cost less accumulated amortisation and impairment loss if applicable. **A**

Intangible assets in Finnair’s balance sheet at the end of 2018 amounted to 20.4 million euros (15.5) and the depreciation and write downs recognised in 2018 amounted to 7.6 million euros (7.1). Intangible assets mainly include computer software amounting to 17.4 million euros (12.5), and they are depreciated with straight-line method over the useful life of 3-8 years. Other intangible assets mainly include connection fees, which are not depreciated. The goodwill included in intangible assets amounted to 1.3 million euros (1.3) and based on impairment testing there was no indication of impairment at the end of 2018.

3 Capital structure and financing costs

3.1 Financial income and expenses

i The notes related to financial assets, liabilities and equity have been gathered into the capital structure and financing costs-section in order to give a better overview of the Group’s financial position. The note “Earnings per share” has been added to the equity section. **i**

A Interest income and expenses
Interest income and expenses are recognised on a time-proportion basis using the effective interest method. Interest expenses related to the financing of significant investments are capitalised as part of the asset acquisition cost and depreciated over the useful life of the asset.
More detailed information about financial assets can be found in Note 3.2 and about interest bearing liabilities in Note 3.3. **A**

EUR mill.	2018	2017
Net gains on investment instruments held at FVPL	-3.6	-0.7
Interest from assets held at amortised cost	0.1	0.0
Other interest income	0.5	0.3
Other financial income	0.2	0.1
Financial income total	-2.9	-0.3
Interest expenses for financial liabilities measured at amortised cost	-9.8	-6.6
Interest on finance leases	-3.6	-3.3
Foreign exchange gains and losses	2.0	0.1
Other financial expenses	-4.7	-3.5
Interest rate swaps, fair value hedges	-0.7	-3.0
Fair value adjustment to bond book value attributable to interest rate risk	0.7	3.0
Financial expenses total	-16.0	-13.4
Financial expenses, net	-18.9	-13.6
*Fair value through profit and loss		

In the effectiveness testing of the Group’s hedge accounting, both cash flow and fair value hedging were found to be effective. Thus, as in the comparison year 2017, no inefficiency is included in the financial items for 2018. Financial income and expenses includes an identical amount of profit and loss for fair value hedging instruments and for hedged items resulting from the hedged risk. In 2017 and 2018, other financial expenses include the recovered interest on a loan to Nordic Regional Airlines in the amount of 1.8 million euros that was written down in 2014.

In 2018, foreign exchange gains and losses recognised in financial expenses consist of net realised exchange gains of 8.2 million euro and net unrealised exchange loss of 6.2 million euro. During the year 2018, 2.2 million euros of interest expense was capitalised in connection with the A350 investment program (9.5). More information about the capitalised interest can be found in note 2.1 Tangible assets.

Other financial expenses include revolving credit facility and guarantee fees as well as interest and penalties related to taxes.

i = Content of the section
A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

3.2 Financial assets

A Financial assets

In the Group, financial assets have been classified into the following categories according to the IFRS 9 standard “Financial Instruments”: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment, or by applying a fair value option. All purchases and sales of financial assets are recognised on the trade date.

Financial assets at fair value through profit and loss include such assets as investments in bonds and money market funds. Financial assets at fair value through profit and loss have mainly been acquired to obtain a gain from short-term changes in market prices. All those derivatives that do not fulfil the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued at fair value in each financial statement. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise. Financial assets recognised at fair value through profit and loss, as well as those maturing within 12 months, are included in current assets.

In Finnair Group, unquoted shares are valued at their acquisition price in the absence of a reliable fair value. Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset’s contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Derecognition of financial assets takes place when the Group has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the Group.

Impairment of financial assets

Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. More information on the credit loss provision on trade receivables can be found in the note 1.2.3 Trade and other receivables.

The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Cash and cash equivalents

Cash and cash equivalents consist of cash reserves and short-term bank deposits with maturity of less than three months. Foreign exchange-denominated items have been converted to euro using the mid-market exchange rates on the closing date. A

3.2.1 Other current financial assets

EUR mill.	2018	2017
Commercial paper, certificates and bonds	55.5	98.0
Money market funds	836.6	735.0
Total	892.2	833.0
Ratings of counterparties		
A		23.0
BBB	23.0	24.5
B	2.0	2.0
Unrated	867.1	783.5
Total	892.2	833.0

As of 31 December 2018, investments in instruments issued by unrated counterparties mostly include investments in money market funds (EUR 836.6 mill).

The Group’s financial asset investments and risk management policy are described in more detail in Note 3.5 Management of financial risks. The IFRS classifications and fair values of the financial assets are presented in Note 3.6 Classification of financial assets and liabilities.

3.2.2 Cash and cash equivalents

EUR mill.	2018	2017
Cash and bank deposits	180.9	150.2
Total	180.9	150.2

The items include cash and bank deposits realised on demand. Foreign currency cash and bank deposits have been valued using the closing date mid-market exchange rates. The reconciliation of cash and cash equivalents is illustrated in the notes of the consolidated cash flow statement.

3.3 Financial liabilities

A Financial liabilities

Finnair Group’s financial liabilities are classified into two different classes: amortised cost and fair value through profit and loss. Financial liabilities are initially recognised at fair value on the basis of the original consideration received. Transaction costs have been included in the original book value of financial liabilities. Thereafter, all non-derivative financial liabilities are valued at amortised cost using the effective interest method. Financial liabilities are included in long- and short-term liabilities, and they can be interest-bearing or non-interest-bearing. Loans that are due for payment within 12 months are presented in the short-term liabilities. Foreign currency loans are valued at the mid-market exchange rate on the closing date, and translation differences are recognised in the financial items.

Derecognition of financial liabilities takes place when the Group has fulfilled the contractual obligations. A

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Non-current liabilities

EUR mill.	2018	2017
JOLCO loans	274.0	283.6
Bonds	199.5	199.3
Finance lease liabilities	87.5	103.3
Interest-bearing liabilities total	561.0	586.2
Non-interest-bearing liabilities	4.8	1.1
Total	565.8	587.3

Non-interest-bearing liabilities mainly include leases and maintenance reserves related to the aircraft leased to other airlines.

Current interest-bearing liabilities

EUR mill.	2018	2017
JOLCO loans	84.6	36.4
Bonds	0.0	65.6
Finance lease liabilities	24.1	22.4
Other loans	-0.3	8.0
Total	108.4	132.4

JOLCO loans include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft and a liability related to exercised purchase option of one A330. The transactions are treated as loans and owned aircraft in Finnair’s accounting.

	Short-term borrowings	Long-term borrowings	Short-term finance lease liabilities	Long-term finance lease liabilities	Total
Total liabilities from financing activities, 1 January 2018	110.0	482.9	22.4	103.3	718.6
Cash flows	-9.3	-88.7	-0.5	-21.9	-119.4
Acquisitions	-55.4	0.0	0.0	6.7	-48.7
Disposals	45.9	0.0	0.0	0.0	45.9
Foreign exchange adjustments	1.2	15.0	0.0	1.7	17.9
Reclassification between short-term and long-term liabilities	-62.9	62.9	2.2	-2.2	0.0
Other non-cash movements	54.7	0.6	0.0	0.0	55.3
Total liabilities from financing activities, 31 December 2018	84.3	473.5	24.1	87.5	669.4
Total liabilities from financing activities, 1 January 2017	78.5	499.6	22.0	117.6	717.7
Cash flows	0.3	90.6	-0.5	-21.2	69.3
Acquisitions	15.9	0.0	1.6	13.0	30.4
Disposals	-44.0	0.0	-0.9	0.0	-44.9
Foreign exchange adjustments	-4.1	-41.5	0.0	-5.6	-51.3
Reclassification between short-term and long-term liabilities	62.8	-62.8	0.2	-0.2	0.0
Other non-cash movements	0.7	-3.0	0.0	-0.3	-2.7
Total liabilities from financing activities, 31 December 2017	110.0	482.9	22.4	103.3	718.6

Maturity dates of interest-bearing financial liabilities 31 Dec 2018 EUR mill.	2019	2020	2021	2022	2023	Later	Total
JOLCO loans, fixed interest	55.7	0.0	0.0	0.0	0.0	43.6	102.9
JOLCO loans, variable interest	28.9	26.1	27.0	27.9	28.7	124.5	259.5
Bonds, fixed interest	0.0	0.0	0.0	200.0	0.0	0.0	200.0
Finance lease liabilities, fixed interest	6.4	6.6	6.9	7.1	7.4	6.7	41.2
Finance lease liabilities, variable interest	16.2	16.9	17.7	6.1	0.0	0.0	57.0
Other loans	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3
Interest-bearing financial liabilities total	107.0	49.7	51.6	241.2	36.1	174.8	660.3
Payments from currency derivatives	954.3	375.2	0.0	0.0	0.0	0.0	1,329.5
Income from currency derivatives	-981.4	-385.3	0.0	0.0	0.0	0.0	-1,366.7
Commodity derivatives	38.6	35.9	0.3	0.0	0.0	0.0	74.8
Trade payables and other liabilities	938.2	0.0	0.0	0.0	0.0	0.0	938.2
Interest payments	21.3	16.0	14.5	12.9	7.0	17.9	89.5
Total	1,078.0	91.4	66.3	254.1	43.0	192.7	1,725.6

Maturity dates of interest-bearing financial liabilities 31 Dec 2017 EUR mill.	2018	2019	2020	2021	2022	Later	Total
JOLCO loans, fixed interest	13.2	0.0	0.0	0.0	0.0	40.7	53.9
JOLCO loans, variable interest	23.2	24.0	24.8	25.6	26.5	146.3	270.3
Bonds, fixed interest	64.9	0.0	0.0	0.0	200.0	0.0	264.9
Finance lease liabilities, fixed interest	6.8	6.4	6.3	6.4	6.7	20.4	53.1
Finance lease liabilities, variable interest	15.5	16.2	16.9	17.7	6.1	0.0	72.6
Other loans	8.0	0.0	0.0	0.0	0.0	0.0	8.0
Interest-bearing financial liabilities total	131.7	46.6	48.0	49.7	239.3	207.3	722.8
Payments from currency derivatives	717.9	340.9	0.0	0.0	0.0	0.0	1,058.9
Income from currency derivatives	-695.7	-330.3	0.0	0.0	0.0	0.0	-1,026.0
Commodity derivatives	-51.0	-11.7	0.0	0.0	0.0	0.0	-62.7
Payments from interest rate derivatives	18.8	95.5	13.3	130.5	0.0	0.0	258.1
Income from interest rate derivatives	-18.0	-87.2	-12.5	-122.5	0.0	0.0	-240.2
Equity derivatives	0.0	-11.3	0.0	0.0	0.0	0.0	-11.3
Trade payables and other liabilities	878.7	1.1	0.0	0.0	0.0	0.0	879.8
Interest payments	20.0	15.4	14.2	13.0	11.7	24.1	98.4
Total	1,002.4	59.2	63.1	70.7	251.0	231.4	1,677.7

The interest rate re-fixing period is three months for variable interest loans and six months for variable interest finance leases. Additionally, the bond maturing in 2022 does not include the amortised cost of 0.5 million euro paid in 2017. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the amortised cost.

The minimum lease payments, discount values and present values of finance lease liabilities are presented in note 2.2 Leasing arrangements.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

The currency mix of interest-bearing liabilities is as follows:

EUR mill.	2018	2017
EUR	264.0	356.7
USD	333.2	290.5
JPY	70.4	71.4
Total	667.6	718.6

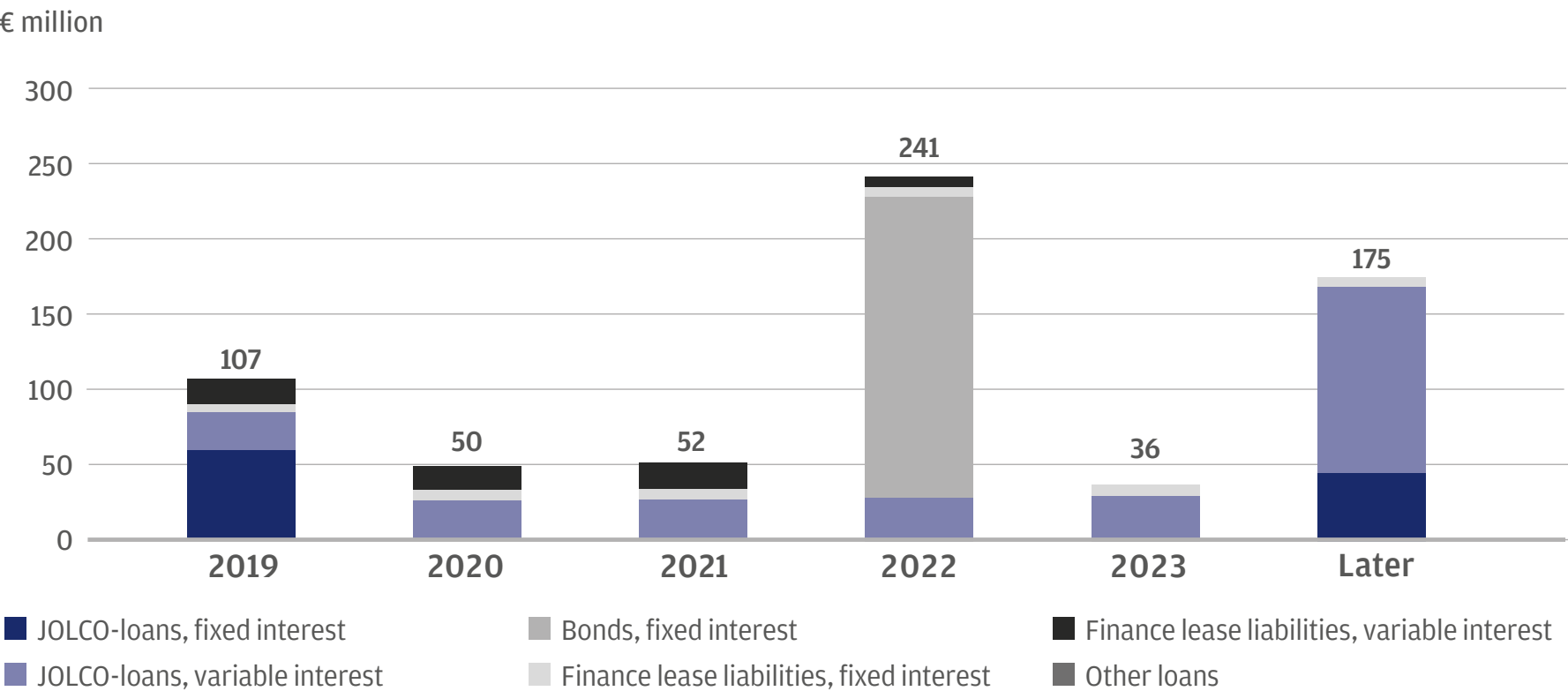
The weighted average effective interest rate on interest-bearing long-term liabilities was 2.4% (2.0%).

Interest rate re-fixing period of interest-bearing liabilities

	2018	2017
Up to 6 months	47.0%	50.0%
6-12 months	9.0%	9.0%
1-5 years	30.0%	28.0%
More than 5 years	14.0%	13.0%
Total	100.0%	100.0%

The interest rate re-fixing period has remained relatively unchanged in comparison to year 2017.

Maturity dates of interest-bearing financial liabilities



3.4 Contingent liabilities

EUR mill.	2018	2017
Guarantees on behalf of group companies	82.6	71.0
Total	82.6	71.0

3.5 Management of financial risks

Principles of financial risk management

The nature of Finnair Group’s business operations exposes the company to a variety of financial risks: foreign exchange, interest rate, credit, liquidity and commodity price risks. The Group’s policy is to limit the uncertainty caused by such risks on cash flow, financial performance, balance sheet items and equity.

The management of financial risks is based on the risk management policy prepared by the Financial Risk Steering Committee and approved by the Board of Directors. The policy specifies the minimum and maximum levels permitted for each type of risk. Financial risk management is directed and supervised by the Financial Risk Steering Committee. Practical implementation of risk management policy and risk management have been centralised to the parent company’s treasury department.

In the management of foreign exchange, interest rate and jet fuel the company uses different derivative instruments, such as forward contracts, swaps and options. At inception, derivatives are designated as hedges of highly probable cash flows (cash flow hedges), hedges of firm orders (hedges of the fair value of firm commitments) or as financial derivatives not qualifying for hedge accounting (economic hedges). Finnair Group implements cash flow hedging through foreign exchange hedging of highly probable forecasted sales and costs denominated in foreign currencies, foreign exchange hedging of lease payments and jet fuel price risk, in accordance with the hedge accounting principles of IFRS 9. Hedge accounting compliant fair value hedges of Finnair Group consisted of interest rate hedges of the issued bond and fair value hedges of firm aircraft purchase commitments.

Fuel price risk in flight operations

Fuel price risk means the cash flow and financial performance uncertainty arising from fuel price fluctuations.

Finnair hedges against jet fuel price fluctuations using jet fuel forward contracts and options. The Jet Fuel CIF Cargoes NWE index is used as the underlying asset of jet fuel derivatives, since over 60 per cent of Finnair’s fuel purchase contracts are based on the benchmark price index for Northwest Europe jet fuel deliveries.

Finnair applies the principle of time-diversification in its fuel hedging. According to the risk management policy, the hedging horizon is two years. The risk management policy states that hedging must be increased during each quarter of the year, so that the hedge ratio is more than 60 per cent for the first six months, and thereafter a lower hedge ratio applies for each period. Due to hedging, the fuel cost per period is not as low as the spot-based price when prices fall, but when spot prices rise, the fuel cost rises more slowly.

The hedges of jet fuel consumption are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. During 2018, Finnair has hedged the jet fuel price risk in its entirety, without separating it into underlying risk components, such as crude oil price risk. However, Finnair has used proxy hedging for certain layer components of its jet fuel consumption, as described below.

In the hedging of jet fuel price risk, Finnair Group designates layer components of its jet fuel consumption as hedged items. The layer components are defined as jet fuel consumption linked to different jet fuel price benchmarks. The first layer is defined as jet fuel purchases based on the Jet Fuel CIF Cargoes NWE index, with consumption linked to other

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

price benchmarks, notably Cargoes FOB Singapore, representing other layers. Since the Jet Fuel CIF Cargoes NWE index is used as the underlying of all jet fuel derivatives, they are designated as proxy hedges for consumption based on other price benchmarks. Therefore, ineffectiveness may arise if the correlation between the NWE index and the price benchmark for the underlying consumption is not high enough for the fair value changes in the hedged item and the hedging instrument to be exactly offsetting. Any ineffectiveness resulting from overhedging or insufficient correlation is recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls.

Timing of the notional and hedged price	Hedged price \$/tonne	Notional amount (tonnes)	Maturity	
			Under 1 year	1 to 2 years
31 Dec 2018				
Jet fuel consumption priced with NWE index	667.6	1,275,246	948,246	327,000
Jet fuel consumption priced with SING index	636.8	134,754	134,754	
31 Dec 2017				
Jet fuel consumption priced with NWE index	535.9	962,407	736,407	226,000
Jet fuel consumption priced with SING index	535.8	64,593	64,593	

The average hedged price of the instruments hedging highly probable jet fuel purchases is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 654.9 US dollars per tonne for NWE consumption, and 614.9 US dollars for SING consumption. Options excluded from hedge accounting are excluded in both cases.

At the end of the financial year, Finnair had hedged 75 per cent of its fuel purchases for the first six months of 2019 and 58 per cent of the purchases for the second half of the year. In the financial year 2018, fuel used in flight operations accounted for approximately one fifth of Group’s turnover. At the end of the financial year, the forecast for 2019 is approximately one fifth of the Group’s turnover. On the closing date, a 10 per cent rise in the market price of jet fuel - excluding hedging activity - increases annual fuel costs by an estimated 59 million euro. On the closing date - taking hedging into account - a 10 per cent rise in fuel lowers operating profit by around 25 million euro. The situation as of 31 December 2018 is a reasonable representation of conditions throughout the year given the current market environment.

Foreign exchange risk

Foreign exchange risk means the uncertainty in cash flows and financial performance arising from exchange rate fluctuations.

Finnair Group’s foreign exchange risk mainly arises from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. About 55 per cent of the Group’s revenue is denominated in euros. The most important foreign revenue currencies are Japanese yen (10 per cent, percentage of revenue), Chinese yuan (7 per cent), US dollar (4 per cent) and Swedish krona (3 per cent). Approximately half of the Group’s operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for almost 40 per cent of all operating costs. Significant dollar-denominated expenses are fuel costs and aircraft lease payments. The largest investments - aircraft and their spare parts - are also mainly made in US dollars.

The risk management policy divides the foreign exchange position into three parts, namely exposure to forecasted cash flows, balance sheet position and investment position.

The cash flow exposure mainly consists of sales denominated in a number of different currencies and dollar-denominated expenses. Forecasted jet fuel purchases, aircraft materials and overhaul expenses and traffic charges

form a group of similar items that are hedged with the same hedging instrument. The purpose of currency risk hedging - for cash flow exposure - is to reduce the volatility of cash flows and comparable operating result due to fluctuating currency prices. This is done using a layered hedging strategy for the two biggest sources of currency risk and utilising diversification benefits of the portfolio of various currencies. The contracts are timed to mature when the cash flows from operating expenses are expected to be settled. The hedging limits are set only for the main contributors to currency risk: the Japanese yen and the US dollar basket consisting of the US dollar and the Hong Kong dollar. For both of these, the hedging horizon is two years, which is divided into four six-month periods. In order to achieve time diversification, the minimum hedge ratio for the closest six-month period is 60 per cent with a decreasing slope ending at zero per cent for the fourth six-month period. Even though the policy does not require hedging of smaller currency flows, it is allowed, in which case the layered hedging strategy is partially applied, although no minimum hedging ratio is specified.

The investment position includes all foreign currency denominated aircraft investments for which a binding purchase agreement has been signed as well as commitments for sale and leaseback transactions in the next four years. According to its risk management policy, Finnair Group hedges 50-100% of its aircraft investment exposure. New hedges of investments in aircraft are made as an IFRS 9 fair value hedge of a firm commitment.

Balance sheet exposure consists of foreign currency denominated financial assets and liabilities, as well as other foreign currency denominated balance sheet items, such as provisions, trade receivables, trade payables and assets held for sale. Finnair Group hedges 75-100% of net positions in foreign currency denominated financial assets and financial liabilities exceeding 10 MEUR.

At the end of the financial year, Finnair had a hedge level for net operating cash flows of 65 per cent in the USD-basket and 64 per cent in JPY for the coming 12 months, and hedge levels of 23 per cent and 26 per cent for 2020, respectively. On the closing date - excluding hedges - a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 12-month result of around 85 million euro and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on 12-month of around 32 million euro. On the closing date - taking hedging into account - a 10 per cent strengthening of the US dollar weakens the result by around 31 million euro and a 10 per cent weakening of the Japanese yen weakens the result by around 16 million euro. In the above numbers, the USD-basket risk also the Hong Kong dollar, which historical correlation with the US dollar is high. The situation as of 31 December 2018 is a reasonable representation of conditions throughout the year given the current market environment.

Timing of the notional EUR mill. 31 Dec 2018	Notional amount (gross)	Maturity		
		Less than 1 year	1 to 2 years	2 to 4 years
USD	1,646.7	1,063.1	455.3	128.3
JPY	442.4	329.8	112.6	

Cross-currency interest rate swaps are included in the nominal amount calculation.

Foreign exchange P&L exposure EUR mill. 31 Dec 2018	JPY	USD-basket
Net forecasted operating cash flows, next 24M	662.9	-1,801.5
Net operating cash flow hedges, next 24M	-284.9	781.7
Weighted average exchange rate of hedging instruments against the euro	132.4	1.20
Foreign exchange exposure from operating cash flows after hedging, next 24M	378.0	-1,019.8

The average exchange rate of the instruments hedging highly probable forecasted sales and purchases denominated in foreign currencies is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 1.22 for USD contracts and 126.5 for JPY instruments.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Foreign exchange balance sheet exposure EUR mill. 31 Dec 2018	JPY	USD
Net balance sheet items	-70.6	-326.5
Net hedges of balance sheet items	70.7	280.7
Weighted average exchange rate of hedging instruments against the euro	128.2	1.12
Foreign exchange exposure from balance sheet items after hedging	0.1	-45.8

Foreign exchange investment exposure EUR mill. 31 Dec 2018	USD
Net investment position	-1,015.9
Net hedges of investment position	510.0
Weighted average exchange rate of hedging instruments against the euro	1.22
Foreign exchange exposure from investment position after hedging	-505.9

Foreign exchange P&L exposure EUR mill. 31 Dec 2017	JPY	USD-basket
Net forecasted operating cash flows, next 24M	386.6	-1,245.6
Net operating cash flow hedges, next 24M	-161.1	535.0
Weighted average exchange rate of hedging instruments against the euro	129.3	1.14
Foreign exchange exposure from operating cash flows after hedging, next 24M	225.5	-710.6

Foreign exchange balance sheet exposure EUR mill. 31 Dec 2017	JPY	USD
Net balance sheet items	-65.7	-318.3
Net hedges of balance sheet items	71.8	170.5
Weighted average exchange rate of hedging instruments against the euro	134.4	1.13
Foreign exchange exposure from balance sheet items after hedging	6.1	-147.8

Foreign exchange investment exposure EUR mill. 31 Dec 2017	USD
Net investment position	-625.8
Net hedges of investment position	316.2
Weighted average exchange rate of hedging instruments against the euro	1.17
Foreign exchange exposure from investment position after hedging	-309.6

Interest rate risk

Interest rate risk means the cash flow, financial performance and balance sheet uncertainty arising from interest rate fluctuations.

In Finnair Group, the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the risk management policy, the mandate for the investment portfolio’s interest rate re-fixing period is 0-12 months and for interest-bearing liabilities 0-24 months. On the closing date, the investment portfolio’s interest rate re-fixing period was approximately 3 months and approximately 22 months for interest-bearing liabilities. On the closing date, a one percentage point rise in interest rates increases the annual interest income of the investment portfolio by approximately 7.7 million euros and the interest expenses of the loan portfolio by approximately 2.4 million euros. The situation as of December 31 2018 is a reasonable representation of conditions throughout the year given the current market environment.

Borrowings issued at fixed rates expose the group to fair value interest rate risk. The group is applying hedge accounting (fair value hedge) in order to hedge the fair value interest rate risk of its 150 million euro fixed rate unsecured bond issued in August 2013.

Future lease agreements expose the group to interest rate risk, as the interest rate is one component of the lease price. The interest rate is fixed when the lease payments start. If necessary, the group can hedge this exposure with cash flow hedges.

Timing of the notional and hedged price range EUR mill. 31 Dec 2018	Notional amount (gross)	Maturity		
		Less than 1 year	1 to 2 years	2 to 4 years
Interest rate derivatives	232.7	91.4	13.0	128.3

Cross-currency interest rate swaps are included in the nominal amount calculation. Finnair has not entered into any interest rate derivatives on which it is paying a fixed rate.

Credit risk

The Group is exposed to counterparty risk when investing its cash reserves and when using derivative instruments. The credit risk is managed by only making contracts with financially sound domestic and foreign banks, financial institutions and brokers, within the framework of risk management policy for counterparty risk limits. Liquid assets are also invested in money market funds, bonds and commercial papers issued by conservatively selected companies, according to company-specific limits. This way, risk exposure to any single counterparty is not significant. Change in the fair value of Group loans arises from changes in FX and interest rates, not from credit risk. The Group’s credit risk exposure arises from other current financial assets presented in note 3.2.1, cash and cash equivalents presented in note 3.2.2, trade receivables presented in Note 1.2.3 and derivatives presented in note 3.8.

Liquidity risk

The goal of Finnair Group is to maintain good liquidity. Liquidity is ensured by cash reserves, bank account limits, liquid money market investments and committed credit facilities. Counterparties of groups’ long term loans are solid financial institutions with good reputations.

The Group’s liquid assets were 1073 million euro at the end of financial year 2018. Finnair Plc has a domestic commercial paper program of 200 million euro, which was not in use as of the closing date. In addition, Finnair has an unused 175 million euro committed revolving credit facility. The credit facility includes a financial covenant based on adjusted gearing. The covenant level of adjusted gearing is 175 per cent, while at the closing date the figure was 67.2 per cent. The maximum level set by the Board of Directors is 175 per cent.

Capital management

Aim of Finnair’s capital management is to secure the access to capital markets at all times despite volatile business environment, as well as support future business development. Through optimal capital structure Group also aims to minimize the cost of capital and maximize the return on capital employed. The capital structure is influenced via, for example, dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders, the amount of capital returned to them or the number of new shares issued. The Group can also decide on sales of asset items in order to reduce debt. The aim of Finnair ´s dividend policy is to pay on average at least one third of the earnings per share as dividend during an economic cycle.

The development of the Group’s capital structure is continuously monitored using the adjusted gearing. When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders’ equity. The Group’s adjusted gearing at the end of 2018 was 67.2 per cent (69.9).

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the reserve would have been 48.5 million euro (41.2) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 48.5 million euro (41.2). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 49.7 million euro (51.1) and a 10 per cent stronger dollar would have had a positive impact of 54.2 million euro (49.3). In terms of Japanese yen, a 10 per cent stronger yen would have had a negative impact of 19.0 million euro (10.0), and a 10 per cent weaker level would have increased the balance of the fair value reserve by 15.6 million euro (15.1). The effect of a change in interest to the fair value reserve in own equity is not material. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets).

3.6 Classification of financial assets and liabilities

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2018				
Financial assets				
Receivables			4.3	4.3
Other financial assets		892.2		892.2
Trade receivables and other receivables			242.2	242.2
Derivatives	50.3	1.8		52.1
Cash and cash equivalents			180.9	180.9
Book value total	50.3	893.9	427.4	1,371.7
Fair value total	50.3	893.9	427.4	1,371.7
Financial liabilities				
Interest-bearing liabilities			557.8	557.8
Finance lease liabilities			111.6	111.6
Derivatives	100.1	7.0		107.1
Trade payables and other liabilities			935.0	935.0
Book value total	100.1	7.0	1,604.4	1,711.5
Fair value total	100.1	7.0	1,610.4	1,717.4

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2017				
Financial assets				
Receivables			5.6	5.6
Other financial assets		833.0		833.0
Trade receivables and other receivables			319.8	319.8
Derivatives	100.8	3.7		104.5
Cash and cash equivalents			150.2	150.2
Book value total	100.8	836.7	475.6	1,413.0
Fair value total	100.8	836.7	475.6	1,413.0
Financial liabilities				
Interest-bearing liabilities			592.9	592.9
Finance lease liabilities			125.6	125.6
Derivatives	61.3	20.0		81.3
Trade payables and other liabilities			879.8	879.8
Book value total	61.3	20.0	1,598.4	1,679.7
Fair value total	61.3	20.0	1,607.7	1,688.9

In this note interest rate derivatives (currency and interest-rate swaps) are included in derivatives. Item Receivables mainly includes USD-denominated security deposits for leased aircraft. Trade payables and other liabilities include: trade payables, deferred expenses, pension obligations as well as other interest-bearing and non-interest-bearing liabilities.

Derivatives are valued at fair value, with further details in the fair value hierarchy. Financial assets valued at fair value are money market funds (fair value hierarchy level 1) and bonds, or commercial paper (fair value hierarchy level 2). Loans and receivables are mainly current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portion of loans valued at amortised cost, excluding bonds, is 107 million euro, and the book value is equivalent to the fair value, because the discount effect is not significant. The issued bonds comprises the most significant part of the loans valued at amortised cost. The senior bond maturing in 2022 was quoted at 102.5 which explains the difference between book value and fair value. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Fair value hierarchy of financial assets and liabilities valued at fair value

Fair values at the end of the reporting period

EUR mill.	31 Dec 2018	Level 1	Level 2
Assets			
Financial assets at fair value through profit and loss			
Securities held for trading	892.2	836.6	55.5
Derivatives held for trading			
Currency derivatives	47.7		47.7
- of which in fair value hedge accounting	18.1		18.1
- of which in cash flow hedge accounting	27.8		27.8
Commodity derivatives	4.0		4.0
- of which in cash flow hedge accounting	4.0		4.0
Total	943.8	836.6	107.2
Liabilities			
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency and interest rate swaps and options	5.8		5.8
Currency derivatives	10.5		10.5
- of which in fair value hedge accounting	0.6		0.6
- of which in cash flow hedge accounting	9.7		9.7
Commodity derivatives	90.9		90.9
- of which in cash flow hedge accounting	89.7		89.7
Total	107.1		107.1

During the financial year, no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are fully based on quoted (unadjusted) prices in active markets of the same assets and liabilities.

The fair values of Level 2 instruments are, to a significant extent, based on input data other than the quoted prices included in Level 1, but still mainly based on directly observable data (price) or indirectly observable data (derived from price) for the particular asset or liability.

On the other hand, the fair values of Level 3 instruments are based on asset or liability input data that is not based on observable market information (unobservable inputs). The fair values are based on confirmations supplied by counterparties, which are based on generally accepted valuation models.

A = Accounting principles

3.7 Offsetting financial assets and liabilities

EUR mill.	2018	2017
Derivative assets gross amounts	52.1	104.5
Gross amounts of recognised financial liabilities set off in the balance sheet	0.0	0.0
Net amounts of financial assets presented in the balance sheet	52.1	104.5
Enforceable master netting agreement	-123.2	-63.8
Derivative assets net amount	-71.1	40.7
EUR mill.	2018	2017
Derivative liabilities gross amounts	-107.1	-81.3
Gross amounts of recognised financial assets set off in the balance sheet	0.0	0.0
Net amounts of financial liabilities presented in the balance sheet	-107.1	-81.3
Enforceable master netting agreement	123.2	63.8
Derivative liabilites net amount	16.2	-17.5

For the above financial assets and liabilities, subject to enforceable master netting arrangements or similar arrangements, each agreement between the Group and the counterparty allows net settlement of the relevant financial assets and liabilities when both parties choose to settle on a net basis. In the absence of such mutual decision, financial assets and liabilities will be settled on a gross basis. However, each party of the master netting agreement, or similar agreement, will have the option to settle on a net basis in the event of default of the other party. Depending on the terms of each agreement, an event of default includes failure by a party to make a payment when due, failure by a party to perform any obligation required by the agreement (other than payment), if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party, or bankruptcy.

3.8 Derivatives

A Derivative contracts and hedge accounting

According to its risk management policy, Finnair Group uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Group's balance sheet items, currency de-nominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. It is the Group's policy not to enter into derivative financial contracts for speculative purposes.

The derivatives are initially recognised as well as subsequently valued at fair value in each financial statement and inter-im report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

The fair values of all derivatives are calculated using the exchange rates, interest rates, volatilities and commodity price quotations on the closing date. The fair values of currency forward contracts are calculated as the present value of future cash flows. The fair values of currency options are calculated using the Black-Scholes option pricing model. The fair values of interest rate swap contracts are calculated as the present value of future cash flows. The fair values of cross-currency interest rate swap contracts are calculated as the present value of future cash flows. The fair values of interest rate options are calculated using generally accepted option valuation models. The fair values of commodity forward contracts are calculated as the present value of future cash flows. The fair values of commodity options are calculated using generally accepted option valuation models.

The Group uses credit valuation adjustment for cross-currency interest rate swaps as the maturities of these derivatives are long. The credit valuation adjustment is not done for the rest of the derivatives as the maturities for these are short and the impact would not be material. Credit risk management is described in more detail in note 3.5.

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognised in accordance

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

with the nature of the risk being hedged. At inception, derivative contracts are designated as hedges of future cash flows, hedges of the fair value of recognised assets or liabilities and binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair Group documents economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the Group's risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each financial statement, the Group documents and assesses the effectiveness of hedge relationships by examining the past and prospective capacity of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet item Short-term financial asset and liabilities.

Finnair Group implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the price and foreign currency risk of jet fuel, the price risk of electricity, the foreign currency risk of lease payments and the foreign currency risk of highly probable future sales and costs denominated in foreign currencies. The IFRS fair value hedge accounting principles are applied to the hedging of foreign exchange and interest rate risk of aircraft purchases and the hedges of the pilot incentive plan.

The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in comprehensive income and presented within equity in the fair value reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. The gains and losses, recognised in the fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the consolidated income statement.

The effectiveness of hedging is tested on a quarterly basis. The effective portion of hedges is recognised in the fair value reserve of other comprehensive income, from which it is transferred to the income statement when the hedged item is realised or, in terms of investments, as an acquisition cost adjustment.

Fair value hedging is implemented on firm orders of new aircraft and in order to hedge the fixed interest rate bond. The binding purchase agreements for new aircraft are treated as firm commitments under IFRS, and therefore, the fair value changes of the hedged part arising from foreign currency movements are recognised in the balance sheet as an asset item, and corresponding gains or losses recognised through profit and loss. Similarly, the fair value of instruments hedging these purchases is presented in the balance sheet as a liability or receivable, and the change in fair value is recognised in profit and loss.

The gain or loss related to the effective portion of the interest rate swap, which hedges the fixed interest rate bond, is recognised as financial income or expenses in the income statement. The gain or loss related to the ineffective portion is recognised within other operating income and expenses in the income statement. The change in the fair value attributable to the interest rate risk of the hedged fixed interest rate loans is recognised in the financial expenses in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortized to profit or loss over the period to maturity.

Finnair Group uses cross-currency interest rate swaps in the hedging of the interest rate and foreign exchange risks of foreign currency denominated loans. Cross-currency interest rate swaps are excluded from hedge accounting, and therefore the fair value changes are recognised in derivative assets and liabilities in the balance sheet, as well as in the financial income and expenses in the income statement. The fair value changes of the loans are simultaneously recognised in the financial income and expenses. Realised foreign exchange rate differences, as well as interest income and expenses, are recognised in the financial income and expenses against the exchange rate differences and interest income and expenses of the loan.

Finnair Group uses jet fuel swaps (forward contracts) and options in the hedging of jet fuel price risk. Unrealised gains and losses on derivatives hedging jet fuel, which are designated as cash flow hedges and fulfil the requirements of IFRS hedge accounting, are recognised in the hedging reserve within other comprehensive income. Accrued derivative gains and loss-

es, recognised in shareholders’ equity, are recognised as income or expense in the income statement in the same financial period as the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, and as a result the IFRS hedge accounting criteria are not fulfilled, the fair value changes and the accrued gains and losses reported in shareholders’ equity are transferred to the items affecting comparability in the income statement. Changes in the fair value of jet fuel swaps and options excluded from hedge accounting are recognised in fair value changes in derivatives in the income statement, while realised result is presented in fuel costs.

For forward and option contracts, economic relationship exists between the hedged item and the hedging instrument as hedging instrument and hedged item are expected to move in opposite directions because of the same underlying. This is true for all hedge relationships except for the SING consumption hedged with NWE hedges (as described in section 3.5). In that case, the underlying is different, but the underlying hedged item (SING) and the hedge (NWE) have a historical correlation of 0.99. Therefore, it can be classified as a relationship where the underlying and the hedge are economically closely related. Ineffectiveness on fuel derivatives can also arise from timing differences on the notional amount between the hedged instrument and hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying fuel consumption forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Finnair has established a hedge ratio of 1:1 for hedging relationships.

Finnair uses forward contracts and options to hedge its exposure to foreign currency denominated cash flows. The hedges of cash flows denominated in foreign currencies are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. Unrealised gains and losses on hedges of forecasted cash flows qualifying for hedge accounting are recognised in the hedging reserve in OCI, while the change in the fair value of such hedges not qualifying for hedge accounting is recognised in Fair value changes in derivatives and changes in exchange rates of fleet overhauls in the income statement. The change in fair value recognised in the hedging reserve in equity is transferred to the income statement when the hedged transaction is realised. Forward points are included in the hedging instrument and in the hedge relationship. Potential sources of ineffectiveness include changes in timing of the hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying cash flow forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Realised profit or loss on derivatives hedging JPY-denominated operating cash flows is presented in revenue, realised profit or loss on derivatives hedging a group of similar USD costs is proportionally recognised in corresponding expense lines, while profit or loss on derivatives hedging cash flows denominated in other currencies is presented in Other expenses.

The hedge ratio is defined as the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting. With currency hedging, hedge ratio is typically 1:1. For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument as there is an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction because of the common underlying.

Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in financial income and expenses in the income statement. Changes in the fair value as well as realised gain or loss on forward contracts used to hedge foreign currency denominated balance sheet items of Finnair Group are recognised in financial expenses. Changes in the fair value and realised result of hedges of assets held for sale are recognised in Items affecting comparability.

Cost of hedging

At Finnair, the time value of an option is excluded from the designation of a financial instrument and accounted for as a cost of hedging. Upon initial recognition, Finnair defers any paid premium in the cost of hedging reserve within other comprehensive income. The fair value changes of the time value are recognised in the cost of hedging reserve within other comprehensive income. The premium will be transferred to the consolidated income statement in the same period that the underlying transaction affects the consolidated income statement for transaction-related hedges. As of 31 December 2018, Finnair has deferred premiums only on transaction-related hedges. **A**

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

EUR mill.	2018				2017			
	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Operational cash flow hedging (forward contracts)	700.1	17.0	-6.9	10.1	385.2	5.8	-16.3	-10.5
Operational cash flow hedging, bought options	242.6	5.6	0.0	5.6	195.1	5.1		5.1
Operational cash flow hedging, sold options	242.0		-2.8	-2.8	200.1		-4.0	-4.0
Fair value hedging of aircraft acquisitions	445.4	18.1	-0.6	17.5	316.2	0.1	-17.5	-17.4
Hedging of lease payments	107.4	5.2		5.2	131.7	0.1	-8.7	-8.6
Hedge accounting items	1,737.6	45.9	-10.3	35.5	1,228.4	11.0	-46.5	-35.5
Hedging of aircraft divestments					101.3	3.7	-0.1	3.6
Balance sheet hedging (forward contracts)	131.8	1.8	-0.1	1.7	101.0		-0.9	-0.9
Items outside hedge accounting	131.8	1.8	-0.1	1.7	202.3	3.7	-1.0	2.6
Currency derivatives total	1,869.4	47.7	-10.5	37.2	1,430.7	14.7	-47.6	-32.8
Commodity derivatives								
Jet fuel forward contracts, tonnes	924,500	3.8	-78.1	-74.3	808,000	58.3		58.3
Bought options, jet fuel, tonnes	169,500	0.7	0.0	0.7	91,000	4.8		4.8
Sold options, jet fuel, tonnes	169,500		-11.6	-11.6	91,000		-0.1	-0.1
Hedge accounting items		4.5	-89.7	-85.2		63.1	-0.1	63.0
Sold options, jet fuel, tonnes	146,500		-1.1	-1.1	37,000		-0.4	-0.4
Items outside hedge accounting		0.0	-1.1	-1.1		0.0	-0.4	-0.4
Commodity derivatives total		4.5	-90.8	-86.4		63.1	-0.5	62.7
Interest rate derivatives								
Interest rate swaps	0.0	0.0	0.0	0.0	64.9	0.7	0.0	0.7
Hedge accounting items	0.0	0.0	0.0	0.0	64.9	0.7	0.0	0.7
Cross currency interest rate swaps	232.7		-5.8	-5.8	239.6		-18.5	-18.5
Items outside hedge accounting	232.7	0.0	-5.8	-5.8	239.6	0.0	-18.5	-18.5
Interest rate derivatives total	232.7	0.0	-5.8	-5.8	304.5	0.7	-18.5	-17.9
Equity derivatives								
Bought options, millions	0.0	0.0		0.0	3.0	26.0		26.0
Sold options, millions	0.0		0.0	0.0	3.0		-14.7	-14.7
Hedge accounting items	0.0	0.0	0.0	0.0	6.0	26.0	-14.7	11.3
Equity derivatives total	0.0	0.0	0.0	0.0	6.0	26.0	-14.7	11.3
Derivatives total*		52.1	-107.1	-54.9		104.5	-81.3	23.2

* Positive (negative) fair value of hedging instruments as of 31.12.2018 is presented in the statement of financial position in the item derivative financial instruments within current assets (derivative financial instruments within current liabilities).

Hedged items in hedge relationships

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months	Changes in fair value of the hedging instrument used for calculating hedge ineffectiveness, previous 12 months
			Assets	Liabilities			
31 Dec 2018	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Jet fuel price risk							
- Forecasted jet fuel purchases						-57.5	-138.3
Foreign exchange risk							
- Forecasted sales and purchases						24.9	22.4
- Lease payments						60.2	13.8
Fair value hedges							
Foreign exchange risk					Non-current assets		
- Aircraft acquisitions	-17.5		-17.5			-34.9	34.9

Ratings of derivative counterparties

EUR mill.	2018	2017
Better than A	-16.5	2.3
A	-13.1	10.2
BBB	-25.4	10.7
Total	-54.9	23.2

Derivatives realised through profit and loss

EUR mill.		2018	2017
Jet fuel hedging	Fuel costs	89.9	2.1
Hedging of lease payments	Lease payments for aircraft	5.3	1.9
Interest rate swaps	Financial expenses	0.0	3.6
Operating cash flow hedging	Fuel costs	-5.7	0.1
Operating cash flow hedging	Aircraft materials and overhaul	-0.2	0.3
Operating cash flow hedging	Traffic charges	-1.7	0.9
Operating cash flow hedging	Revenue	3.7	4.1
Expenses of hedge accounting items total		91.4	13.0
Jet fuel hedging	Fuel costs	2.0	0.1
Hedging of aircraft sales transactions	Items affecting comparability	0.6	1.4
Balance sheet hedging	Financial expenses	5.2	-10.6
Cross-currency interest rate swaps	Financial expenses	5.8	4.3
Expenses of items outside hedge accounting total		7.7	-4.7

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

3.9 Equity-related information

A Shareholders’ equity

The nominal value of shares had been recognised in the share capital before an amendment to the Articles of Association registered on 22 March 2007. Share issue profit and gains on sale of own shares had been recognised in other restricted funds before the change in the Limited Liability Company Act in 2006.

The subscription proceeds from the 2007 share issue less transaction costs after taxes as well as share-based payments according to IFRS 2 have been recognised in the unrestricted equity funds.

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash-flow hedg- ing, in addition to actuarial gains and losses related to defined benefit pension plans, fair value gains and losses of available for sale financial assets and translation differences.

The acquisition cost of repurchased owned shares less transaction costs after taxes is charged to equity until the shares are cancelled or reissued. The consideration received for sale or issue of own shares is included in equity.

The dividend proposed by the Board of Directors is not deducted from distributable equity until decided at the Annual General Meeting.

The hybrid bond is recognised in equity. It is unsecured and subordinated to all senior debt. The hybrid bond does not con- fer shareholders’ rights, nor does it dilute the holdings of shareholders. Interest expenses are debited from retained earn- ings on cash basis net of tax. In the calculation of earnings per share, interest expenses of the hybrid bond are included in the earnings for the financial year. **A**

Number of shares	2018	2017
Number of outstanding shares in the beginning of the financial year	127,702,748	127,347,151
Purchase of own shares	-452,000	
Shares granted from the share-bonus scheme 2015–2017	123,430	
Shares granted from the share-bonus scheme 2014–2016		180,904
Shares granted from FlyShare employee share savings plans	112,929	174,693
Number of outstanding shares at the end of the financial year	127,487,107	127,702,748
Own shares held by the parent company	649,008	433,367
Total number of shares at the end of the financial year	128,136,115	128,136,115

Finnair Plc’s share capital, paid in its entirety and registered in the trade register, was at 75,442,904.30 euros at the end of 2017 and 2018. The shares have no nominal value. During the year 2018, Finnair transferred a total of 112,929 shares to FlyShare participants and a total of 123,430 shares to participants in Finnair’s share-based incentive scheme 2015–2017.

The Group’s hedging reserve and other OCI items

EUR mill.	2018	Amounts reclassified to profit or loss	Unrealised gains and losses recognised in OCI	2017	Line item affected in profit or loss because of the reclassification
Jet fuel price hedging	-89.2	-89.9	-63.0	63.7	Fuel costs
Hedging of lease payments	5.2	5.3	8.5	-8.6	Lease payments for aircraft
Operating cash flow hedging	12.5	-3.9	11.2	-9.8	Revenue and cost lines*
Hedging of interest related to future lease payments	-6.4	0.7	0.0	-7.1	Lease payments for aircraft
The actuarial gains and losses of defined benefit plan	40.8	0.0	0.7	40.1	
Translation differences	0.7	0.0	0.0	0.7	
Cost of hedging reserve	2.1	0.0	2.5	-0.5	
Tax effect	7.0	0.0	22.5	-15.6	
Total	-27.2	-87.8	-2,4	63.0	

*Forward and option contracts hedging forecasted sales and purchases denominated in foreign currencies are hedges of a group of similar hedged items, and the amounts reclassified from OCI to P&L are proportionally allocated to different cost lines based on the realised cost amounts. Amounts reclassified to revenue and different cost lines are specified in the table “Derivatives realised through profit or loss” in section 3.8.

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2019	2020	2021	2022	2023	Later	Total
Jet fuel price hedging	-53.0	-35.9	-0.3				-89.2
Hedging of lease payments	4.5	0.7					5.2
Operating cash flow hedging	9.9	2.6					12.5
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-3.0	-6.4
The actuarial gains and losses of defined benefit plan	40.8						40.8
Translation differences						0.7	0.7
Cost of hedging reserve	2.1						2.1
Tax effect	-0.7	6.6	0.2	0.1	0.1	0.6	7.0
Total	2.9	-26.6	-0.8	-0.5	-0.5	-1.6	-27.2

Hybrid bond

Shareholders’ equity (after equity belonging to the owners) includes a 200 million euro hybrid bond issued in 2015. The hybrid bond coupon is fixed at 7.875 per cent per year for the first five years, and thereafter floating, at least 12.875 per cent per year. Finnair can postpone interest payment if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it in five years and on every interest payment date thereafter. The overall hybrid bond net position recognised in equity is 198.2 million euro, due to issuing expenses. The hybrid bonds are unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights.

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Earnings per share

The basic earnings per share figure is calculated by dividing the result for the financial year attributable to the parent company’s shareholders by the weighted average number of shares outstanding during the financial year. The result for the financial year is adjusted for the after-tax amounts of hybrid bond interests regardless of payment date, transaction costs of the new hybrid bond issued and premium paid, when a hybrid bond is redeemed. When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changing into shares all potentially diluting shares.

EUR mill.	2018	2017
Result for the financial year, EUR mill.	150.7	169.4
Hybrid bond interest, EUR mill.	-15.8	-15.8
Tax effect	3.2	3.2
Adjusted result for the financial year	138.1	156.8
Weighted average number of shares, mill. Pcs	127.9	127.3
Undiluted and diluted earnings per share, EUR	1.08	1.23
Effect of own shares	0.00	0.00

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.274 per share be paid for 2018. A dividend for 2017 of 0.30 euro per share, amounting to a total of EUR 38.4 million, was decided in the Annual General Meeting on 20 March 2018. The dividend was paid on 4 April 2018.

Finnair Plc’s distributable equity

EUR mill.	31 Dec 2018
Retained earnings at the end of financial year	126.2
Unrestricted equity	256.5
Hedging reserve	-59.6
Result for the financial year	69.7
Distributable equity total	392.9

4 Consolidation

i Notes under Consolidation section include description of general consolidation principles and methods of consolidation. Aim of the section is to provide an overall picture of the group’s structure and principles applied in preparing consolidated financial statements and classifying ownership interests. In addition, notes include information about subsidiaries, associated companies and joint ventures held, acquired or sold by the group as well as information about assets held for sale. **i**

4.1 General consolidation principles

Consolidation

Consolidation, consolidation method and classification of ownership interests depends on whether group has power to control or jointly control the entity or have significant influence or other interests in the entity. When group has power to control the entity, it is consolidated as subsidiary in the group according to principles described in the note 4.2 Subsidiaries. When group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using equity method according to principles set in note 4.6 Investments in associates and joint ventures. If group does not have power to control nor significant influence in the entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 3.2 Financial assets.

Translation of foreign currency items

Items included in each subsidiary’s financial statements are measured in the currency that is the main currency of operating environment of each subsidiary (“functional currency”). The consolidated financial statements have been presented in euro, which is the parent company’s functional and presentation currency. Transactions denominated in foreign currencies in group companies are translated into functional currency by using the exchange rate at the date of the transaction. Receivables and liabilities that are denominated in foreign currencies and are outstanding on the closing date are translated using the exchange rate of the closing date. Exchange rate differences are recognised in the income statement.

Foreign subsidiaries whose functional currency is not euro are translated into euro by using average rate for the financial year. Balance sheets are translated by using the closing rate for the financial period. Translation differences arising from the elimination of acquisition costs of foreign subsidiaries are recognised in other comprehensive income. When foreign subsidiary is sold, the differences are recognised as part of the sales gain or loss.

i = Content of the section

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

4.2 Subsidiaries

A Consolidation principles of subsidiaries

Finnair Plc’s consolidated financial statements include the parent company Finnair Plc and all its subsidiaries. Subsidiaries are defined as companies in which Finnair has control. Control exists when Finnair has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Usually Finnair has power over the entity when it owns more than 50% of the votes or where Finnair otherwise has the power to govern the financial and operating policies. The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ceases.

Acquired and established companies are accounted for using the acquisition method of accounting. Accordingly, the acquired company’s identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The excess between purchase price and fair value of the Group’s share of the identifiable net assets is recognised as goodwill.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless there is evidence of impairment related to the transferred asset. The accounting principles of subsidiaries have been changed to correspond Group’s accounting policies.

Non-controlling interest and transactions with non-controlling interest

Non-controlling interests are presented within the equity in the Consolidated Balance Sheet, separated from equity attributable to owners of the parent. For each acquisition the non-controlling interest can be recognised either at fair value or at the non-controlling interest’s proportionate share of the acquirer’s net assets. The carrying amount of non-controlling interests is the amount of the interests at initial recognition added with the non-controlling interests’ share of subsequent changes in equity. **A**

Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
Finnair Cargo Oy, Finland	100.0	Finnair Kitchen Oy, Finland	100.0
Finnair Aircraft Finance Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Technical Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.0
Finnair Engine Services Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Finnair Travel Retail Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Finnair Flight Academy Oy, Finland	100.0	OOO Aurinko, Russia	100.0
Kiinteistö Oy Lentokonehuolto, Finland	100.0	FTS Financial Services Oy, Finland	100.0
Northport Oy, Finland	100.0	Finnair Business Services Oü, Estonia	100.0
Balticport Oü, Estonia	100.0		

4.3 Acquisitions and disposals

There were no business acquisitions or disposals during three first quarters of 2018. Finnair announced at the end of August that it will sell 60 per cent of Nordic Regional Airlines AB (Norra) to Danish Air Transport. The Finnish Competition and Consumer Authority approved the transaction at the end of September, and the transaction was closed in October. After the transaction, Finnair owns 40 % of the company. The transaction had no impact on Norra’s operations or personnel. It neither had a significant effect on Finnair’s financial position or results. In Finnair balance sheet, Norra has been classified as joint venture in 2018.

In 2017, during the latter part of the year Finnair announced that it will acquire 60% of Nordic Regional Airlines AB from Staffpoint Holding Oy and Kilco Oy. Finnair owned 40% of the company prior the transaction, that was closed in November. Norra transferred to the full ownership of Finnair on an interim basis. The transaction had no impact on

Norra’s operations or personnel. It neither had a significant effect on Finnair’s financial position or results. In Finnair balance sheet, Norra has been classified as assets held for sale in 2017.

More information related to transactions and cooperation with Norra can be found in the notes 4.4, 4.5 and 4.6.

At the first half of 2017, Finnair announced the signing of an agreement with LSG Sky Chefs based on which the catering company operating at Helsinki Airport, LSG Sky Chefs Finland Oy, returned to Finnair’s control. The arrangement became effective as of 21 April, when the preparation and development of in-flight meals became part of Finnair’s operations again. The company employs approximately 500 people. The change did not have significant effect on Finnair’s financial position or results.

4.4 Investments in associates and joint ventures

A Associates are companies in which the Group generally holds 20–50 per cent of the voting right or in which the Group has significant influence but in which it does not exercise control. Companies where the Group has joint control with another entity are considered as joint ventures. The Group’s interests in associated companies and jointly controlled entities are accounted for using the equity method. The investment in associates and joint ventures include goodwill recognized at the time of acquisition. The Group recognises its share of the post-acquisition results in associates and joint ventures in the income statement. When the Group’s share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations on behalf of the associate or joint venture.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor’s interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. In case of such indications, Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. The impairment is recognised in share of results in associates and joint ventures.

Accounting policies of associates or joint ventures have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the preliminary financial statements or latest available information. **A**

The Group’s share of the result, asset items and liabilities of associates and joint ventures is presented below.

EUR mill.	2018	2017
At the beginning of the financial year	2.5	2.5
Additions	0.9	
At the end of the financial year	3.3	2.5

During 2018, 60% of Nordic Regional Airlines AB was sold to Danish Air Transport and at the time of the sale, the remaining 40% of Finnair ownership of Nordic Regional Airlines balance sheet value was revalued, resulting in the addition in the share of assets and liabilities of joint operations. More information on transactions with associated companies and joint ventures can be found in the note 4.6 Related party transactions.

Information on the Group’s associates and joint ventures 31 Dec 2018

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	35.8	31.9	105.0	1.3	40.00
Suomen Ilmailuopisto Oy*	Finland	20.0	1.8	10.2	0.1	49.50

*The presented figures for 2018 are preliminary and unaudited.

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Information on the Group’s associates and joint ventures 31 Dec 2017

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Suomen Ilmailuopisto Oy*	Finland	19.0	1.0	9.5	0.4	49.5

The associated company owned by Finnair, Suomen Ilmailuopisto Oy, is an unlisted company and is not considered material compared to Finnair’s operations. Continuous result of associated companies and joint ventures for 2018 was 1.4 (0.4) million euro, of which Finnair’s share was 0.0 (0.0) million euro.

Associated companies

Suomen Ilmailuopisto Oy (the Finnish Aviation Academy) is a vocational special purpose aviation school owned by Finnair Oyj (49.5%), Finnish Government (49.5%) and the City of Pori (1%). Finnair is not entitled to company’s results nor net assets, but possible results need to be used for developing school’s activities.

Nordic Regional Airlines

Nordic Regional Airlines AB (Norra) has during 2018 and 2017 operated mainly purchase traffic for Finnair. Until end of 2017, Norra has been a joint venture of StaffPoint Oy and Kilco Oy where owners had a joint control over the entity. In November 2017, Norra was transferred to Finnair’s full ownership on an interim basis and in October 2018, 60% of the ownership was sold to Danish Air Transport and the owners (Finnair and Danish Air Transport) have joint control over the entity. The transactions had no significant effect on Finnair’s financial position or results. In Finnair balance sheet, Norra has been classified as assets held for sale in 2017 and as joint venture in 2018. More information can be found in the notes 4.3 Acquisitions and disposals, 4.5 Assets and liabilities held for sale and 4.6 Related party transactions.

4.5 Assets and liabilities held for sale

A Assets held for sale or disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and sale is considered highly probable, during the following twelve months. Immediately before classification, assets held for sale or assets and liabilities of disposal groups are valued at the lower of the carrying amount or their fair value less cost to sell. Depreciation of these assets is discontinued at the moment of clas-sification. **A**

Assets and liabilities held for sale included Finnair’s ownership in Nordic Regional Airlines AB, which was acquired to Finnair’s full ownership on an interim basis in 2017. Previously, Finnair owned 40% of the shares and it was classified as joint venture. Finnair announced at the end of August 2018 that it will sell 60 per cent of Norra to Danish Air Transport. The Finnish Competition and Consumer Authority approved the transaction at the end of September 2018, and the transaction was closed in October 2018.

The book value of the assets held for sale

EUR mill.	2018	2017
Tangible assets	0.1	0.1
Assets from subsidiary held for sale		16.6
Assets total	0.1	16.7
Liabilities from subsidiary held for sale		11.2

A = Accounting principles

4.6 Related party transactions

Related party of Finnair group includes its subsidiaries, management, associated companies and joint ventures and Finnair pension fund. Subsidiaries are listed in the note 4.2 and associates and joint ventures in note 4.4. Related party transactions include such operations that are not eliminated in the group’s consolidated financial statement.

Finnish government owns 55.8% (55.8%) of Finnair’s shares. All the transactions with other government owned companies are with arms length basis.

The following transactions have taken place with associated companies and joint ventures:

EUR mill.	2018	2017
Sales of goods and services		
Associates and joint ventures	44.1	42.2
Pension fund	0.2	0.0
Purchases of goods and services		
Associates and joint ventures	105.4	105.6
Pension fund	3.0	3.5
Transfers under finance arrangements		
Associates and joint ventures	2.0	2.0
Receivables		
Short-term receivables from associates and joint ventures	9.2	
Liabilities		
Non-current liabilities to associates and joint ventures	3.6	
Non-current liabilities to pension fund	16.5	4.1
Current liabilities to associates and joint ventures	2.1	

Transactions with related parties are with arms length, and are with similar terms than transactions carried out with independent parties. Management remuneration is presented in note 1.3.7. Management has not been granted any loans and there has not been any other transactions with management.

Transactions with Finnair ´s joint venture Nordic Regional Airlines AB Group (Norra) have been included in transactions with joint ventures for the full financial year of 2018. Norra became temporarily a fully-owned subsidiary of Finnair on 17 November 2017, when former partners Staffpoint Holding Oy and Kilco Oy decided to withdraw from the arrangement. Finnair announced at the end of August 2018 that conclusion was reached with the new partner Danish Air Transport (DAT) and the transaction was closed at the beginning of October 2018. When 60% share was sold to DAT, Norra once again became a joint venture of Finnair. Although Norra was a fully-owned subsidiary between 17 November 2017 and 1 October 2018, during that time it was classified as an asset held for sale, and the transactions related to the purchase traffic arrangement between the parties were not eliminated from Finnair ´s results from continuing operations, as the arrangement was expected to continue after the sale of the 60% share.

More information on associated companies and joint ventures can be found in the note 4.4.

Finnair pension fund

The Finnair pension fund in Finland is a stand-alone legal entity which mainly provides additional pension coverage to Finnair’s personnel in the form of defined benefit plan, and manages related pension assets. The assets include Finnair’s shares representing 0.1% (0.1%) of the company’s outstanding shares. Real estate and premises owned by the pension fund have been mainly leased to Finnair. In 2018 and 2017 Finnair did not pay any contributions to the fund. Pension obligation was 16.5 million euros (4.1) at the end of the financial year.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

4.7 Changes in accounting principles

IFRS 15 Revenue from Contracts with Customers

Finnair adopted the new standard on revenue recognition in the beginning of 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard superseded all current revenue recognition requirements under IFRS. Finnair applied cumulative catch-up method in the transition.

IFRS 15 changed the timing of revenue recognition mainly in passenger revenue (ticket sales) and ancillary revenue. The changes in recognition are described below and impact is minor. In its interpretation for issues requiring clarity under the new standard, Finnair applies published industry papers prepared by airlines through IATA (International Air Transport Association) Industry Accounting Working Group (IAWG).

In passenger revenue, customers usually pay their tickets upfront but do not always exercise their rights and tickets remain unused (breakage). According to IFRS 15, if the airline expects to be entitled to breakage, the airline should recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger. Previously ticket revenue was recognised when the tickets were used or when the rights expired. In practice, the recognition of breakage means that revenue is recognised earlier but the impact is insignificant. Finnair Plus loyalty program accounting treatment or point valuation did not change due to implementation of IFRS 15.

In ancillary sales, the revenue related to change fees is recognised later than previously, since it is considered as a contract modification instead of separate revenue transaction. In travel services, flight and hotel are considered separate performance obligations and are recognised as service is delivered. Previously, travel services have been considered as one performance obligation. The impact of the change is minor.

In the beginning of 2018, Finnair made an adjustment of -4.7 million euros to its retained earnings related to these changes in accounting principles. The adjustment consists of decrease in revenue -8.7 million euros, decrease in expenses for tour operations +2.8 million euros and changes in deferred taxes +1.2 million euros.

Effects of the changes in accounting principles in retained earnings	
	1 Jan 2018
Passenger revenue	2.9
Ancillary revenue	-5.3
Travel services	-6.2
Revenue related effects total	-8.7
Expenses for tour operations	2.8
Income taxes	1.2
Total recognised in retained earnings	-4.7

IFRS 2 Share-based Payment

Finnair adopted the amendment to Share-based Payment standard, IFRS 2, at the beginning of 2018. According to the amendment, those share-based payments that are settled net of taxes are considered in its entirety as equity-settled share-based payment transactions. Previously, the taxes were considered cash-based payments.

All Finnair’s performance share plans for key personnel (LTI) and FlyShare employee share savings plans are net-settled. At the beginning of 2018, the carrying value of unexercised cash-settled share-based payments was 3.8 million euros. These were reclassified from liabilities related to employee benefits to equity. Prior periods were not restated.

IFRS 16 Leases

The new leasing standard IFRS 16 will be effective from 2019 onwards. It replaces the previous standard (IAS 17 Leases). Finnair will adopt the standard from 2019 onwards and will apply the full retrospective method to each prior reporting period presented.

Finnair has carried out an extensive implementation project and the new standard will have a significant impact on its financial statements and key ratios. The present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements will be recognised as right-of-use assets and as interest-bearing lease liabilities on the balance sheet. Currently, future lease payments for operating leases are presented in the notes as operating lease commitments at their nominal value. The currently reported operating lease commitments at the end of Q4 2018 amounted to 1,457 million euros (see note 2.2. Leasing arrangements for more detail).

Applying the full retrospective method and using the current interpretations of the relevant elements of the standard as set out below, Finnair estimates that its assets will increase by 1.0 billion euros due to recognition of right-of-use assets, of which the majority (~80%) are aircraft. Liabilities will increase in total by 1.1 billion euros due to the recognition of the present value of qualifying operating lease payments. The comparative information will be restated, and the cumulative effect of initially applying IFRS 16 is made as an adjustment to opening equity of 1.1.2018. The impact to equity will be 0.1 billion euros. The changes in the amount of equity and liabilities are reflected in the equity ratio, which Finnair expects to decrease by more than 10 p.p. due to adopting the standard.

Although the assets associated with operating leases will be denominated in euros when converted into right of use assets, the majority of Finnair’s aircraft lease contracts will remain payable in US dollars. As at January 2019, Finnair aims to mitigate the foreign exchange volatility introduced by this difference by adjusting its hedging policy.

Impacts to Finnair financial statements of 31.12.2018

Interest-bearing net debt will increase by the amount of the present value of qualifying operating lease payments of 1.1 billion euros. This will be reflected in the key figure Gearing %, which will increase significantly (by more than 100 p.p.), to approximately 70%. Finnair currently discloses a key ratio called ”Adjusted gearing”, which takes operating lease payments into account in the following way: aircraft operating lease costs for the last twelve months are multiplied by 7 and added to the interest-bearing net debt (see Balance sheet: “Additional information to Balance sheet: Interest-bearing net debt and adjusted gearing”). This key figure stood at 67% at the end of reporting year 2018. When the new standard is in effect, aircraft operating lease payments are no longer recognised in aircraft lease costs. Instead, the net present value of future aircraft lease payments is recognised in interest-bearing debt, which is already included in the calculation of “Gearing”. KPI “Adjusted gearing” will therefore be replaced with “gearing”.

The leasing standard will also impact Finnair’s income statement. From 2019 onwards, operating lease expenses will be no longer presented for the qualifying lease contracts in the income statement but in the income statement there will be instead the depreciations of the right-of-use assets (affecting the comparable operating result) and the interest costs associated with the liability (affecting finance net). The interest costs for the liability are at their highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortised. Currently, operating lease expenses are accrued over the lease term primarily on a straight-line basis and recognised in the operating result as lease payments for aircraft and other rents, according to the lease contract terms. In addition to the impact on operating result and EBITDA, cash flow from operating activities will also increase, as the amortisation of lease liabilities is transferred from operating activities to financing activities in cash flow.

Finnair estimates that its 2018 comparable operating result will improve by approximately 30% due to adopting the new standard. Depreciation will increase due to depreciation of right of use assets, but the qualifying operating lease payments will no longer be included in operating result and will be instead included in lease liability repayments and financial expenses Finnair’s net result in 2018 will, however, decrease by an estimated 30 per cent due to interest expenses and foreign exchange losses associated with USD denominated aircraft lease payments and liability. The

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

majority of the decrease in Finnair’s net result is derived from unrealized foreign exchange losses caused by the translation of the USD denominated liability. The amount of the foreign currency exchange effect could be positive or negative, depending on the USD-rate at the closing date. As at January 2019, Finnair aims to mitigate the foreign exchange volatility introduced by this difference by adjusting its hedging policy. The annual effect in net result going forward is dependent on the size of the qualifying operating lease portfolio and the duration of the leases.

In the cash flow statement, repayments of lease liabilities will be moved from operating cash flow to financing cash flow in accordance with IFRS 16. Operating cash flow will increase by approximately 30%, with a corresponding negative adjustment in financing cash flow.

Impacts to Finnair accounting policy

The leases recognized as right-of-use assets under IFRS 16 based on Finnair’s analysis are comprised of operating leased aircraft and spare engines, real estate, cars and ground equipment. Aircraft will account for the majority (~80%) of the right-of-use asset and lease liability balance sheet value. The majority of the remaining (~20%) is real estate contracts.

Finnair will use the exemption provided by the standard not to account for lease liability for operating leases which have a term of 12 months or less, and which do not include an option to purchase the underlying asset. In addition, Finnair will not account for IFRS 16 lease liability for leases for which the underlying asset is not material to Finnair. The assessment of whether the underlying asset is material and is within the scope or excluded from the recognition requirements of IFRS 16 is based on the concept of materiality in the Conceptual Framework and IAS 1. Finnair recognizes the lease payments associated with such leases as an expense on a straight-line basis, similar to current accounting for operating leases.

Aircraft

Lease term: For the aircraft operating lease contracts, the lease term will correspond to the non-cancellable duration of the contracts signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option that is included in the contract. At the initial measurement of the lease, Finnair does not normally include any option period in the lease term as there is significant uncertainty whether Finnair will continue the lease term, even if the lease allows for extensions. The negotiation of possible extension typically begins 12-18 months prior to the initial operating lease term expiry. Finnair remeasures the lease liability when it decides to use the extension option or when there is some other significant indication that the lease period will be extended. For example, major modifications to leased aircraft may be considered as indications of extending the lease, especially if done close to the end of leasing period.

Discount rate: Aircraft lease agreements do not clearly define the interest rate implicit in a lease. Since the fair values of the aircraft are provided publicly by third parties, Finnair is able to calculate the implicit interest rate for each qualifying aircraft operating lease. The rate implicit in the lease is defined as the rate that causes the sum of the present value of the lease payments and the present value of the residual value of the underlying asset at the end of the lease to equal the fair value of the underlying asset.

Maintenance costs: Finnair recognizes provisions for leased aircraft to maintain the aircraft during the period of the lease. For owned aircraft, provisions are not recognized because the cost is avoidable, by for instance selling the asset. IFRS 16 requires including restoration costs in the right-of-use asset. Finnair uses the criteria of whether the maintenance cost is avoidable or unavoidable in determining whether the maintenance cost is capitalized to the RoU asset or not.

Finnair is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor. The maintenance costs can be divided into two main groups:

1) costs that incur independent of the usage of the aircraft / leasing period and

2) costs that incur dependent on the usage of the aircraft / leasing period

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease in accordance with IFRS 16 (IFRS 16:25).

Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost.

Excluded contracts: Excluded, non-qualifying, aircraft lease contracts include wet leases and spare engines that have been mainly excluded based on short-term exemption. Finnair analyses the lease term separately for each lease based on contract term and possible extension and early termination options. When the lease term is 12 months or less and Finnair does not intend to continue the lease period after that, the lease agreement is excluded from lease liabilities.

Wet lease agreements are made to lease airline capacity typically on a short-term basis, for example when there are shortages in resourcing. The lease term of a typical wet lease agreement can vary from one day to one year.

Spare engines that have been leased on short-term basis in exceptional cases, are excluded from the lease liability. The lease term is usually only few days up to few months and Finnair does not intend to lease the spare engines for a longer period of time than they are needed.

Real estate

Lease term: The lease term corresponds to the non-cancellable duration of the contracts signed, except in cases where Finnair is reasonably certain of exercising either an extension option or an early termination option included in the contract.

Discount rate: Since facility agreements do not clearly specify the implicit interest rate in the lease contracts, Finnair uses an estimate of incremental borrowing cost for a portfolio of facilities, meaning that all of the facilities’ (land and real estate) lease contracts are discounted using the same discount rate. A management estimate of the incremental borrowing cost is used in determining the interest rate.

Excluded contracts: Based on Finnair’s evaluation, service contracts that relate to the usage of airports and terminals (HEL hub) do not qualify as lease arrangements for IFRS 16 purposes. In the contracts, the lessor has a substitution right to substitute the leased area with another area, which leads to classifying the contracts as non-leases. As an exception from this principle, there are specific lounge areas at Helsinki airport that are dedicated for Finnair’s use, and these are, therefore, included in lease contracts.

Finnair has analyzed lease contracts where the lease term is not fixed but both the lessor and lessee have an option to terminate the lease within 1-12 months’ notice and has concluded that these contracts are not material and termination of these contracts is practically realistic within the time of the notice (e.g. small storage space). Therefore, these contracts have been mainly excluded from the lease liability.

Other leases (cars and ground equipment)

Based on Finnair’s analysis, the other leases constitute mainly of company cars and ground equipment, where the lease is considered long-term and, therefore, qualify as IFRS 16 leases.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Finnair has used this practical expedient for those company car and ground equipment leases that include service components.

The lease term will correspond to the non-cancellable duration of the contracts signed except in cases where Finnair is reasonably certain of exercising either an extension option or an early termination option included in the contract. Based on the analysis, current lease contracts do not include such options that would be reasonably certain to be exercised, so the lease term of the current contracts corresponds to the lease duration of the signed contract. Finnair uses an estimate of incremental borrowing cost for each portfolio of cars and ground equipment, meaning that all of the lease contracts are discounted using the same discount factor. A management estimate is used to determine the incremental interest rate. Lease contracts that individually (or by asset class) are not material to Finnair have been excluded from the lease liability. These contracts include small IT-equipment and office equipment.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Subleases

IFRS 16 did not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Under IFRS 16, an intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, Finnair has reclassified certain of its sublease agreements as finance leases as at 1st January 2019.

Finnair subleases 9 (nine) aircraft and a small amount of ground equipment, where by reference to the head lease, the lease term is for the majority of the remaining economic life arising from the Right-of-use asset and, therefore, these are classified as finance leases in accordance with IFRS 16. The right-of-use asset arising from the head lease is derecognized and a net investment corresponding to the discounted lease payments is recognized on the Finnair balance sheet.

In accordance with IFRS 16, for subleases where Finnair is the lessor and which are reclassified from operating subleases to finance leases due to IFRS 16, contracts ongoing at 1.1.2019 (date of initial application) are accounted for as new finance leases and the gain or loss arising on the subleases is included in the cumulative catch-up adjustment in retained earnings.

5 Other notes

i Other notes include all such notes that do not specifically relate to any previous subject matters. **i**

5.1 Income taxes

A The tax expense for the period includes current and deferred tax and adjustments to previous years' taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or other equity items. Deferred taxes are calculated for temporary differences between accounting and taxation using the valid tax rates for future years at the closing date.

Deferred tax asset is recognised to the extent that realisation of the related tax benefit through future profits is probable. Temporary differences arise mainly from sales of tangible assets, depreciation and tax losses. Deferred tax is recognised for foreign subsidiaries' undistributed earnings only when related tax effects are probable.

Deferred tax assets and liabilities are set off when they are levied by same taxing authority and Finnair has legally enforce-able right to set off the balances. **A**

Income taxes

EUR mill.	2018	2017
Taxes for the financial year		
Current tax	-11.1	-0.6
Adjustments recognised for current tax of prior periods	0.0	0.0
Deferred taxes	-26.8	-41.1
Total	-37.9	-41.7

The table below explains the difference between theoretical tax cost calculated with Finnish nominal tax rate 20.0% (20.0%) and tax expense in the consolidated income statement:

EUR mill.	2018	2017
Result before taxes	188.6	211.1
Taxes calculated using the Finnish tax rate	-37.7	-42.2
Different tax rates of foreign subsidiaries	-0.1	0.1
Tax-exempt income	0.6	0.7
Non-deductible expenses	-0.6	-0.4
Adjustments recognised for taxes of prior periods	0.0	0.0
Income taxes, total	-37.9	-41.7
Effective tax rate	20.1%	19.8%

Effective tax rate was 20.1% (19.8%). Current tax relates to tax cost accrued in Finnair Oyj and in Finnair ATR Finance Oy which was merged into its parent company Finnair Aircraft Finance Oy during the financial year.

i = Content of the section
A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Deferred tax assets and liabilities

The Group has evaluated the nature and classification of deferred tax assets. Based on the evaluation, deferred tax assets and liabilities levied by the same taxing authority met the requirements for offset eligibility in accordance with IAS12. The deferred tax assets and liabilities are shown net on the balance sheet.

Changes in deferred taxes during 2018:

EUR mill.	2017	Change in accounting principles (IFRS 15, Revenue from Contracts with Customers)	Recognised in the income statement	Recognised in shareholders' equity	2018
Deferred tax assets and liabilities					
Confirmed losses	13.7	1.2	-17.9	3.2	0.1
Employee benefits	0.9		2.6	-0.1	3.3
Property, plant and equipment	-69.7		-9.3		-79.0
Finance leasing	-7.2		-1.0		-8.2
Other temporary differences	-4.2		-1.1	0.4	-4.9
Valuation of derivatives at fair value	-7.6			22.7	15.1
Total	-73.9	1.2	-26.8	26.1	-73.5
Deferred tax assets that can be used after more than 12 months	0.5				0.5
Deferred tax liabilities that are expected to realize after 12 months or more	-70.4				-79.7

The estimated amount of confirmed tax losses after the 2018 taxable result is approximately 0.3 million euros. Confirmed tax losses expire within 10 years.
Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.3 million euros (0.4).

Changes in deferred taxes during 2017:

EUR mill.	2016	Change in accounting principles (IFRS 9, Financial Instruments)	Recognised in the income statement	Recognised in shareholders' equity	2017
Deferred tax assets and liabilities					
Confirmed losses	29.3	3.8	-22.6	3.2	13.7
Employee benefits	6.0		2.1	-7.2	0.9
Property, plant and equipment	-53.4		-16.3		-69.7
Finance leasing	-4.7		-2.6		-7.2
Other temporary differences	-2.5		-1.7		-4.2
Valuation of derivatives at fair value	-7.5	-3.8		3.7	-7.6
Total	-32.7	0.0	-41.1	-0.3	-73.9
Deferred tax assets that can be used after more than 12 months	0.6				0.5
Deferred tax liabilities that are expected to realize after 12 months or more	-54.4				-70.4

5.2 Disputes and litigation

Finnair reports only cases of which the interest is material and that are not insured. On 31 December 2018 there were no such disputes pending.

5.3 Events after the closing date

There have not been significant events after closing date.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2018	2017
Revenue	6.2	2,676.8	2,419.4
Other operating income	6.3	84.3	78.0
Operating income		2,761.1	2,497.5
Materials and services	6.4	1,295.7	1,128.5
Staff expenses	6.5	320.6	327.7
Depreciation and reduction in value	6.6	11.4	9.1
Other operating expenses	6.7	1,074.5	950.9
Operating expenses		2,702.2	2,416.3
Operating profit/loss		58.8	81.2
Financial income and expenses	6.8	-18.4	-25.9
Profit/loss before appropriations and taxes		40.5	55.3
Appropriations	6.9	46.4	29.9
Income taxes	6.10	-17.1	-16.5
Profit/loss for the financial year		69.7	68.6

Finnair Plc balance sheet

EUR mill.	Note	2018	2017
ASSETS			
Non-current assets			
Intangible assets	6.11	32.3	24.0
Tangible assets	6.12	61.7	63.4
Investments			
Holdings in group undertakings		447.3	447.6
Participating interests		2.5	2.5
Other shares and similar rights of ownership		0.4	0.4
Loan and other receivables	6.14	18.2	21.1
Total investments	6.13	468.4	471.6
Total non-current assets		562.3	559.0
Current assets			
Deferred tax assets	6.15	15.5	0.0
Current receivables	6.16	664.6	787.3
Marketable securities	6.17	892.2	833.0
Cash and bank equivalents	6.18	178.5	146.4
Total current assets		1,750.8	1,766.6
TOTAL ASSETS		2,313.1	2,325.6
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		256.5	253.7
Legal reserve		147.7	147.7
Hedging reserve		-59.6	42.8
Retained earnings		126.2	101.7
Profit/loss for the financial year		69.7	68.6
Total equity	6.19	640.7	714.7
Accumulated appropriations	6.20	22.4	20.5
Provisions	6.21	112.1	98.4
LIABILITIES			
Non-current liabilities	6.22	400.9	406.4
Current liabilities	6.23	1,137.1	1,085.8
Total liabilities		1,538.0	1,492.1
EQUITY AND LIABILITIES TOTAL		2,313.1	2,325.6

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Finnair Plc cash flow statement

EUR mill.	2018	2017
Cash flow from operating activities		
Result before appropriations	40.5	55.3
Depreciation	11.4	9.1
Other non-cash transactions	4.0	21.9
Financial income and expenses	18.6	28.6
Changes in working capital	67.0	82.3
Interest and other financial expenses paid	-22.3	-30.6
Received interest and other financial income	7.3	2.2
Cash flow from operating activities	126.4	168.6
Cash flow from investing activities		
Investments in intangible and tangible assets	-16.8	-32.6
Proceeds from sales of tangible assets	0.0	0.4
Change in long-term receivables	74.3	-195.0
Investments in subsidiaries	0.1	2.4
Proceeds from sales of subsidiaries	0.4	0.0
Cash flow from investing activities	58.0	-224.7
Cash flow from financing activities		
Purchase of own shares	-3.7	0.0
Proceeds from loans	0.0	200.0
Loan repayments and changes	-81.1	-74.9
Dividends paid	-38.4	-12.8
Received and given group contributions	30.0	128.7
Cash flow from financing activities	-93.2	241.0
Change in cash flows	91.3	184.9
Change in liquid funds		
Liquid funds, at beginning	979.4	794.4
Change in cash flows	91.3	184.9
Liquid funds, at end	1,070.6	979.4

Notes to Finnair Plc financial statements

6.1 Accounting principles

Foreign currency items

Business transactions in foreign currencies have been valued using the exchange rate at the date of transaction. Receivables and liabilities on the balance sheet date are valued using the exchange rate on the balance sheet date. Advances paid and received are valued in the balance sheet using the exchange rate at the date of payment. Exchange rate differences on trade receivables and payables are treated as the adjustments to turnover and other operating expenses. Exchange rate differences on other receivables and liabilities are entered under financial income and expenses.

Derivative contracts

According to its risk management policy, Finnair uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Finnair’s balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. The balance sheet exposure is hedged only at the Group level. The combined entity-level exposure for all Group companies differs from the Group-level exposure by the amount of intercompany items. Therefore, the balance sheet position and contracts hedging it are presented only in note 3.5 of the Group financial statements. Similarly, the foreign currency cash flow exposure is only hedged at the Group level to take advantage of the netting effect, and is presented in note 3.5 of the Group financial statements. Derivative contracts are valued using the rates on the balance sheet date according to Accounting Act 5:2 a §.

The derivatives are initially recognised at original acquisition cost (fair value) in the balance sheet and subsequently valued at fair value in each financial statement and interim report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

The fair values of all derivatives are calculated using the exchange rates, interest rates, volatilities and commodity price quotations on the closing date. The fair values of currency forward contracts are calculated as the present value of future cash flows. The fair values of currency options are calculated using the Black-Scholes option pricing model. The fair values of interest rate and currency swap contracts are calculated as the present value of future cash flows. The fair values of interest rate options are calculated using generally accepted option valuation models. The fair values of commodity forward contracts are calculated as the present value of future cash flows. The fair values of commodity options are calculated using generally accepted option valuation models.

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognized in accordance with the underlying asset being hedged. At inception, derivative contracts are designated as future cash flows hedges, hedges of binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair documents the economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the company’s risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each financial statement, Finnair documents and assesses the effectiveness of hedge relationships by examining the past and prospective capacity of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet items current assets and current liabilities.

Finnair implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the foreign currency risk of foreign currency denominated purchases and sales, the price risk of jet fuel purchases and the price risk of electricity.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

The change in the fair value of the effective portion of derivative instruments that fulfil the terms of cash flow hedging are directly recognised in the fair value reserve of other comprehensive income, to the extent that the requirements for the application of hedge accounting have been fulfilled. The gains and losses, recognised in fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When an instrument acquired for the hedging of cash flow matures or is sold, or when the criteria for hedge accounting are no longer fulfilled, the gain or loss accrued from hedging instruments remains in equity until the forecast transaction takes place. However, if the forecasted hedged transaction is no longer expected to occur, the gain or loss accrued in equity is immediately recognised in the income statement.

Financial assets and liabilities

Financial assets have been classified into the following categories: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the contractual cash flows of the investment. All purchases and sales of financial assets are recognised on the trade date. Liabilities are recognised at acquisition cost. Financial assets at fair value through profit and loss as well as assets and liabilities maturing within 12 months are included in current assets and liabilities. Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset’s contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Derecognition of financial assets takes place when Finnair has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the company.

Finnair recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Fixed assets and depreciation

Buildings, 10–50 years from the time of acquisition to a residual value of 10%.

Other tangible assets, over 3–15 years.

Diminishing balances method, that has been previously used in depreciating some buildings and other tangible assets, has been changed during 2017 to straight-line method. The change did not have significant impact to depreciation amounts of the financial year.

Research and development costs

Except for major software development costs, research and development costs are expensed as they occur. Research and development of aircraft, systems and operations is conducted primarily by the manufacturers.

Leasing

Lease payments for aircraft are significant. Annual lease payments are treated as rental expenses. Lease payments due in future years under aircraft lease contracts are presented as off-balance sheet items.

Appropriations

The difference between total and planned depreciation is shown as accumulated appropriations in the balance sheet and the change during the financial year in the income statement. Appropriations contain also given and received group contributions.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, adjustments to taxes in previous financial years and the change in deferred taxes.

Pension schemes

The mandatory pension cover of the company’s domestic employees has primarily been arranged through a Finnish pension insurance company and other additional pension cover through the Finnair pension fund or a Finnish pension insurance company. Since 1992, the pension fund has no longer accepted employees other than pilots for additional pension coverage. The Finnair pension fund’s pension obligation is fully covered with respect to additional coverage. Pension fund liabilities are presented in the notes to the financial statements.

Provisions

Provisions in the balance sheet and entered as expenses in the income statement comprise those items which the company is committed to covering through agreements or otherwise in the foreseeable future and which have no corresponding revenue and whose monetary value can be reasonably assessed.

The company is obliged to return leased aircraft at the required redelivery condition. To fulfil these maintenance obligations, the company has recognised provisions based on flight hours flown during the maintenance period.

6.2 Revenue by business area

EUR mill.	2018	2017
Revenue by division		
	2,676.8	2,419.4
Passenger revenue	2,343.8	2,109.0
Ancillary services	121.1	108.5
Other	212.0	201.9
Distribution of turnover by market areas based on flight routes, % of turnover		
Finland	7%	7%
Europe	38%	39%
Other countries	55%	53%
Total	100%	100%

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.3 Other operating income

EUR mill.	2018	2017
Aircraft lease income	28.0	26.0
Other rental income	26.5	27.3
Other income	29.8	24.8
Total	84.3	78.0

6.4 Materials and services

EUR mill.	2018	2017
Materials and supplies		
Ground handling and catering expenses	306.7	283.8
Fuel costs	581.0	472.2
Aircraft materials and overhaul	253.6	235.5
IT expenses	80.7	72.8
Other items	73.7	64.3
Total	1,295.7	1,128.5

6.5 Staff costs

EUR mill.	2018	2017
Wages and salaries	253.5	254.4
Pension expenses	48.6	48.4
Other social expenses	18.5	25.0
Total	320.6	327.7
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.1	1.6
Board of Directors	0.5	0.4
Personnel on average	4,291	3,761

6.6 Planned depreciation and amortisation

EUR mill.	2018	2017
On other long-term expenditure	9.8	8.4
On buildings	1.0	0.3
On other equipment	0.7	0.5
Total	11.4	9.1

6.7 Other operating expenses

EUR mill.	2018	2017
Lease payments for aircraft	366.0	306.9
Other rents for aircraft capacity	117.5	117.1
Office and other rents	32.9	35.6
Traffic charges	300.8	266.5
Sales and marketing expenses	81.9	76.4
Other expenses	175.4	148.6
Total	1,074.5	950.9

6.8 Financial income and expenses

EUR mill.	2018	2017
Interest income		
From group companies	6.6	5.5
From other companies		
Net gains on debt instruments held mandatorily at FVPL	-3.6	-0.7
Other interest income	0.5	0.3
Total	3.5	5.1
Gains on disposal of shares	0.2	2.8
Interest expenses		
To other companies	-25.2	-28.5
Total	-25.2	-28.6
Other financial expenses		
To group companies	0.0	-0.1
To other companies	-0.5	0.0
Total	-0.5	-0.1
Exchange gains and losses	3.6	-5.1
Financial income and expenses total	-18.4	-25.9

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.9 Appropriations

EUR mill.	2018	2017
Change in depreciation difference	-1.9	-0.1
Received group contribution	48.3	30.0
Total	46.4	29.9

6.10 Income taxes

EUR mill.	2018	2017
Income tax for the financial year	-10.6	0.0
Change in deferred taxes	-6.5	-16.5
Total	-17.1	-16.5

6.11 Intangible assets

EUR mill.	2018	2017
Other long-term expenditure		
Acquisition cost 1 January	52.9	41.8
Additions	18,0	14.1
Disposals	-4.7	-3.0
Acquisition cost 31 December	66,2	52.9
Accumulated depreciation 1 January	-28.9	-23.6
Disposals	4.7	1.7
Depreciation and reduction in value	-9.8	-7.0
Accumulated depreciation 31 December	-34.0	-28.9
Book value 31 December	32.3	24.0

6.12 Tangible assets

Tangible assets 2018

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.4	7.9	7.7	70.8
Additions	0.0	0,3	1.4	5.0	6,6
Disposals	0.0	0.0	-0.2	-6.7	-6.9
Acquisition cost 31 December	0.7	54.7	9.1	6.0	70.6
Accumulated depreciation 1 January	0.0	-3.4	-3.9	0.0	-7.4
Disposals	0.0	0.0	0.2	0.0	0.2
Depreciation and reduction in value	0.0	-1.0	-0.6	0.0	-1.6
Accumulated depreciation 31 December	0.0	-4.4	-4.4	0.0	-8.8
Book value 31 December	0.7	50,3	4.7	6.0	61.7
The share of machines and equipment in the book value of tangible assets 31 Dec 2018					1.1%

Tangible assets 2017

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	8.4	6.4	47.4	63.0
Additions	0.0	46.0	1.8	4.7	52.5
Disposals	0.0	0.0	-0.3	-44.3	-44.6
Acquisition cost 31 December	0.7	54.4	7.9	7.7	70.8
Accumulated depreciation 1 January	0.0	-3.1	-3.7	0.0	-6.8
Disposals	0.0	0.0	0.3	0.0	0.3
Depreciation and reduction in value	0.0	-0.3	-0.5	0.0	-0.8
Accumulated depreciation 31 December	0.0	-3.4	-3.9	0.0	-7.4
Book value 31 December	0.7	51.0	4.0	7.7	63.4
The share of machines and equipment in the book value of tangible assets 31 Dec 2017					1.3%

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.13 Investments

EUR mill.	2018	2017
Group companies		
Acquisition cost 1 January	447.6	448.6
Additions	0.0	0.3
Disposals	-0.3	-1.3
Book value 31 December	447.3	447.6
Associates and joint ventures		
Acquisition cost 1 January	2.5	2.5
Book value 31 December	2.5	2.5
Shares in other companies		
Acquisition cost 1 January	0.4	0.4
Book value 31 December	0.4	0.4

	Share of parent company %
Associates and joint ventures	
Suomen Ilmailuopisto Oy, Finland	49.50
Nordic Regional Airlines AB, Sweden*	40.00

	Share of parent company %	Share of parent company %
Group companies		
Finnair Cargo Oy, Finland	100.00	Finnair Kitchen Oy, Finland100.00
Finnair Aircraft Finance Oy, Finland	100.00	Kiinteistö Oy Lentokonehuolto, Finland100.00
Northport Oy, Finland	100.00	Amadeus Finland Oy, Finland95.00
Finnair Technical Services Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland100.00
Finnair Engine Services Oy, Finland	100.00	FTS Financial Services Oy, Finland100.00
Finnair Flight Academy Oy, Finland	100.00	Finnair Business Services OÜ, Estonia100.00
Finnair Travel Retail Oy, Finland	100.00	

* Finnair owned 100% of Nordic Regional Airlines AB prior to the transaction that was closed in October, 60% of shares were sold to Danish Air Transport Holding A/S.

6.14 Non-current loan and other receivables

EUR mill.	2018	2017
From group companies	16.7	19.6
From other companies	1.5	1.5
Total	18.2	21.1

6.15 Deferred tax assets

EUR mill.	2018	2017
Change in accounting principles	0.5	3.8
Deferred tax assets 1 January	0.0	12.3
From result for the financial year	-6.2	-16.5
From temporary differences	-0.4	0.0
From valuation of derivatives at fair value	25.6	-3.6
Offset against deferred tax liabilities	-4.0	4.0
Deferred tax assets 31 December	15.5	0.0

6.16 Current receivables

EUR mill.	2018	2017
Short-term receivables from group companies		
Trade receivables	19.1	27.4
Received Group contribution	48.3	30.0
Accrued income and prepaid expenses	0.7	2.6
Other receivables	351.1	426.2
Total	419.3	486.2

Short-term receivables from associates and joint ventures		
Trade receivables	0.1	0.0
Prepaid expenses	9.1	0,0
Total	9.2	0.0

Short-term receivables from others		
Trade receivables	109.5	123.5
Prepaid expenses	84.4	68.8
Derivative financial instruments	27.0	100.7
Other receivables	15.2	8.1
Total	236.1	301.1

Short-term receivables total	664.6	787.3
------------------------------	-------	-------

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.17 Investments

EUR mill.	2018	2017
Short-term investments at fair value	892.2	833.0

6.18 Cash and bank equivalents

EUR mill.	2018	2017
Funds in bank accounts and deposits maturing in three months	178.5	146.4

6.19 Equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 31 Dec 2017	75.4	24.7	147.7	42.8	253.7	170.3	714.7
Change in accounting principles						-2.0	-2.0
Equity 1 Jan 2018	75.4	24.7	147.7	42.8	253.7	168.3	712.7
Change in fair value of equity instruments				-102.4			-102.4
Share-based payments					2.8		2.8
Purchase of own shares						-3.7	-3.7
Dividend						-38.4	-38.4
Result for the financial year						69.7	69.7
Equity 31 Dec 2018	75.4	24.7	147.7	-59.6	256.5	196.0	640.7

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1 Jan 2017	75.4	24.7	147.7	43.5	252.2	114.5	658.0
Change in fair value of hedging instruments				-0.7			-0.7
Share-based payments					1.6		1.6
Dividend						-12.8	-12.8
Result for the financial year						68.6	68.6
Equity 31 Dec 2017	75.4	24.7	147.7	42.8	253.7	170.3	714.7

Distributable equity		
EUR mill.	2018	2017
Hedging reserve	-59.6	0.0
Unrestricted equity funds	256.5	253.7
Retained earnings	126.2	101.7
Profit/loss for the financial year	69.7	68.6
Total	392.9	424.0

6.20 Accumulated appropriations

EUR mill.	2018	2017
Accumulated depreciation difference 1 January	20.5	0.3
Change in depreciation difference	1.9	20.1
Accumulated depreciation difference 31 December	22.4	20.5
Accumulated reinvestment provision 1 January	0.0	20.0
Change in reinvestment provision	0.0	-20.0
Accumulated reinvestment provision 31 December	0.0	0.0
Accumulated appropriations total	22.4	20.5

6.21 Provisions

EUR mill.	2018	2017
Provisions 1 January	98.4	83.5
Provision for the period	43.2	42.6
Provision used	-34.1	-16.0
Exchange rate differences	4.7	-11.8
Provisions 31 December	112.1	98.4
Of which long-term	91.1	78.3
Of which short-term	21.0	20.1
Total	112.1	98.4

Long-term aircraft maintenance provisions are expected to be used by 2030.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.22 Non-current liabilities

EUR mill.	2018	2017
Bonds	200.0	200.0
Hybrid loan	200.0	200.0
Deferred tax liability total	0.0	4.0
Other liabilities	0.9	2.4
Total	400.9	406.4
Maturity of interest-bearing liabilities		
1-5 years	200.0	200.0
after 5 years	200.0	200.0
Total	400.0	400.0

6.23 Current liabilities

EUR mill.	2018	2017
Current liabilities to group companies		
Trade payables	47.5	40.5
Accruals and deferred income	23.7	20.6
Group bank account liabilities	122.7	130.6
Total	194.0	191.7
Current liabilities to associates and joint ventures		
Advance payments received	2,1	0,0
Total	2,1	0,0
Current liabilities to others		
Loans from financial institutions	0.0	65.6
Advance payments received	0.1	0.1
Trade payables	60.7	73.5
Accruals and deferred income	861.6	739.3
Other liabilities	18.7	15.7
Total	941.0	894.1
Current liabilities total	1,137.1	1,085.8

Accruals and deferred income	2018	2017
Unflown air transport revenues	444.4	384.9
Jet fuels and traffic charges	89.5	74.7
Holiday payment liability	61.0	56.7
Loyalty program Finnair Plus	45.8	40.9
Derivative financial instruments	100.5	35.5
Other items	122.6	146.6
Total	863.7	739.3

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2018	2017
Guarantees and contingent liabilities		
On behalf of group companies	82.0	71.0
On others companies	0.6	0.0
Total	82.6	71.0
Aircraft lease payments		
Within one year	338.8	364.2
After one year and not later than 5 years	1,207.6	1,618.7
Later than 5 years	657.7	420.9
Total	2,204.1	2,403.8

Parent company has leased the aircraft fleet from the fully owned subsidiary.

EUR mill.	2018	2017
Other lease payments		
Within one year	29.3	27.9
After one year and not later than 5 years	91.4	55.4
Later than 5 years	140.6	180.9
Total	261.3	264.3
Pension obligations		
Total obligation of pension fund	339.8	334.1
Non-mandatory benefit covered	-339.8	-334.1
Total	0.0	0.0

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.25 Derivatives

EUR mill.	2018				2017			
	Nominal value	Positive fair values	Negative fair values	Fair net value	Fair net value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Jet fuel currency hedging								
Operational cash flow hedging (forward contracts)	700.1	17.0	-6.9	10.1	385.2	5.8	-16.3	-10.5
Operational cash flow hedging, bought options		5.6		5.6	195.1	5.1		5.1
Operational cash flow hedging, sold options			-2.8	-2.8	200.1		-4.0	-4.0
Hedge accounting items total	700.1	22.6	-9.7	12.8	780.4	10.9	-20.3	-9.4
Operational cash flow hedging (forward contracts)								
Operational cash flow hedging, bought options								
Operational cash flow hedging, sold options								
Items outside hedge accounting total								
Currency derivatives total	700.1	22.6	-9.7	12.8	780.4	10.9	-20.3	-9.4
Commodity derivatives								
Jet fuel forward contracts, tonnes	924,500	3.8	-78.1	-74.3	808,000	58.3		58.3
Bought options, jet fuel, tonnes	169,500	0.7		0.7	91,000	4.8		4.8
Sold options, jet fuel, tonnes	169,500		-11.6	-11.6	91,000		-0.1	-0.1
Electricity derivatives, MWh								
Hedge accounting items total		4.5	-89.7	-85.2		63.1	-0.1	63.0
Jet fuel forward contracts, tonnes								
Bought options, jet fuel, tonnes								
Sold options, jet fuel, tonnes	0.1		-1.1	-1.1	37,000		-0.4	-0.4
Electricity derivatives, MWh								
Items outside hedge accounting total			-1.1	-1.1		0.0	-0.4	-0.4
Commodity derivatives total		4.5	-90.8	-86.4		63.1	-0.5	62.7
Interest rate derivatives								
Interest rate swaps					64.9	0.7	0.0	0.7
Hedge accounting items total					64.9	0.7	0.0	0.7
Interest rate derivatives total					64.9	0.7	0.0	0.7
Equity derivatives								
Bought options, millions					3.0	26.0		26.0
Sold options, millions					3.0		-14.7	-14.7
Hedge accounting items total					6.0	26.0	-14.7	11.3
Equity derivatives total					6.0	26.0	-14.7	11.3
Derivatives total*		27.0	-100.5	-73.5		100.7	-35.5	65.2

* Positive (negative) fair value of hedging instruments on 31 Dec 2018 is presented in the statement of financial position in the item derivative assets within current assets (derivative liabilities within current liabilities).

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

6.26 Financial assets and liabilities measured at fair value

Fair value hierarchy of financial assets and liabilities valued at fair value
Fair values at the end of the reporting period

EUR mill.	31 Dec 2018	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	892.2	836.6	55.5
Derivatives held for trading			
Currency derivatives	22.6		22.6
- of which in cash flow hedge accounting	22.6		22.6
Commodity derivatives	4.5		4.5
- of which in cash flow hedge accounting	4.5		4.5
Total	919.2	836.6	82.5
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	9.7		9.7
- of which in cash flow hedge accounting	9.7		9.7
Commodity derivatives	90.8		90.8
- of which in cash flow hedge accounting	89.7		89.7
Total	100.5		100.5

6.27 Fuel price risk in flight operations

Timing of the notional and hedged price

31 Dec 2018	Hedged price \$/tonne	Notional amount (tonnes)	Maturity	
			Under 1 year	1 to 2 years
Jet fuel consumption priced with NWE index	667.6	1,275,246	948,246	327,000
Jet fuel consumption priced with SING index	636.8	134,754	134,754	

Foreign exchange risk

Timing of the notional EUR mill. 31 Dec 2018	Average exchange rate of hedging instruments against the euro	Notional amount (gross)	Maturity	
			Less than 1 year	1 to 2 years
USD	1.21	826.2	573.4	252.8
JPY	129.4	371.6	259.0	112.6

Interest rate risk

Timing of the notional and hedged price range EUR mill. 31 Dec 2018	Notional amount (gross)	Maturity Less than 1 year
Interest rate derivatives	0.0	0.0

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

1. OPERATING RESULT
2. AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

Finnair Plc’s distributable equity on 31 December 2018 amounts to 392,868,533.76 euros, of which the net result for the financial year 2018 is 69,742,747.00 euros. There have been no material changes in the company’s financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.274 euros per share be paid based on the balance sheet to be adopted for the financial year, which ended on 31 December 2018, and the remaining portion of the result be retained in the equity. Based on the number of outstanding shares as of 14 February 2019, the total amount of dividend proposed to be paid is 34,890,915.32 euros.

Signing of the Report of the Board of Directors and the Financial Statements

Helsinki, 14 February 2019
The Board of Directors of Finnair Plc



Jouko Karvinen



Colm Barrington



Montie Brewer



Mengmeng Du



Maija-Liisa Friman



Henrik Kjellberg



Jonas Mårtensson



Jaana Tuominen



Topi Manner
President and CEO of Finnair Plc

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

AUDITOR’S REPORT

(Translation of the Finnish Original)

To the Annual General Meeting of Finnair Oyj

Report on the Audit of the Financial Statements

Opinion

- In our opinion
- the consolidated financial statements give a true and fair view of the group’s financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
 - the financial statements give a true and fair view of the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

- We have audited the financial statements of Finnair Oyj (business identity code 0108023-3) for the year ended 31 December 2018. The financial statements comprise:
- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
 - the parent company’s balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

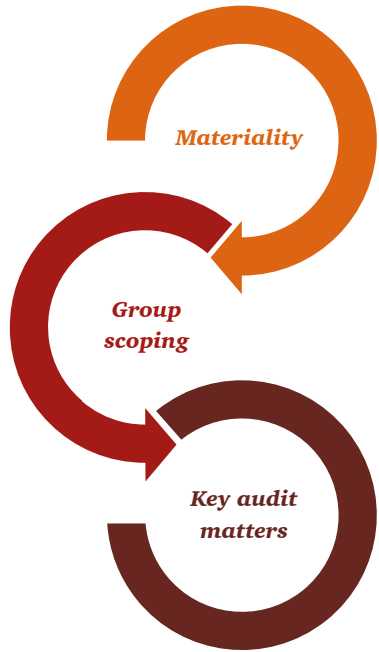
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 1.3.3 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: € 14 000 000 which represents approximately 0.5 % of Group’s revenues
- Audit scope: We have audited parent company and three the most significant subsidiaries. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.
- Deferred revenue on ticket sales
- Aircraft maintenance provision
- Defined employee benefit plans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 14 000 000 € (previous year € 12 000 000)
How we determined it	0.5 % of revenues
Rationale for the materiality benchmark applied	The group’s profitability has been volatile over the last few years and has been significantly impacted by items affecting comparability. Therefore, we chose revenues as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group’s growth and investment plans, and which we believe is also the benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark. We chose 0.5 % which is within the range of acceptable quantitative materiality thresholds in auditing standards.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Group operates domestically through several legal entities. In addition, Group has few small legal entities outside Finland. Group’s sales is mainly generated by parent company and we have audited the parent company as part of our audit of consolidated financial statements. In addition, we have audited three the most significant subsidiaries. We have considered that the remaining subsidiaries don’t present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to analytical procedures performed at Group level.

By performing the procedures above at legal entities, combined with additional procedures at the Group level, we have obtained sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Deferred revenue on ticket sales	
Refer to note 1.2.4 to the consolidated financial statements for the related disclosures.	We evaluated the design and tested the operating effectiveness of certain controls over revenue recognition.
Airline tickets are typically sold in advance when payments received are recognized as deferred revenue. The deferred revenue related to unflown tickets amounted €444,8 million as of December 31, 2018.	We have tested a sample of tickets recognized as revenues.
Airline ticket sales are recognised as revenue when the flight is flown. Part of the tickets expire without usage. For these tickets revenue is recognized based on the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger, using historical trend information.	We have tested a sample of unused tickets in the deferred revenue.
Due to magnitude of the balance and related manual adjustment we consider this as a key audit matter in the audit of the Group.	We have tested the mathematical accuracy and input data of the calculation used to recognize revenues from the breakage model.
	We have performed computer assisted audit procedures to deferred revenue related to unflown tickets.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Aircraft maintenance provision	
Refer to note 1.3.5 to the consolidated financial statements for the related disclosures.	We evaluated the maintenance provision model and tested the calculations therein. This included assessing the process by which the variable factors within the provision were estimated, evaluating the reasonableness of the assumptions, testing the input data and testing mathematical accuracy of the calculations.
The Group operates aircrafts which are owned or held under finance or operating lease arrangements. The Group is obligated to return leased aircraft at the required redelivery condition agreed with the lessor. To fulfil these maintenance obligations the Group has recognized airframe heavy maintenance, engine performance maintenance and engine life limited part provisions which amounted €111,4 million as of December 31, 2018.	In particular, we challenged the key assumptions that were based on the Group’s internal data, such as expected timing and cost of maintenance checks and maintenance contract terms. We also evaluated the provision and the key assumptions in the light of actual utilisation in the year.
Liabilities for maintenance costs are incurred during the term of the lease in respect of aircraft leased under operating leases. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor.	
At each balance sheet date, the maintenance provision is calculated using a model that incorporates a number of variable factors and assumptions including: likely utilisation of the aircraft; the expected cost of the heavy maintenance check at the time it is expected to occur; and the expected occurrence of the heavy maintenance check.	
We focused on this area because of an inherent level of management judgement required in calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.	

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONSolidation
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Defined employee benefit plans	
Refer to note 1.3.7.2 to the consolidated financial statements for the related disclosures. The group has defined employee benefit plans where amount of pension benefit that an employee will receive on retirement is defined and that is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit liability amounted to €17,0 million as of December 31, 2018. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Calculation of the defined benefit obligation requires use of actuarial assumptions such as life expectancy, inflation and future salary increases. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The plan assets are valued at fair value as of December 31, 2018 and valuation involve use of judgment in particular relating to unlisted investments. We considered valuation of the defined benefit obligation and plan assets as a key audit matter in the audit of the Group due to materiality of the related balances and judgments involved in these estimates.	We have used auditors expert to review the actuarial statement prepared by independent actuaries. This has included assessment of the appropriateness of the actuarial assumptions used in calculating the defined benefit obligation. We have tested valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at the year end. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price or prior year audited valuation and publicly available information on similar investments and compared that to the management valuation.
We have no key audit matters to report with respect to our audit of the parent company financial statements.	
There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.	

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements
The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company’s and the group’s ability to continue as a going concern, disclosing, as applicable,

matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company’s or the group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors’ and the Managing Director’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company’s or the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS

- 1.OPERATING RESULT
- 2.AIRCRAFT AND OTHER INTANGIBLE AND TANGIBLE
ASSETS AND LEASING ARRANGEMENTS
- 3.CAPITAL STRUCTURE AND FINANCING COSTS
- 4.CONOLIDATION
- 5.OTHER NOTES
- 6.PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS’ PROPOSAL ON THE DIVIDEND

AUDITORS’S REPORT

Other Reporting Requirements

Appointment
PricewaterhouseCoopers Oy was first appointed as auditor of Finnair Oyj by the annual general meeting on 14.8.1964 and our appointment represents a total period of uninterrupted engagement of 54 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed.

Other Information
The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the 2018 financial information, but does not include the financial statements and our auditor’s report thereon.
Our opinion on the financial statements does not cover the other information.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.
In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Other Statements
We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 14th February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants



Mikko Nieminen
Authorised Public Accountant (KHT)

CONTACT

INFORMATION

House of Travel and Transportation
Finnair Oyj
Tietotie 9 A (Helsinki Airport)
01053 FINNAIR

Tel. +358 600 0 81881 (1,25 €/answered call + local charge)



www.company.finnair.com
www.investors.finnair.com



www.facebook.com/finnair
www.facebook.com/finnairsuomi



www.twitter.com/Finnair
www.twitter.com/FinnairSuomi



<https://blog.finnair.com/en/>
<https://blog.finnair.com/>



www.instagram.com/feelfinnair/