Finnair Group interim report 1 January – 31 March 2014

Difficult first quarter, continued cost reductions essential

January–March 2014

- Turnover declined by 8.4% to 543.3 million euros (593.2).
- The operational result was -34.2 million euros (-17.5).
- Net cash flow from operating activities stood at -20.5 million euros (-11.5), and cash flow from investments totalled 233.6 million euros (-9.2).
- Unit cost per available seat kilometre excluding fuel, CASK (CASK excl. fuel) decreased by 0.2 per cent from previous year's level.
- Unit revenue per available seat kilometre (RASK) fell by 4.0%.
- Good development in the transatlantic joint business, the company made preparations to begin a joint business for flights between Europe and Japan.
- Market outlook for 2014 remain unchanged, Finnair's result for 2014 will be substantially affected by the result of cost reduction negotiations and employee consultations.

CEO Pekka Vauramo:

The first quarter of the year is typically Finnair's weakest, and this year the period was particularly difficult for us. Our turnover declined by 8.4% year-on-year and amounted to 543.3 million euros. The decline in turnover was affected by a slight decrease in overall capacity, continued strong contraction in leisure traffic volume, Asian traffic revenue decline mainly due to exchange rate fluctuations, and a decline in home market demand, particularly in business travel. Cargo traffic continued to suffer from market overcapacity, but there were early signs of a recovery in demand.

Our result for the first quarter was very weak: Our operational result declined significantly and showed a loss of 34.2 million euros. This indicates clearly that our cost-reduction program and the measures under our new commercial strategy aimed at turnover growth are absolutely essential. Continuing with cost-reduction measures is inevitable and vital for Finnair's future.

It was a major disappointment that our negotiations with the Finnish Aviation Union (IAU), the Trade Union PRO and the Finnish Flight Attendants' Association (SLSY) under the crisis clause included in the agreements concluded in November 2013 in line with the Finnish Employment and Growth Pact did not lead to any agreement. Negotiations with the Finnish Pilots' Association (SLL) are still ongoing. As Finnair simply cannot bear the current cost structure, I hope we can still reach a mutual agreement on how to save costs. Having to rely on unilateral measures is the final and least pleasant alternative, and we hope to avoid it.

The first quarter also included some positives. The results of the transatlantic joint business we began in July 2013 have been very positive. It has also allowed us to accumulate valuable experience for the joint business on flights between Europe and Japan, which began in April. Our operational quality also remained at a high level, and we made efforts to improve the comfort of travel by launching a Business Class seat renewal and replacing the last of our Boeing 757 aircraft with new Airbus 321 Sharklet aircraft.

We will continue the renewal of our service concepts this year while also making preparing for the renewal of our long-haul fleet starting next year. However, our future growth depends significantly on how well we succeed in achieving our cost reduction target. Only a profitable Finnair can grow.

Outlook for 2014 remains unchanged

The ongoing uncertain economic outlook in Europe and Asia is contributing to weak consumer demand in our main markets. Air traffic is expected to grow moderately in 2014. Finnair, however, will not be able to benefit from that growth without progress in its cost savings program and its target cost structure in place.

Finnair estimates its turnover to be close to the previous year's level in 2014. Fuel costs are expected to remain high. The outcome of Finnair's ongoing employee consultations and cost-saving negotiations will have a significant impact on financial performance in 2014, and therefore the company will reconsider giving guidance for its full-year 2014 financial performance after the savings negotiations have been concluded.

Business Environment

Global air traffic is currently undergoing a structural change, the typical characteristics of which are market liberalisation, increasing competition, overcapacity, consolidation, alliances and specialisation. European network carriers, Finnair included, continued to implement structural change and cost-reduction programs in the first quarter of 2014 to improve their competitiveness in the prevailing tight competitive situation. Capacity growth in the market was mostly conservative. Various partnerships have increased, especially in international long-haul traffic.

The negative development of the exchange rates of several income currencies had a negative effect on the development of passenger traffic and cargo revenue in the first quarter of 2014. The weakness of the Finnish economy was reflected in home market demand, in both business travel and leisure traffic. Measured in seat kilometres, market capacity between Helsinki and Finnair's European destinations grew by approximately 4 per cent in the first quarter of 2014. Market capacity between Finnair's Asian and European destinations grew by some 2 per cent.* Finnair increased its market share in European traffic, while in Asian traffic market share remained largely unchanged from the comparison period.*

Cargo traffic continued to suffer from overcapacity in the first quarter of 2014, which put average yields in traffic between Europe, the Nordic region and Asia under increased pressure. High fuel prices and negative developments in exchange rates with respect to cargo operations also weakened the result for cargo traffic. However, there were early signs of a recovery in demand in Central Europe as well as Asia, particularly in Japan.

The price of the largest individual cost factor of airlines, jet fuel, decreased slightly in the first quarter. The US dollar is a significant expense currency in Finnair's operations, while the Japanese yen is a significant income currency. The US dollar depreciated slightly against the euro in the first quarter. The substantial depreciation of the yen, which began in 2013, continued in the first quarter as a result of stimulus measures implemented by the Bank of Japan.

Strategy implementation and partnerships

At the beginning of July 2013, Finnair increased its cooperation with fellow **one**world alliance members by joining the transatlantic joint business founded by American Airlines, British Airways and Iberia. The cooperation has started well and the first months of the transatlantic joint business were in line with expectations. In October 2013, the competition authorities approved the company's entry into the joint business established by Japan Airlines and British Airways for flights between Japan and Europe. Japan is one of Finnair's most important markets, and the joint business entered into effect at the beginning of April 2014.

The airlines participating in the joint businesses cooperate commercially by sharing revenue and by coordinating capacity, flight schedules and fares. The aim of the participating airlines is to improve the efficiency of their operations, increase their unit revenue, expand their networks and provide the travelling public between Europe and Japan with improved intercontinental connections.

Progress of the structural change and cost-reduction program

Finnair continued the implementation of its structural change and cost-reduction programs in the first quarter of 2014. As part of the supplementary cost-reduction program, Finnair aims to reduce flight crew costs by approximately 35 million euros and technical services and customer service personnel costs by approximately 8 million euros. Finnair continued negotiations with the trade unions representing personnel regarding the solutions and schedules for achieving these cost reduction targets.

In November 2013, the Association of Support Service Industries (PALTA) reached an agreement with the Finnish Cabin Crew Union (SLSY), the Finnish Aviation Union (IAU) and Trade Union Pro on a new collective labour agreement in line with the Finnish Employment and Growth Pact and also agreed on the schedule and processes of separate, company-specific negotiations related to Finnair's cost reductions. When announcing its loss-making results for 2013, Finnair stated that if necessary progress were not made in the negotiations, the company would have to assess alternative measures for achieving the cost reductions.

Although the company's priority and preference is to reach an agreement with personnel through negotiations on cost savings, it announced in conjunction with the Annual General Meeting held on 27 March that it was drafting optional plans to increase outsourcing. Finnair began employee consultations with personnel representatives on the issue. These consultations concern employees working in administrative and support functions as well as cabin attendants.

The employee consultations do not apply to pilots, as the pilots' savings negotiations deadline is in June. Negotiations with pilots include significant changes to Collective Labour Agreements and the decisions will be made later in spring.

Finnair's objective in the negotiations is primarily to achieve a level of costs and wages that corresponds with market wages and costs in the industry, primarily by implementing changes to wage structures and working hours. Achieving the targets of the cost-reduction program is essential for improving the company's competitiveness, as high fuel prices, successful cost reduction measures taken by competitors, intensified competition and fleet investments in the coming years require a substantial improvement in profitability. The long-term return objective set for the company by Finnair's Board of Directors is an operating profit margin of 6 per cent, which would enable investments in growth and business development.

Finnair is also continuing to pursue savings in all other cost categories. The combined total target is to reduce annual costs permanently by 200 million euros by the end of 2014. The point of reference for the cost reduction target is the company's unit cost level in 2010. In addition, the company must achieve the market level with respect to all of its costs. By the end of March 2014, Finnair had achieved a total cost reduction of 163 million euros. At the same time, the company has been able to move a substantial share of fixed costs to volume-based variable costs.

Financial performance in January–March 2014

Finnair's turnover in the first quarter fell by 8.4 per cent year-on-year to 543.3 million euros (593.2). Capacity decreased by 2.9 per cent. The factors contributing to the decline in turnover in particular included a contraction in leisure traffic, lower euro-denominated revenue from Asian traffic that was mainly due to the depreciation of the Japanese yen, and the loss of the external turnover of Aviation Services after the operations were outsourced. Operational costs excluding fuel decreased by 5.5 per cent from the comparison period, amounting to 421.0 million euros (445.6). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 5.0 per cent year-on-year to 161.0 million euros (169.4) due to a decline in capacity, the decrease in the market price of fuel, and exchange rate fluctuations. Personnel costs declined by 11.4 per cent to 90.0

million euros (101.6) due to the personnel reductions implemented after the comparison period. Euro-denominated operational costs decreased to 582.1 million euros (615.1). The company's operational result, which refers to the operating result excluding non-recurring items, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, was -34.2 million euros (-17.5).

Finnair's income statement includes the change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves that took place during the period under review but will fall due later. This is an unrealised valuation result based on IFRS, where the result has no cash flow effect and which is not included in the operational result. The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -6.9 million euros (5.3). The non-recurring items for January–March included items related to the sale of Finncatering, fleet sale and leaseback agreements and the company's restructuring, amounting in total to 12.7 million euros (-1.4). The operating result was -28.4 million euros (-13.6). The result before taxes for January–March was -33.9 million euros (-18.6) and the result after taxes was -28.1 million euros (-15.7).

Unit revenue per available seat kilometre (RASK) declined, primarily due to the weak development of leisure traffic and business travel and the depreciation of the Japanese yen by 4.0 per cent year-on-year and amounted to 5.8 euro cents (6.1). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 2.6 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 1.0 per cent and amounted to 6.43 euro cents (6.50). Unit cost excluding fuel (CASK excl. fuel) decreased by only 0.2 per cent from previous year's level and amounted to 4.37 euro cents.

Balance sheet on 31 March 2014

The Group's balance sheet totalled 2,056.2 million euros at the end of the period under review (2,188.4 million euros on 31 March 2013). Shareholders' equity totalled 625.9 million euros (738.3), which is 4.9 euros per share (5.8). Shareholders' equity declined in the first quarter of 2014 due to the period's result and comprehensive income showing a loss.

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of oil and currency derivatives used for hedging as well as actuarial gains and losses related to defined benefit plans according to IAS 19. The value of the item at the end of the first quarter of 2014 was -38.7 million euros (19.0) after deferred taxes.

Cash flow and financial position

Finnair continues to have a strong financial position, which supports business development and future investments. Net cash flow from operating activities in the first quarter of 2014 amounted to -20.5 million euros (-11.5), and net cash flow from investments totalled 233.6 million euros (-9.2).

The equity ratio was 30.8 per cent (34.4) and gearing was 5.2 per cent (20.6). The adjusted gearing was 71.2 per cent (80.3). At the end of the period under review, interest-bearing debt amounted to 498.8 million euros (552.7) and interest-bearing net debt stood at 32.6 million euros (151.3). During the period under review, the company repaid an aircraft financing loan of 107 million euros, which was used to finance four A330 aircraft, for which sale and leaseback agreements have been signed.

The company's liquidity remained strong in the first quarter of 2014. The Group's cash funds amounted to 466.3 million euros (401.4) at the end of the period. In addition to the cash funds on the balance sheet, the Group has the option of re-borrowing employment pension fund reserves worth approximately 430 million euros from its employment pension insurance company. Drawing these reserves requires a bank guarantee. Finnair has an entirely unused 180 million euro syndicated credit agreement, which was intended as reserve funding and matures at the end of June 2016.

Advance payments related to fixed asset investments were 70.6 million euros (30.3).

At the end of the review period, 65.0 million euros of Finnair's short-term commercial paper program totalling 200 million euros were in use. Net cash flow from financing amounted to -114.7 million euros (-13.6). Financial expenses totalled -5.6 million euros (-4.3) and financial income 0.8 million euros (1.3).

Capital expenditure

In the first quarter of 2014, capital expenditure excluding advance payments totalled 33.1 million euros (24.1) and was primarily related to fleet modifications and improvement. Capital expenditure for the full year 2014, including advance payments, is estimated at approximately 160 million euros, with investments in the fleet representing a majority of this total.

The current state of the credit market and Finnair's good debt capacity enables the financing of future fixed-asset investments on competitive terms. The company has 38 unencumbered aircraft, the book value of which corresponds to approximately 65 per cent of the value of the entire fleet of 1.0 billion euros. The book value includes three finance lease aircraft.

Fleet

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of the first quarter of 2014, Finnair itself operated 44 aircraft, of which 15 are wide-body and 29 narrow-body aircraft. In the first quarter, two B757 aircraft were removed from Finnair's fleet according to plan as their leases expired, and one new A321 Sharklet aircraft was added to the fleet.

As of the end of the first quarter of 2014, the company operates an all-Airbus fleet.

During the period under review, the company concluded sale and leaseback agreements for three A330 aircraft as per memorandums of understanding signed in December 2013.

In addition to the aircraft operated by Finnair, its balance sheet includes 25 other aircraft owned by the company. These aircraft are operated by other airlines, mainly by Flybe Finland. The average age of the fleet operated by Finnair was 9.6 years at the end of the first quarter of 2014, and that of the Finnair fleet operated by other airlines was 5.5 years. Finnair also has eight leased aircraft that it has subleased to be operated by other airlines.

<u>A350 aircraft</u>

Finnair estimates that its first A350 XWB wide-body aircraft will be delivered and added to the fleet in the second half of 2015. Finnair ordered 11 A350 XWB aircraft from Airbus in 2005. Some of these aircraft will replace aircraft currently in use in long-haul traffic. The order includes an additional option for the delivery of eight more aircraft. Finnair is evaluating alternatives to minimise the effects that any possible delays in deliveries may have.

Finnair has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements with different durations.

Fleet operated by Finnair on 31.3.2014	**Seats**	**#**	**Own**	**Leased (operational leasing)**	**(finance leasing)**	**Average age**	**Change 31.12.2013 31.12.2012**	**Ordered**	**Add. options**
Narrow-body fleet									
Airbus A319	138/123	9	7	2		12.7			
Airbus A320	165	10	6	4		11.6			
Airbus A321	209/196	10	4	6.0		8.0	+1	1	

Boeing B757	227	0	0	0		16.0	-2		
Wide-body fleet									
Airbus A330	297/271/263	8	1	4	3	4.4			
Airbus A340	270/269	7	5	2		11.2			
Airbus A350	na.							11	8
Total		**44**	**23**	**18**	**3**	**9.6**	**-1**	**12**	**8**

Fleet owned by Finnair and operated by other airlines on 31.3.2014*	**Seats**	**#**	**Own**	**Average age**	**Change 31.12.2013 31.12.2012**	**Ordered**	**Add. options**
ATR 72	68–72	12	12	4.7			
Embraer 170	76	5	5	7.8			
Embraer 190	100	8	8	5.3			
Total		**25**	**25**	**5.5**		**0**	**0**

* All ATR aircraft, all E190 aircraft and two E170 aircraft have been leased to Flybe Nordic and three E170 aircraft to other parties outside the Group.

Business area development in January–March 2014

The segment reporting of Finnair Group's financial statements is based on business areas. The reporting business areas are Airline Business and Travel Services. From the first quarter of 2014 onward, the Aviation Services segment is not reported separately. Instead, the operations it included (aircraft maintenance, Finnair Travel Retail Oy as well as Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities) are reported as part of the Airline Business segment. The segment information for the 2013 financial year has been restated accordingly.

Airline Business

This business area is responsible for scheduled passenger and charter traffic as well as cargo sales, customer service and service concepts, flight operations and activity connected with the procurement and financing of aircraft. The Airline Business segment comprises the Sales & Marketing, Operations and Resources Management functions as well as the subsidiaries Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy, Finnair Flight Academy Oy and Finnair Aircraft Finance Oy. From the first quarter of 2014 onward, the Airline Business segment also includes aircraft maintenance, Finnair Travel Retail Oy and Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities.

Key figures	**1–3 2014**	**1–3 2013**	**Change %**	**2013**
Turnover and result				
Turnover, EUR million	508.1	552.2	-8.0	2,271.9
Operational result, EUR million	-34.5	-20.5	-68.5	8.8
Operating result, EBIT, EUR million	-28.2	-16.2	-74.2	6.3
Operating result, % of turnover	-5.5	-2.9	-2.6 %-p	0.3
Personnel				
Average number of employees	4,533	5,016	-9.6	4,834

The turnover of Airline Business in January–March fell by 8.0 per cent to 508.1 million euros (552.2) and the profitability of operations declined substantially. Ticket revenue from scheduled traffic constitutes approximately

65 per cent of turnover. Leisure traffic accounts for approximately 9 per cent, and cargo for approximately 11 per cent of total revenue. The financial development of Airline Business was affected in particular by weaker-than-expected development in business travel and leisure traffic and the depreciation of Japanese yen from the comparison period.

In January–March, Finnair traffic measured in revenue passenger kilometres decreased by 4.0 per cent and overall capacity by 2.9 per cent year-on-year. The passenger load factor decreased by 0.9 percentage points to 78.7 per cent. Measured in revenue passenger kilometres, Asian traffic declined by 1.6 per cent year-on-year, while capacity fell by 0.9 per cent. European traffic grew by 7.6 per cent and capacity by 2.9 per cent. Domestic traffic as measured in revenue passenger kilometres grew by 12.0 per cent year-on-year, while capacity increased by 8.5 per cent. The load factor in domestic traffic was 67.1 per cent.

In January–March, unit revenue per available seat kilometre (RASK) fell by 4.0 per cent year-on-year.

The negative development of the exchange rates of several income currencies had a negative effect on the development of passenger traffic and cargo revenue in the first quarter of 2014. In particular, the depreciation of Japanese yen still had a negative impact on passenger revenue development in Japanese traffic. The weakness of the Finnish economy was reflected in home market demand, particularly in business travel and leisure traffic. Measured in seat kilometres, market capacity between Helsinki and Finnair's European destinations grew by approximately 4 per cent in the first quarter of 2014. Market capacity between Finnair's Asian and European destinations grew by some 2 per cent.* Finnair increased its market share in European traffic, while in Asian traffic market share remained largely unchanged from the comparison period.*

North American traffic developed positively in the first quarter. Thanks to the transatlantic joint business, sales improved in this traffic area for both passenger traffic and cargo.

The demand for leisure traffic continued to weaken in the first quarter of 2014 as consumers' uncertainty regarding their own economic situation slowed down sales and decreased market prices. Purchases by tour operators outside the Group declined substantially year-on-year. In addition, all industry operators cancelled their 2013–2014 winter season tours to Egypt due to unrest in the country, which was still reflected in the volumes and revenues for the first quarter. The capacity of leisure traffic declined by 23.0 per cent year-on-year, with the number of passengers in charter traffic decreasing by 31.7 per cent in January–March compared to the corresponding period last year. The passenger load factor of leisure traffic decreased by 6.2 percentage points year-on-year, to 87.1 per cent.

Cargo transported on scheduled flights (belly cargo) constitutes a significant proportion of the revenue from long-haul traffic. In the first quarter, belly cargo accounted for approximately 17 per cent of total long-haul revenue. The amount of cargo and mail carried by Finnair in scheduled traffic grew by 9.9 per cent year-on-year. The overall load factor of Finnair's traffic was at previous year's level at 65.1 per cent, while the available tonne kilometres decreased by 1.3 per cent, and the revenue tonne kilometres by 1.2 per cent. Finnair Cargo also operated separate wet-leased cargo flights to Hanoi, Hong Kong, New York and Brussels, as well as to Tokyo as part of capacity cooperation with JAL Cargo. Separate cargo capacity flights accounted for approximately 26.5 per cent of total cargo traffic in the first quarter.

The arrival punctuality of Finnair's flights was very good in January–March, with 87.0 per cent (85.9) of scheduled flights, and 86.4 per cent (84.6) of all flights arriving on schedule.

** Finnair's estimate. The estimate is based on MIDT data collected on the sales volumes of travel agencies and Finnair's estimates of airlines' sales through their own sales channels, such as websites.*

Air traffic services and products

Route network and alliances

Finnair offers connections between Asia and Europe with over 200 route pairs and also operates more than 800 flights weekly from Helsinki to other Finnish and European destinations. In the winter season, Finnair operated at most 64 flights to Asia per week.

The leading airline in Brazil, TAM Airlines, and US Airways joined the **one**world alliance in March. The new members increase the alliance's annual capacity by 20 per cent and add almost a hundred destinations to the **one**world network. The expansion also made **one**world the largest alliance in the Americas.

Through its merger partner American Airlines, US Airways joined the transatlantic joint business with Finnair, Iberia and British Airways. For Finnair's customers, new airlines joining **one**world and the joint businesses between its members enables better connections to destinations outside the Finnair network.

Japan Airlines and fellow **one**world alliance members British Airways and Finnair started a joint business between Europe and Japan after the review period, on 1 April 2014.

Other renewals and services

Finnair will install new full-flat seats in most of its long-haul fleet in 2014. The new Business Class seats will be used on flights to Tokyo and New York starting on 1 April and flights to Beijing and Seoul starting on 1 May. From the beginning of June, aircraft fitted with the new full-flat seats will also be used on flights to Hanoi, Hong Kong, Nagoya, Osaka and Shanghai.

Travel Services (Tour Operators and Travel Agencies)

This business area consists of the tour operator Aurinkomatkat (Suntours), its subsidiary operating in Estonia, and the business travel agencies that were merged in December, namely Area, Finland Travel Bureau (FTB) and FTB's subsidiary Estravel, which operates in the Baltic countries, as well as Amadeus Finland, which produces travel sector software and solutions. Aurinkomatkat Suntours serves leisure travellers, offering its customers package tours, tailored itineraries, flight and hotel packages, flights and cruises, as well as golf, sailing and skiing holidays.

Key figures	1-3 2014	1-3 2013	Change %	2013
Turnover and result				
Turnover, EUR million	74.2	81.8	-9.3	251.7
Operational result, EUR million	0.3	2.9	-90.3	3.1
Operating result, EBIT, EUR million	-0.3	2.5	-109.9	1.6
Operating result, % of turnover	-0.3	3.1	-3.4 %-p	0.6
Personnel				
Average number of employees	704	787	-10.5	751

The turnover of Travel Services in January–March decreased by 9.3 per cent from the previous year and amounted to 74.2 million euros (81.8). The operating result was -0.3 million euros (2.5). The decline in turnover and weaker profitability were due to lower demand for package tours and Aurinkomatkat cancelling all of its winter season travel to Egypt at the end of August due to travel restrictions in force in the country. Consumers' uncertainty regarding their own economic situation was reflected in the demand for leisure travel. A larger share of the package tours was sold at a discount at the last minute, which decreased the unit revenue of package travel. Business travel was also substantially reduced year-on-year due to the weakness of the Finnish economy.

Resolutions of the Annual General Meeting

The Annual General Meeting (AGM) of Finnair Plc was held in Helsinki, Finland on 27 March 2014. The meeting approved the company's annual accounts for the fiscal year 2013 and discharged the members of the Board of Directors and CEO of the company from liability.

In line with the proposal of the Board of Directors, the AGM decided that no dividend is paid based on the balance sheet adopted for the year 2013.

The AGM approved the proposal of the Shareholders' Nomination Committee that the Board of Directors be composed of seven (7) members. Ms Maija-Liisa Friman, Mr. Klaus W. Heinemann, Mr. Jussi Itävuori, Mr. Harri Kerminen and Ms Gunvor Kronman were re-elected to the Board of Directors. Ms. Jaana Tuominen and Mr Nigel Turner were elected to the Board as new members. The term of office of the members of the Board of Directors ends at the close of the first Annual General Meeting following their election. The AGM elected Klaus W. Heinemann as the Chairman of the Board of Directors.

The AGM decided that the Chairman of the Board of Directors will be paid an annual fee of 61,200 euros, the Deputy Chairman a fee of 34,200 euros and the ordinary members a fee of 30,000 euros. In addition, a meeting fee of EUR 600 to a member residing in Finland and EUR 2,400 to a member residing abroad is paid for each meeting of the Board or its Committees.

Authorised Public Accountant PricewaterhouseCoopers continues as Finnair's auditor, with APA Mikko Nieminen acting as the principal auditor. Auditor fees are paid in accordance with the auditor's reasonable invoice.

The Annual General Meeting authorised the Board of Directors to decide on the repurchase of the company's own shares and/or use of shares as collateral. The authorisation applies to a maximum of 5,000,000 shares and is effective for a period of 18 months from the resolution of the General Meeting. The Annual General Meeting also authorised the Board of Directors to decide on the disposal of a maximum of 5,000,000 of the company's own shares. The authorisation is effective for a period of 18 months from the resolution of the General Meeting.

Personnel

The number of Finnair employees in the first quarter of 2014 was significantly lower than in the comparison period due to the structural changes in the company. The Group employed an average of 5,516 (6,061) people, which is 9.0 per cent fewer than in the previous year. The Airline Business segment employed an average of 4,533 (5,016) people during the first quarter. In the review period, Travel Services employed an average of 704 (787) people and other functions 279 (258) people. The number of employees stood at 5,473 (6,117) on 31 March 2014.

Incentive schemes for management and personnel

In February, Finnair's Board of Directors approved a new performance share plan, covering the years 2014–2016, for the key personnel of the Finnair Group. The share plan is a part of Finnair's long-term share-based incentive arrangement that Finnair's Board of Directors approved in 2013, and which consists of annually commencing individual plans. The purpose of the share plan is to encourage the management to work to increase long-term shareholder value and also to commit the management to the company. The share plan is described in more detail in a Stock Exchange Release published on 11 February 2014.

At the end of March, Finnair's Board of Directors decided to launch a new 12-month savings period under the Employee Share Plan. The purpose of the plan established in 2013 is to encourage the employees to become shareholders in the company, to provide long-term rewards through potential share price appreciation and thereby strengthen the employees' interest in the development of Finnair's shareholder value. The employee share plan has been well received by personnel. The share plan is described in more detail in a Stock Exchange Release published on 27 March 2014.

Share price development and trading

At the end of March 2014, Finnair's market value stood at 344.7 million euros (326.7), and the closing price of the share was 2.69 euros (2.55). During the January–March period, the highest price for a Finnair share on the NASDAQ OMX Helsinki Stock Exchange was 2.87 euros (3.24), the lowest price 2.39 euros (2.40) and the average price 2.66 euros (2.88). Some 4.6 million (9.4) of the company's shares, with a total value of 12.2 million euros (26.9), were traded.

The number of shares recorded in Finnair's Trade Register entry was 128,136,115 at the end of the period. The Finnish state owned 55.8 per cent (55.8) of Finnair's shares, while 14.2 per cent (11.0) were held by foreign investors or in the name of a nominee.

The number of own shares held by Finnair increased by 27,092 shares in March 2014, as the shares were returned to Finnair pursuant to the rules of the company's performance share plan for 2010–2012. On 31 March 2014, Finnair held a total of 306,260 of its own shares, representing 0.2 per cent of the total share capital.

One flagging notification was made during the review period, as the combined holdings of funds managed by Skagen AS increased to 7,419,573 shares, equivalent to 5.79 per cent of all shares and votes (more than 5 per cent), as a result of sales of shares completed on 5 May 2013.

Corporate responsibility

Finnair published its Annual Report for 2013 in March 2014. The Annual Report includes the Report of the Board of Directors, the Group Financial Statements, Auditor's Report and Finnair's Corporate Governance Statement for 2013. The Annual Report is also prepared according to G3 disclosure guidelines established by the Global Reporting Initiative (GRI). Shareholders, investors, analysts, media, customers, employees, other interested stakeholders and the general public at large comprise the report's intended audience. Encompassing objectives of what were previously published as separate Financial and Sustainability Reports, the 2013 Annual Report measures and accounts for the financial, economic, social and environmental performance of the Finnair Group, and identifies and explains the strategic business ramifications of this performance.

Topics covered in detail in the Annual Report include Finnair's strategy, product development, fleet, network, and socio-economic footprint in society. Finnair has reported on environmental sustainability since 1997, and in 2008 became one of the first airlines to report according to GRI guidelines. The GRI, formed with the support of the United Nations Environment Program, is the most widely recognised international authority on sustainability reporting.

- Finnair's overall customer satisfaction was close to the level seen in recent years, achieving the target set for it. The weighted overall score given by customers for the flight experience in January–March was 8.1/10.

- Finnair's fuel consumption and CO2-emissions decreased by 3.7 per cent from previous year. Consumption and emissions per available seat kilometre remained at the last year's level.

Significant near term risks and uncertainties

Aviation is an industry that is globally sensitive to economic cycles and also reacts quickly to external disruptions, seasonal variation and changes in economic trends. Finnair has implemented a comprehensive risk management process to ensure that risks are identified and mitigated as much as possible, although many risks are not within the company's full control. The risks and uncertainties described below are considered to potentially have 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.

The achievement of the strategic advantages and cost reductions sought through Finnair's partnership projects involve risks. For example, quality or availability issues and/or unexpected additional costs of partnerships and suppliers can have a negative effect on Finnair's product and profitability, or suppliers may obtain bargaining power in relation to Finnair.

Negotiations on cost reductions between Finnair and the trade unions representing its employees involve risks that, if realised, could have an effect on the achievement of the company's cost reduction targets, the uninterrupted continuity of its operations and the company's reputation.

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 protection and the decision made by the Court of Justice of the European Union in October 2012 regarding flight passengers' rights. In addition, regulations on the reporting of non-financial information (responsibility) and other stakeholder requirements have increased substantially.

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website at www.finnairgroup.com.

Seasonal variation and sensitivities in business operations

Due to the seasonal variation of the airline business, the Group's turnover and profit are generally very much 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.

A one-percentage-point change in the passenger load factor or the average yield in passenger traffic has an effect of approximately 15 million euros on the Group's operating result. A one-percentage-point change in the unit cost of scheduled passenger traffic has an effect of approximately 17 million euros on the operating result.

In addition to operational activities, fuel price development has a key impact on Finnair's result, as fuel costs are the company's most significant expense item. A 10-per-cent change in the world market price of fuel has an effect of approximately 32 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 61 million euros on Finnair's operating result at an annual level.

Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, aircraft leasing payments and sales revenue denominated in foreign currencies. Approximately 64 per cent of the Group's turnover is denominated in euros. In the first quarter of 2014, the most important other foreign sales currencies were the Japanese yen (7.3% of turnover), the Chinese yuan (5.1%), the Swedish crown (5.2%) and the US dollar (2.6%). 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 approximately 40 per cent of all operating costs. Significant dollar-denominated expense items are aircraft leasing payments and fuel costs as well as traffic charges. The largest investments, namely the acquisition of aircraft and their spare parts, are mainly denominated in US dollars.

A 10-per-cent change in the euro-dollar exchange rate has an effect of approximately 20 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 70 million euros on Finnair's operating result at an annual level. The sensitivity analysis assumes that the Chinese yuan and the Hong Kong dollar continue to correlate strongly with the US dollar. A 10-per-cent change in the euro-yen exchange rate has an effect of approximately 6 million euros on Finnair's operating result at an annual level (for the following 12 months), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 18 million euros on Finnair's operating result at an annual level.

The company protects itself against the risks of currency, interest rate and jet fuel positions by using different derivative instruments, such as forward contracts, swaps and options, according to the risk management policy verified 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. At the end of the review period, the hedging ratio for fuel purchases was 75 per cent over the following six months and 71 per cent for the whole year. The hedging ratio for a dollar basket over the following 12 months was 71 per cent, and the hedging ratio for a yen basket was 70 per cent.

Events after the review period

Japan Airlines and fellow oneworld alliance members British Airways and Finnair started a joint business between Europe and Japan on 1 April 2014.

In April, the European Council confirmed the amendment of the Directive on emissions trading in aviation. The stop-the-clock model will remain in effect until the end of 2016, which means that only flights inside the EEA will be covered by emissions trading. The decision supports the ICAO's aim to move towards a global emissions trading system.

Tuomo Meretniemi stepped down from his position as Managing Director of Aurinkomatkat-Suntours on 24 April 2014. Aurinkomatkat is a tour operator that is a subsidiary of Finnair Group. Timo Kousa, Managing Director of Finnair Travel Retail, has been appointed the Managing Director of Aurinkomatkat on an interim basis while also continuing in his role for Finnair Travel Retail.

Finnair's savings negotiations with the Finnish Aviation Union (IAU), the Trade Union PRO and the Finnish Flight Attendants' Association (SLSY), which were agreed upon as a part of the national Finnish Employment and Growth Pact in November 2013, were proven unsuccessful. Negotiations with the Finnish Pilots' Association (SLL) are ongoing. Finnair continues employee consultation negotiations that commenced on 2 April 2014 and concern the employees working in administrative and support functions as well as cabin crew. The negotiations impact eight different employee groups.

Finnair signed a Momerandum of Understanding with Infinity Aviation Capital LLC, a US-based aircraft leasing company, on the sale of three Embraer 170 aircraft on 5 May 2014. The value of the arrangement is approximately USD 40 million, and the transactions are expected to close in the second half of 2014. The sale of the three aircraft will not have significant impact on Finnair's 2014 result.

Financial reporting 2014

Finnair's Interim report for 1 January – 30 June 2014 will be published on Friday 15 August 2014 and the Interim report for 1 January – 31 September 2014 on Friday 31 October 2014.

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a press conference on 7 May 2014 at 11:00 a.m. and an analyst briefing at 12:30 p.m. at its office at Tietotie 9. An English-language telephone conference for analysts will begin at 4:00 p.m. Finnish time. The conference may be attended by dialling your local access number +358 800 770 306 and using the PIN code 255856#

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Key Figures	Q1 2014	Q1 2013	Change %	2013
Turnover and result				
Turnover, EUR million	543.3	593.2	-8.4	2,400.3
Operational result, EBIT, EUR million *	-34.2	-17.5	-95.1	11.9
Operational result, % of turnover	-6.3	-3.0	-3.3 %-p	0.5
Operating result, EBIT, EUR million	-28.4	-13.6	-108.4	7.9
Operational EBITDAR, EUR million	17.4	33.3	-47.7	210.1
Result before taxes, EUR million	-33.9	-18.6	-82.7	26.8
Net result, EUR million	-28.1	-15.7	-79.4	22.9
Balance sheet and cash flow				
Equity ratio, %	30.8	34.4	-10.3	32.6
Gearing, %	5.2	20.6	-74.8	19.9
Adjusted gearing, %	71.2	80.3	-11.3	79.2
Gross investment, EUR million	33.1	24.1	37.2	77.3
Return on capital employed, ROCE, 12 months rolling, %	2.7	3.3	-18.3	3.6
Return on equity, ROE, 12 months rolling, %	1.5	1.9	-18.7	3.2
Net cash flow from operating activities, EUR million	-20.5	-11.5	-78.4	142.4
Share				
Share price at the end of quarter, EUR	2.69	2.55		2.77
Earnings per share from the result of the period, EUR **	-0.22	-0.12	-78.1	0.18
Earnings per share, EUR	-0.24	-0.15	-61.8	0.11
Traffic data, unit costs and revenue				
Passengers, 1,000	2,214	2,160	2.5	9,269
Available seat kilometres (ASK), million	7,481	7,702	-2.9	31,162
Revenue passenger kilometres (RPK), million	5,885	6,129	-4.0	24,776
Passenger load factor (PLF), %	78.7	79.6	-0.9 %-p	79.5
Unit revenue per available seat kilometre, (RASK), cents/ASK	5.81	6.06	-4.0	6.24
Unit revenue per revenue passenger kilometre, yield, cents/RPK	6.42	6.68	-3.9	6.86
Unit cost per available seat kilometre, (CASK), cents/ASK	6.43	6.50	-1.0	6.47
CASK excluding fuel, cents/ASK	4.37	4.38	-0.2	4.35
Available tonne kilometres (ATK), million	1,134	1,149	-1.3	4,709
Revenue tonne kilometres (RTK), million	738	747	-1.2	3,107
Cargo and mail, tonnes	35,220	32,049	9.9	146,654
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK	23.49	25.42	-7.6	25.14
Overall load factor, %	65.1	65.0	0.1 %-p	66.0
Flights, number	23,982	23,518	2.0	97,360
Personnel				
Average number of employees	5,516	6,061	-9.0	5,859

* Operational result: Operating result excluding changes in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves, non-recurring items and capital gains.

** Before hybrid bond interest.

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

Consolidated income statement

in mill. EUR	Q1 2014	Q1 2013	Change %	2013
Turnover	**543.3**	**593.2**	**-8.4**	**2,400.3**
Other operating income	4.5	4.4	3.9	18.8
Operating expenses				
Staff costs	-90.0	-101.6	-11.4	-381.3
Fuel	-161.0	-169.4	-5.0	-689.9
Lease payment for aircraft	-16.2	-14.7	10.4	-57.5
Other rental payments	-39.4	-35.6	10.8	-152.0
Fleet materials and overhaul	-30.3	-35.6	-14.8	-125.8
Traffic charges	-51.6	-50.1	3.1	-222.3
Ground handling and catering expenses	-63.2	-63.5	-0.5	-257.3
Expenses for tour operations	-25.1	-28.1	-10.5	-89.4
Sales and marketing expenses	-14.3	-17.9	-20.2	-72.9
Depreciation	-35.5	-36.2	-2.0	-140.7
Other expenses	-55.4	-62.4	-11.3	-218.1
Operational result, EBIT	**-34.2**	**-17.5**	**-95.1**	**11.9**
Fair value changes of derivatives and foreign currency denominated fleet maintenance reserves	-6.9	5.3	<-200 %	21.7
Non-recurring items	12.7	-1.4	> 200 %	-25.7
Operating result, EBIT	**-28.4**	**-13.6**	**-108.4**	**7.9**
Financial income	0.8	1.3	-39.0	42.6
Financial expenses	-5.6	-4.3	-32.4	-19.7
Share of result in associates and joint ventures	-0.7	-2.0	66.3	-4.0
Result before taxes	**-33.9**	**-18.6**	**-82.7**	**26.8**
Direct taxes	5.8	2.9	100.5	-3.9
Result for the period	**-28.1**	**-15.7**	**-79.4**	**22.9**
Result for the period attributable to shareholders of the parent company	-28.2	-15.8		22.6
Result for the period to non-controlling interest	0.1	0.1		0.3
Earnings per share attributable to shareholders of the parent company (euro)				
Earnings per share (basic, diluted)	-0.24	-0.15		0.11
Earnings per share from the result of the period	-0.22	-0.12		0.18

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. See note 2 for more information.

Consolidated balance sheet

in mill. EUR	31 Mar 2014	31 Mar 2013	2013
ASSETS			
Non-current assets			
Intangible assets	18.4	23.2	19.3
Tangible assets	1,152.6	1,312.9	1,292.6
Investments in associates and joint ventures	7.5	10.4	8.2
Financial assets	20.2	22.0	20.5
Deferred tax asset	8.6	0.0	0.0
Non-current assets total	**1,207.3**	**1,368.4**	**1,340.6**
Short-term receivables			
Inventories	17.0	11.3	19.9
Derivatives	29.0	60.1	43.6
Trade and other receivables	324.0	309.6	237.1
Money market investments	165.6	361.6	335.9
Cash and cash equivalents	300.7	39.8	122.9
Current assets total	**836.3**	**782.3**	**759.4**
Non-current assets held for sale	12.6	37.6	17.7
Assets total	**2,056.2**	**2,188.4**	**2,117.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	75.4	75.4	75.4
Other equity	549.9	662.2	601.9
Total	**625.4**	**737.6**	**677.3**
Non-controlling interest	0.5	0.7	0.7
Equity total	**625.9**	**738.3**	**678.0**
Long-term liabilities			
Deferred tax liability	0.0	8.5	3.4
Long-term interest-bearing liabilities	369.3	373.4	385.5
Pension obligations	25.1	8.8	10.6
Provisions	75.4	86.3	69.3
Other long-term liabilities	26.7	20.5	25.4
Long-term liabilities total	**496.5**	**497.4**	**494.1**
Short-term liabilities			
Provisions	30.1	36.2	40.5
Short-term interest-bearing liabilities	129.6	179.3	207.5
Derivatives	34.2	12.6	29.1
Trade payables and other liabilities	739.9	721.9	666.1
Liabilities of non-current assets held for sale	0.0	2.6	2.3
Short-term liabilities total	**933.8**	**952.6**	**945.5**
Liabilities total	**1,430.3**	**1,450.1**	**1,439.6**
Shareholders' equity and liabilities total	**2,056.2**	**2,188.4**	**2,117.6**

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

Consolidated statement of changes in equity

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity attributable to share-holders of the parent**	Non-controlling interests	**Own equity total**
Shareholders' equity, 1 Jan 2014	75.4	168.1	-15.0	247.3	82.5	118.9	**677.3**	0.7	**678.0**
Result for the period					-28.2		-28.2	0.1	**-28.1**
Items of comprehensive income			-23.7				-23.7		-23.7
Translation difference			0.0				0.0		0.0
Comprehensive income for the financial period	**0.0**	**0.0**	**-23.7**	**0.0**	**-28.2**	**0.0**	**-51.9**	**0.1**	**-51.8**
Dividends paid							0.0	-0.2	-0.2
Share-based payments				-0.1			-0.1		-0.1
Shareholders' equity, 31 Mar 2014	**75.4**	**168.1**	**-38.7**	**247.3**	**54.3**	**118.9**	**625.4**	**0.5**	**625.9**

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity attributable to share-holders of the parent**	Non-controlling interests	**Own equity total**
Shareholders' equity, 1 Jan 2013	75.4	168.1	0.0	247.1	112.6	171.1	**774.4**	0.9	**775.2**
Change in accounting principles (restatement)					-25.6		-25.6		**-25.6**
Shareholders' equity, restated, 1 Jan 2013	75.4	168.1	0.0	247.1	87.0	171.1	**748.7**	0.9	**749.6**
Result for the period					-15.7		-15.7	0.1	-15.7
Items of comprehensive income			19.0				19.0	0.0	19.0
Translation difference								-0.1	-0.1
Comprehensive income for the financial period	**0.0**	**0.0**	**19.0**	**0.0**	**-15.7**	**0.0**	**3.3**	**-0.1**	**3.1**
Dividends paid					-12.7		-12.7		-12.7
Purchase of own shares				-1.7			-1.7		-1.7
Shareholders' equity, 31 Mar 2013	**75.4**	**168.1**	**19.0**	**245.5**	**58.5**	**171.1**	**737.6**	**0.7**	**738.3**

Consolidated cash flow statement

in mill. EUR	Q1 2014	Q1 2013	2013
Cash flows from operating activities			
Profit for the financial year	-28.1	-15.7	22.9
Operations for which a payment is not included *	21.4	30.9	115.9
Other adjustments to profit for the period			
Interest and other financial expenses	5.6	4.3	19.7
Interest income and other financial income	-0.1	-1.2	-38.6
Income taxes	-5.8	-2.9	3.9
Changes in working capital	-11.6	-21.6	35.8
Interest paid	-2.6	-3.1	-12.1
Paid financial expenses	-2.0	-1.0	-3.8
Received interests	2.7	0.9	1.4
Taxes paid	0.0	-2.0	-2.7
Net cash flow from operating activities	**-20.5**	**-11.5**	**142.4**
Cash flows from investing activities			
Investments in intangible assets	-0.1	-0.6	-2.3
Investments in tangible assets	-39.2	-18.5	-96.4
Net change of financial interest bearing assets at fair value through profit and loss	90.4	9.0	14.6
Net change of shares classified as available for sale	0.0	0.0	53.7
Divestment of fixed assets and group shares	181.8	0.0	8.9
Dividends received	0.0	0.1	1.2
Change in non-current receivables	0.7	0.7	1.0
Net cash flow from investing activities	**233.6**	**-9.2**	**-19.3**
Cash flows from financing activities			
Proceeds and changes from borrowings	0.0	0.0	150.0
Loan repayments and changes	-114.7	-11.9	-115.0
Hybrid bond repayments	0.0	0.0	-52.4
Hybrid bond interest and expenses	0.0	0.0	-15.4
Purchase of own shares	0.0	-1.7	-1.7
Dividends paid	0.0	0.0	-13.0
Net cash flow from financing activities	**-114.7**	**-13.6**	**-47.4**
Change in cash flows	**98.4**	**-34.3**	**75.7**
Liquid funds, at beginning	331.8	256.1	256.1
Change in cash flows	98.4	-34.3	75.7
Liquid funds, at end	**430.2**	**221.7**	**331.8**
Notes to consolidated cash flow statement			
* Operations for which a payment is not included			
Depreciation	35.5	36.2	140.7
Employee benefits	2.9	0.5	7.3
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	6.9	5.3	-21.7
Other adjustments	-23.9	-11.1	-10.5
Total	21.4	30.9	115.9
Financial asset at fair value	165.6	361.6	335.9
Liquid funds	300.7	39.8	122.9
Short-term cash and cash equivalents in balance sheet	466.3	401.4	458.8
Maturing after more than 3 months	-36.1	-132.2	-126.5
Shares held to trading purposes	0.0	-47.5	-0.4
Total in cash flow statement	430.2	221.7	331.8

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASICS OF PREPARATION
This consolidated interim report has been prepared according to the International (IAS) Standard 34: Interim Financial Reporting.

2. ACCOUNTING PRINCIPLES
The accounting principles applied in the interim report are consistent with the principles published in the 2013 consolidated financial statements, except for the changes mentioned below. The figures presented in this statement are not rounded, and therefore total sum calculated from these individual figures does not necessarily match the corresponding sum stated here. Key figures stated here are calculated using the exact figures.

Finnair has changed the accounting principle for its aircraft engine overhauls. From the beginning of 2014, Finnair capitalizes engine overhauls to its balance sheet and depreciates related costs during the engines' maintenance periods. Previously overhauls were expensed when they occured.

The change reduces the volatility of engine overhaul costs, which improves the accuracy of forecasting future profitability and improves comparability over of periods. It also improves comparability with other airlines, because, based on the study conducted by International Air Traffic Association IATA, the amended practice corresponds to the current industry practice. The change decreased Finnair equity at 31 December 2013 by 13.8 million euros and improved 2013 EBIT by 16.7 million euros. In addition, the change increased 2013 gross investments, improved 2013 cash flow from operating activities and reduced cash flow from investing activities respectively. It also affected Finnair's 2013 key figures.

The change in the accounting principle affects the Airline Business segment. Comparative periods have been restated accordingly, and comparison between restated and previously reported figures have been published at 27 of March 2014 in a separate stock exchange release.

In addition, the group has made an evaluation on the nature and classification of its deferred tax assets and liabilities, and concluded that they meet the criteria for netting according to IAS 12, up to the amount that they relate to income taxes levied by the same taxation authority. The deferred tax assets and liabilities have been netted and comparative periods have been adjusted accordingly.

The IFRS-standards and interpretations applied by the Group in 2014 are introduced in the accounting principles of 2013 financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND SOURCES OF UNCERTAINTY
The preparation of the interim report requires the company's management to make estimates and assumptions that influence the levels of reported assets and liabilities as well as of revenue and expenses. The actual outcome may differ from the estimates made. The main estimates used are the same as used while preparing the financial statements 2013.

4. SEGMENT INFORMATION
Segment information is presented in line with business segments, which are based on the Group's internal organisation structure and management reporting. From the first quarter of 2014 onward, Aviation Services segment is not reported separately, but its operations are reported as a part of the Airline Business segment. After the structural changes in technical services and catering implemented in 2012, the Aviation Services segment has consisted of aircraft maintenance and the operations of Finncatering Oy and Finnair Travel Retail Oy, as well as Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities. Finncatering Oy was sold to LSG Lufthansa Service Europa/Afrika GmbH on 28 February 2014.

The business segments are Airline Business and Travel Services. Comparative periods have been restated according to new segment division.

Business segment data

in mill. EUR	Q1 2014				
	Airline Business	Travel Services	Group eliminations	Unallocated items	**Group**
External turnover	469.4	73.9			543.3
Internal turnover	38.7	0.3	-39.0		0.0
Turnover	**508.1**	**74.2**	**-39.0**	**0.0**	**543.3**
Operational result, EBIT	**-34.5**	**0.3**			**-34.2**
Operating result	**-28.2**	**-0.3**		**0.0**	**-28.4**
Share of result in associates and joint ventures				-0.7	-0.7
Financial income				0.8	0.8
Financial expenses				-5.6	-5.6
Income tax				5.8	5.8
Non-controlling interest				-0.1	-0.1
Result for the period attributable to shareholders of the parent company					-28.2
Depreciation	35.0	0.4			35.5

Business segment data

in mill. EUR	Q1 2013				
	Airline Business	Travel Services	Group eliminations	Unallocated items	**Group**
External turnover	511.7	81.5			593.2
Internal turnover	40.5	0.3	-40.9		0.0
Turnover	**552.2**	**81.8**	**-40.9**		**593.2**
Operational result, EBIT	**-20.5**	**2.9**			**-17.5**
Operating result	**-16.2**	**2.5**			**-13.6**
Share of result in associates and joint ventures				-2.0	-2.0
Financial income				1.3	1.3
Financial expenses				-4.3	-4.3
Income tax				2.9	2.9
Non-controlling interest				-0.1	-0.1
Result for the period attributable to shareholders of the parent company					-15.8
Depreciation	35.8	0.4			36.2

Turnover

in mill. EUR	Q1 2014	Q1 2013	Change %	2013
Airline Business	508.1	552.2	-8.0	2,271.9
Travel Services	74.2	81.8	-9.3	251.7
Group eliminations	-39.0	-40.9	4.6	-123.2
Total	**543.3**	**593.2**	**-8.4**	**2,400.3**

Operating result

in mill. EUR	Q1 2014	Q1 2013	Change %	2013
Airline Business	-28.2	-16.2	-74.2	6.3
Travel Services	-0.3	2.5	-109.9	1.6
Total	**-28.4**	**-13.6**	**-108.4**	**7.9**

Employees average by segment

	Q1 2014	Q1 2013	Change %	2013
Airline Business	4,533	5,016	-9.6	4,834
Travel Services	704	787	-10.5	751
Other functions	279	258	8.1	274
Total	**5,516**	**6,061**	**-9.0**	**5,859**

5. MANAGEMENT OF FINANCIAL RISKS

No significant changes have been made to the Group's risk management principles in the reporting period. The objectives and principles of risk management are consistent with information presented in the Group's 2013 Financial Report. The tables below present the nominal value or the amount and net fair value of derivative contracts used in Group's hedge accounting.

Derivatives, in mill. EUR	**31 Mar 2014**		**31 Mar 2013**		**2013**	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
Currency derivatives						
Hedge accounting items (forward contracts):						
Jet fuel currency hedging	379.8	-12.8	432.0	10.8	370.5	-17.0
Fair value hedging of aircraft acquisitions	302.1	4.0	294.9	22.3	244.1	2.2
Currency hedging of lease payments	99.5	-0.9	35.8	0.6	58.3	-1.6
Hedge accounting items total	781.4	-9.6	762.7	33.7	672.9	-16.4
Items outside hedge accounting:						
Jet fuel currency hedging	4.9	-0.3	0.0	0.0	0.0	0.0
Operational cash flow hedging (forward contracts)	364.5	3.4	179.0	3.8	407.9	2.4
Operational cash flow hedging (options)						
Call options	130.5	11.3	278.5	14.1	149.8	16.1
Put options	164.2	-0.7	344.1	-4.8	169.5	-0.8
Balance sheet hedging (forward contracts)	19.3	-0.3	32.7	0.8	20.4	-1.2
Items outside hedge accounting total	683.3	13.4	834.3	13.9	747.5	16.5
Currency derivatives total	**1,464.7**	**3.7**	**1,597.0**	**47.6**	**1,420.4**	**0.1**
Commodity derivatives						
Hedge accounting items:						
Jet fuel forward contracts, tonnes	575,950	-11.3	584,060	1.1	563,550	11.8
Electricity derivatives, MWh	20,388	-0.1	0	0.0	17,568	0.0
Hedge accounting items total		-11.4		1.1		11.8
Items outside hedge accounting:						
Jet fuel forward contracts, tonnes	17,500	-0.3	0	0.0	18,000	0.8
Options						
Call options, jet fuel, tonnes	204,500	1.7	213,000	1.2	201,000	3.4
Put options, jet fuel, tonnes	204,500	-1.3	268,500	-2.5	201,000	-1.1
Electricity derivatives, MWh	63,936	-0.6	83,376	-0.3	71,100	-0.5
Items outside hedge accounting total		-0.5		-1.6		2.6
Commodity derivatives total		**-11.8**		**-0.5**		**14.4**
Interest rate derivatives						
Hedge accounting items:						
Interest rate swaps	150.0	3.3	0.0	0.0	150.0	1.2
Hedge accounting items total	150.0	3.3	0.0	0.0	150.0	1.2
Items outside hedge accounting:						
Cross currency Interest rate swaps	17.1	0.0	23.6	1.6	17.3	0.2
Interest rate swaps	25.0	-0.4	25.0	-0.9	25.0	-0.5
Items outside hedge accounting total	42.1	-0.4	48.6	0.7	42.3	-0.3
Interest rate derivatives total	**192.1**	**2.9**	**48.6**	**0.7**	**192.3**	**0.9**
Derivatives total		**-5.3**		**47.8**		**15.4**

6. 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, in mill. EUR	31 Mar 2014	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss				
Securities held for trading	150.6	35.2	115.4	
Derivatives held for trading				
Currency and interest rate swaps	3.3		3.3	
- of which in fair value hedge accounting	3.3		3.3	
Currency derivatives	23.6		23.6	
- of which in fair value hedge accounting	5.2		5.2	
- of which in cash flow hedge accounting	0.6		0.6	
Commodity derivatives	0.9		0.5	0.4
- of which in cash flow hedge accounting	0.4		0.4	
Total	**178.3**	**35.2**	**142.7**	**0.4**
Financial liabilities recognised at fair value through profit and loss				
Derivatives held for trading				
Interest rate swaps	0.4		0.4	
- of which in fair value hedge accounting	0.0		0.0	
Currency derivatives	19.9		19.9	
- of which in fair value hedge accounting	1.2		1.2	
- of which in cash flow hedge accounting	14.3		14.3	
Commodity derivatives	12.7		12.7	
- of which in cash flow hedge accounting	11.7		11.7	
Total	**33.0**	**0.0**	**33.0**	**0.0**

During the reporting period no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are based fully on quoted (unadjusted) prices in active markets of the same assets and liabilities. The fair values of Level 2 instruments are based to a significant extent on input data other than the quoted prices included in Level 1, but however on data that are observable either directly (price) or indirectly (derived from price) for the said asset or liability. The fair values of Level 3 instruments, on the other hand, are based on asset or liability input data that are not based on observable market information (unobservable inputs), but rather to a significant extent on confirmations supplied by counterparties based on generally accepted valuation models.

The fair value hierarchy level, to which a certain item valued at fair value is classified in its entirety, is determined in accordance with the requirements of IFRS 7 based on the lowest level of input significant to the overall fair value of the said item. The significance of the input data has been assessed in its entirety in relation to said item valued at fair value.

Reconciliation of financial assets and liabilities valued at fair value according to Level 3

Fair values at the end of the reporting period, in mill. EUR	Securities held for trading	Derivatives held for trading	Available-for-sale share investments	Total
Opening balance		2.3		2.3
Profits and losses in income statement total		-0.3		-0.3
In comprehensive income				0.0
Purchases (and sales)				0.0
Settlements (and issues)		-1.6		-1.6
Transfers to and from Level 3				0.0
Closing balance	**0.0**	**0.4**	**0.0**	**0.4**
Total profits and losses recognised for the period for assets held at the end of the reporting period				
In other operating expenses		-0.3		-0.3

During the reporting period, no transfers took place to or from fair value hierarchy Level 3 in the fair value levels of financial assets and liabilities. According to management estimates, the changing of input data used in determining the fair value of financial instruments valued at Level 3 to some other possible alternative assumption would not significantly change the fair value of items valued at fair value in Level 3, given the relatively small amount of the said assets and liabilities.

7. COMPANY ACQUISITIONS AND SALES

During the financial period the Group did not acquire any businesses. During Q1 2014 Finnair sold its subsidiary Finncatering Oy, which was previously classified as assets held for sale.

8. INCOME TAXES

The tax rate for the first quarter was -17.1 % (-15.6 %).

9. DIVIDEND PER SHARE

The Annual General Meeting on 27 March 2014 decided that no dividend is paid for 2013.
The Annual General Meeting on 27 March 2013 decided to distribute a dividend of 0.10 euros per share. The total dividend was 12.7 million euros, based on the number of shares registered on 3 April 2013. The dividend was paid on 10 April 2013.

10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	31 Mar 2014	31 Mar 2013	2013
Carrying amount at the beginning of period	1,311.9	1,354.2	1,354.2
Fixed asset investments	33.1	24.1	77.3
Change in advances	4.6	-2.4	33.3
Disposals	-142.9	-2.8	-11.0
Depreciation	-35.5	-36.2	-140.7
Depreciation included in non-recurring items	-0.3	-0.9	-1.2
Carrying amount at the end of period	**1,171.0**	**1,336.1**	**1,311.9**
Proportion of assets held for sale at the beginning of period	9.8	16.7	16.7
Proportion of assets held for sale at the end of period	7.1	18.6	9.8

11. NON-CURRENT ASSETS HELD FOR SALE

Mainly inventories and tangible asset related to Finnair Technics. Comparative period includes also non-current assets and liabilities of Finncatering Oy, which was sold during Q1 2014.

Non current assets held for sale	31 Mar 2014	31 Mar 2013	2013
Tangible assets	7.1	18.6	9.8
Inventories	5.5	16.5	5.4
Trade receivables and other receivables	0.0	2.5	2.5
Total	**12.6**	**37.6**	**17.7**

Liabilities of non-current assets held for sale	31 Mar 2014	31 Mar 2013	2013
Trade payables and other liabilities	0.0	2.6	2.3
Total	**0.0**	**2.6**	**2.3**

12. INTEREST-BEARING LIABILITIES

During the first quarter of 2014 Finnair amortized its loans according to the loan instalment program. In addition, Finnair repaid the loans related to the sold A330 aircraft.

13. CONTINGENT LIABILITIES

in mill. EUR	31 Mar 2014	31 Mar 2013	2013
Pledges on own behalf	218.7	577.0	503.7
Guarantees on behalf of group undertakings	70.4	66.0	67.6
Guarantees on behalf of others	2.3	2.5	2.3
Total	**291.3**	**645.5**	**573.5**

Investment commitments for property, plant and equipment at 31 March 2014 totalled 928 million euros (1,000).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	31 Mar 2014	31 Mar 2013	2013
Lease commitments from fleet payments	496.5	155.3	259.2
Other lease commitments	239.5	244.9	244.8
Total	**736.0**	**400.2**	**504.0**

15. RELATED PARTY TRANSACTIONS

in mill. EUR	31 Mar 2014	31 Mar 2013	2013
Transactions with associates and joint ventures			
Sales	18.2	17.3	65.5
Purchases	20.5	18.3	105.8
Non-current financial assets	9.9	9.9	9.9
Trade and other receivables	65.4	32.4	36.1
Other long-term liabilities	10.1	8.3	9.7
Pension obligations	24.8	8.3	10.5
Trade payables and other liabilities	2.4	1.8	3.5
Guarantees on behalf of associates and joint ventures	2.0	2.0	2.0

16. ITEMS OF STATEMENT OF COMPREHENSIVE INCOME

Other comprehensive income include the unrealisable change in the fair value of the hedging instruments of the hedge accounting items, which has earlier been recognised straight in the hedging reserve of the shareholders' equity, and the translation difference.

in mill. EUR	Q1 2014	Q1 2013	Change %	2013
Profit for the period	**-28.1**	**-15.7**	**-79.4**	**22.9**
Other comprehensive income items				
Items that may be classified reclassified to profit or loss in subsequent periods				
Translation differences	0.0	-0.1	112.5	0.0
Change in fair value of available-for-sale financial assets after taxes	0.0	10.6	-100.0	-10.4
Change in fair value of hedging instruments after taxes	-14.6	10.6	<-200 %	-4.2
Items that will not be reclassified to profit or loss in subsequent periods				
Actuarial gains and losses from defined benefit plans	-9.1	-2.3	<-200 %	-0.2
Other comprehensive income items total	**-23.7**	**18.8**	**<-200 %**	**-15.0**
Comprehensive income for the financial period	**-51.8**	**3.1**	**<-200 %**	**7.9**
Earnings attributable to shareholders of the parent company of the comprehensive income statement	-51.9	3.3	<-200 %	7.7
Earnings attributable to non-controlling interest of the comprehensive income statement	0.1	-0.1	163.9	0.3

17. EVENTS AFTER THE REVIEW PERIOD

There have not been other remarkable events after the closing date as told in the interim report.

18. CALCULATION OF KEY RATIOS

Earnings / share:

$$\frac{\text{Result for the period - hybrid bond interest}}{\text{Average number of shares at the end of the financial year, adjusted for share issues}}$$

Earnings per share from the result of the period:

$$\frac{\text{Result for the period}}{\text{Average number of shares at the end of the financial year, adjusted for share issues}}$$

Equity / share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the financial year, adjusted for share issues}}$$

Gearing, %:

$$\frac{\text{Net interest-bearing liabilities * 100}}{\text{Shareholders' equity + non-controlling interest}}$$

Return on capital employed, % (ROCE):

$$\frac{\text{Profit before taxes + interest and other financial expenses * 100}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}}$$

Net interest-bearing liabilities:

Interest-bearing liabilities - interest-bearing assets - listed shares

Equity ratio, %:

$$\frac{\text{Shareholders' equity + non-controlling interest * 100}}{\text{Balance sheet total - advances received}}$$

Return on equity, % (ROE):

$$\frac{\text{Result * 100}}{\text{Equity + non-controlling interest (average)}}$$

Operating profit, EBIT:
Operating profit excluding capital gains, non-recurring items and fair value changes in derivatives and changes in the exchange rates of fleet overhauls

Shareholders' equity:
To equity holders of the parent

The figures of interim report have not been audited.