



# **Finnair Group Interim Report 1 January – 31 March 2017**

28 April 2017

# Finnair Group Interim Report 1 January–31 March 2017

***Tenth consecutive quarterly improvement; comparable operating loss almost halved in a seasonally challenging quarter***

## **January–March 2017**

- Revenue increased by 3.3% year-on-year to 554.4 million euros (536.4)\*.
- Available seat kilometres (ASK) grew by 0.1%.
- Comparable operating result was -9.0 million euros (-15.3).
- Operating result was -10.0 million euros (-17.6).
- Comparable EBITDAR\*\* was 50.1 million euros (36.4).
- Net cash flow from operating activities totalled 23.9 million euros (10.4), and net cash flow from investing activities amounted to 145.1 million euros (-247.3).\*\*\*
- Unit revenue (RASK) increased by 3.3% year-on-year.
- Unit cost (CASK) increased by 2.0% and unit cost at constant currency excluding fuel increased by 1.2% year-on-year.
- The 20-million euro cost-efficiency programme will be completed in full by the summer.
- Ancillary and retail revenue per passenger grew by 9.4% year-on-year to 13.0 euros.
- Earnings per share were -0.09 euros (-0.15).
- Outlook unchanged: Finnair estimates that, in 2017, its capacity will grow 8–10%, weighted towards the second half of 2017. Revenue is expected to grow more slowly than capacity, reflecting both the increasing capacity in the markets Finnair serves in addition to Finnair's efforts to increase ancillary revenue.

*\* Unless otherwise stated, figures in parentheses refer to the comparison period, i.e. the same period last year.*

*\*\* Operational result + depreciation + lease payments for aircraft.*

*\*\*\* Net cash flow from investing activities includes 186 million euro investments in money market funds and other financial assets maturing after more than three months. These investments are part of the Group's liquidity management.*

## **Outlook**

The demand outlook for passenger and cargo traffic in Finnair's main markets continues to involve uncertainty. Finnair estimates that, in 2017, due to the fleet renewal and introduction of new aircraft, its capacity will grow 8–10 per cent, weighted strongly towards the second half of 2017. Revenue is expected to grow more slowly than our capacity, reflecting increasing capacity in the relevant markets.

In keeping with its disclosure policy, Finnair will issue guidance for its expected full-year operational result in connection with the half-year report in July.

## **CEO Pekka Vauramo:**

Revenue grew in particular due to solid demand for Asian and Domestic flights. The passenger load factor rose and ancillary revenue per passenger also continued to increase. Our comparable operating result improved six million euros from the previous year. Hence, our result has now been on an upward trend for ten consecutive quarters.

Mid-winter is traditionally a weak period for Finnair due to seasonality, but we saw several positive signs during the quarter: the demand for travel to Europe seems to have stabilised, and sales in our key markets of China

and Korea increased from the previous year. Our Asian flights were almost full during the quarter, with broadly unchanged average ticket prices. An increasing share of our Chinese passengers also continued their journey from Helsinki to our destinations in Finnish Lapland, and we carried some 40,000 more passengers on our domestic flights than a year earlier. For next winter, we are aiming to increase our capacity to Finnish Lapland even more. If our Lapland strategy continues to succeed, it will help to balance the seasonality of our business.

Strike actions by third parties at our Helsinki hub impacted our operations in March. We were forced to prepare for the strikes through various measures, and cancelled a large proportion of our flights on two separate days. We were able to contain the losses at approximately three million euros.

We achieved major milestones in our growth preparations. During the quarter, we took delivery of two A321 narrow-body aircraft and immediately after the period one new A350, which will increase our capacity quite significantly. Furthermore, we recently received our own A350 flight simulator, which has had an immediate, material impact on the efficiency of our pilot training program. In late spring, we will also receive a new narrow-body simulator, which will make us self-sufficient in terms of training. In addition, we now have new long-term collective labour agreements with our flying personnel groups, which improve the flexibility and of our operations in addition to allowing more planning efficiency and visibility. In-flight meal services were returned to Finnair's control in April, and we are immediately taking development measures to serve our passengers better in this area, too.

Our accelerated growth is about to start. Our fleet is getting larger, personnel are increasing, and we are opening new routes and frequencies. This summer will be busier than ever. Finnair will fly to Asia 87 times a week. More and more of our routes will be operated with larger aircraft. We expect to reach 40,000 daily passengers at Helsinki Airport during this quarter. The launch of the new terminal wing at our hub in the summer will smooth our passenger journeys and improve the customer experience.

## **Business environment**

Traffic continued to grow in Finnair's main markets in the first quarter of 2017. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations grew by 2.8 per cent year-on-year, while direct market capacity between Finnair's Asian and European destinations grew by 2.2 per cent year-on-year. Finnair's market share decreased slightly both in European traffic and in Asian traffic, to 5.9 per cent (6.2).\*

During the quarter, there were signs that the negative effect of previous years' security concerns is dissipating. Asian demand came from several origins as traffic from Asia to Europe grew robustly during the quarter. In terms of destinations the Nordic growth trend continued as all Nordic countries enjoyed strong growth. In Finland, both Helsinki and Lapland destinations grew above average.

The market environment for the Atlantic Joint Business remained challenging as traffic between Europe and North America was affected by overcapacity and resulting price competition. The Siberian Joint Business continued to strengthen its position in traffic between Japan and Europe, and the total market volume also grew versus last year. Revenues increased both in Japan, driven by positive yield developments, and in Europe, driven by the increasing number of passengers.

The supply of packaged travel by tour operators active in Finland exceeded consumer demand during the first quarter, particularly in long-haul destinations, which weighed on prices and profitability. Consumer demand concentrated on the Canary Islands, which reduced the availability of moderately priced accommodation and tour operators' profitability. There was increased demand also for the United Arab Emirates, where the availability of accommodation and profitability were at a solid level. The air cargo market has bottomed out since the comparison period. On a global scale, growth has even exceeded the growth of world trade, indicating an increased market share. On the other hand, the air cargo market continues to suffer from overcapacity, affecting the yields.

The declining trend in the price of jet fuel ended in the first quarter of 2016. The dollar price of jet fuel was 50.4 per cent higher in the first quarter than in the comparison period. The US Dollar, the most significant expense currency after the euro, appreciated by 3.5 per cent against the euro year-on-year and has remained at historically strong levels. In regards to key income currencies, the Japanese yen was 5.0 per cent stronger against the euro than in the comparison period. The Chinese yuan has showed some signs of stabilization during the first quarter, depreciating by 1.7 per cent against the euro year-on-year. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected one-for-one in its result.

\* Based on external sources (capacities on SRS Analyzer data and market shares DDS pax estimates for January–February). The basis for calculation is Finnair's non-seasonal destination cities.

## Financial performance

### Revenue in January–March 2017

Finnair's revenue in the first quarter of 2017 grew by 3.3 per cent year-on-year to 554.4 million euros (536.4). Passenger revenue as well as ancillary and retail revenue increased, while cargo revenue decreased and travel services revenue decreased from the comparison period. Travel agency revenue decreased to zero by the end of the period reflecting the divestment of SMT in November 2016. Unit revenue (RASK) increased by 3.3 per cent year-on-year and amounted to 6.82 euro cents (6.61), reflecting an improvement in the load factor.

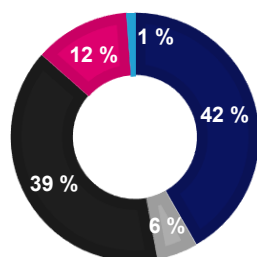
### Revenue by product

EUR million	1–3/2017	1–3/2016	Change %
Passenger revenue	422,6	404,0	4,6
Ancillary and retail revenue	33,8	29,7	13,9
Cargo	39,2	39,6	-1,2
Travel services	58,8	59,1	-0,5
Travel agencies	0,0	4,0	-100,0
<b>Total</b>	<b>554,4</b>	<b>536,4</b>	<b>3,3</b>

### Ticket revenue and traffic data by area, 1–3/2017

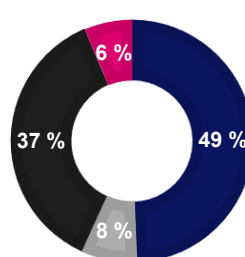
Traffic area	Ticket revenue		ASK		RPK		PLF	
	EUR mill.	Change %	Mill. km	Change %	Mill. km	Change %	%	Change %-point
Asia	176.4	6.9	4,011.4	-0.3	3,513.0	5.5	87.6	4.8
North Atlantic	22.8	-11.6	606.2	-4.1	474.3	-6.7	78.2	-2.2
Europe	166.4	3.4	2,990.6	-0.3	2,266.1	1.7	75.8	1.4
Domestic	52.2	7.2	519.5	11.0	363.6	8.7	70.0	-1.5
Unallocated	4.9	32.5						
<b>Total</b>	<b>422.6</b>	<b>4.6</b>	<b>8,127.7</b>	<b>0.1</b>	<b>6,617.1</b>	<b>3.4</b>	<b>81.4</b>	<b>2.6</b>

Passenger revenue (M€)



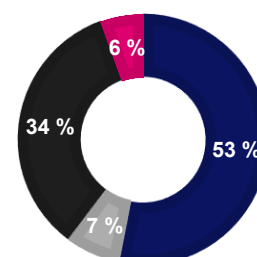
■ Asia  
 ■ North Atlantic  
 ■ Europe  
 ■ Domestic  
 ■ Unallocated revenue

Capacity (ASK's)



■ Asia  
 ■ North Atlantic  
 ■ Europe  
 ■ Domestic

Traffic (RPK's)



■ Asia  
 ■ North Atlantic  
 ■ Europe  
 ■ Domestic

Passenger traffic capacity (measured in Available Seat Kilometres (ASK)) grew by 0.1 per cent overall in the first quarter – some 2 per cent below target reflecting cancellations due to resource constraints and third party labour disputes. Nevertheless, traffic measured in revenue passenger kilometres grew by 3.4 per cent reflecting an improvement in the passenger load factor (PLF) in Asian and European traffic. ASKs were at the previous year’s level or lower in all other traffic regions except Domestic, where capacity to Northern Finland was increased considerably due to high tourist demand. Last year’s leap day also had a negative impact of approximately one per cent on the traffic figures in the quarter.

In Asian traffic, available seat kilometres were 0.3 per cent lower than in the comparison period. The introduction of the larger A350 aircraft in Asian traffic contributed positively, while there were negative contributions from the suspension of the Chongqing route between 11 January and 2 May due to A350 pilot training and other cancellations at the beginning of the year due to a temporary lack of pilots. The passenger load factor in Asian traffic rose by 4.8 percentage points to 87.6 per cent. The capacity in North Atlantic traffic decreased by 4.1 per cent with the New York route being operated by a smaller aircraft than in the comparison period. Revenue passenger kilometres in North Atlantic traffic decreased by 6.7 per cent and the passenger load factor decreased by 2.2 percentage points to 78.2 per cent.

Changes in European traffic were muted: available seat kilometres decreased by 0.3 but revenue passenger kilometres increased by 1.7 per cent, and the passenger load factor rose by 1.4 percentage points to 75.8 per cent. Domestic operations increased steeply: capacity grew by 11.0 per cent and traffic by 8.7 per cent due to increased flying to Northern Finland. The passenger load factor declined by 1.5 percentage points to 70.0. The third-party labour disputes at the Helsinki Airport directly impacted Finnair’s European and Domestic traffic.

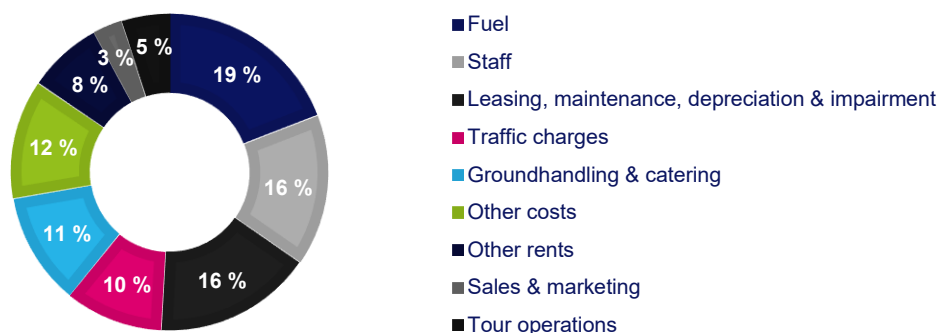
Ancillary and retail revenue increased by 13.9 per cent year-on-year and amounted to 33.8 million euros, or 13.0 euros per passenger. Growth remained particularly strong in advance seat reservations. Available cargo tonne kilometres decreased by 5.1 per cent, but revenue cargo tonne kilometres decreased by only 3.3 per cent due to higher cargo load factor. Average cargo yields increased slightly, by 1.7 per cent. Cargo traffic revenue decreased by 1.2 per cent, amounting to 39.2 million euros.

In Finnair’s travel services (Aurinkomatkat Suntours) in the first quarter, the number of travellers increased by 5 per cent from the comparison period, and the load factor in Suntour’s fixed seat allotment was 94 per cent. Due to the market conditions and capacity growth, however, the average price fell below that of last year and revenue decreased by 0.5 per cent to 58.8 million euros (59.1). The decrease in travel agencies’ revenue after the comparison period is attributable to the divestment of SMT, which was completed in November 2016.

Cost development and result January–March 2017

Finnair’s operating expenses in the first quarter increased by 1.7 per cent to 583.6 million euros (573.8). Unit cost (CASK) increased by 2.0 per cent and totalled 6.93 euro cents (6.79). CASK ex fuel at constant currency increased by 1.2 per cent.

**Q1 split of operating costs (584 M€ in total)**



Operating expenses excluding fuel increased by 4.4 per cent from the comparison period, and amounted to 472.0 million euros (452.2). The appreciation of the US Dollar after hedging increased costs\*. The large-scale recruitment and training of flight crew continued to elevate costs. The growth and renewal of the fleet increased both lease payments and depreciation.

Fuel costs, including hedging results and emissions trading costs, decreased by 8.2 per cent to 111.6 million euros (121.6). Fuel efficiency as measured by fuel consumption per ASK also improved by 3.4 per cent reflecting in particular the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for improvements in the passenger and cargo load factors, improved by 4.9 per cent. Staff costs decreased by 1.4 per cent to 90.5 million euros (91.9) mainly reflecting the divestment of SMT in November 2016.

The increased rents reflect the cost of wet lease arrangements used by Finnair during the period due to a shortage of pilots. The reduction in maintenance expenses was primarily due to the exceptionally high expenses incurred in the comparison period. Other expenses increased by 12.4 million euros to 71.2 million euros. The increase in other expenses was primarily (9.0 million euros) attributable to the higher currency hedging result in the comparison period. As a result of the implementation of IFRS 9, effective 1 January, 2017, the impacts of currency hedging will be allocated, instead of other expenses, to the relevant expense rows (fuel costs, lease payments for aircraft and traffic charges).

The previously announced 20-million euro cost-efficiency programme will be completed in full and in schedule by the summer. Thereafter, cost control will continue as part of normal process improvement instead of a dedicated program.

Finnair's comparable EBITDAR increased by 13.8 million euros year-on-year to 50.1 million euros (36.4). 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, improved by 6.3 million euros and amounted to -9.0 million euros (-15.3).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 3.5 million euros (4.4). The items affecting comparability amounted to -4.5 million euros (-6.7), the largest items being one-off expenses related to the A340 aircraft to be redelivered to Airbus. The operating result was -10.0 million euros (-17.6), the result before taxes was -10.0 million euros (-18.7) and the result after taxes was -8.0 million euros (-15.1).

*\* Following the implementation of the Financial Instruments standard, as of the beginning of 2017, the hedging results related to USD-denominated maintenance expenses and traffic charges are allocated to the appropriate expense categories. Previously, these were recognised in other expenses. The information for the comparison period has not been adjusted to the new practice.*

## **Balance sheet on 31 March 2017**

The Group's balance sheet totalled 2,649.9 million euros at the end of the period under review (31 Dec 2016: 2,528.7). The balance sheet grew in January–March mainly due to seasonality, a bond issue and positive operating cash flow. Shareholders' equity was 817,5 million euros (31 Dec 2016: 857.0), or 6.40 euros per share (31 Dec 2016: 6.73). Shareholders' equity decreased primarily due to the company's negative comprehensive income and the payment of dividends totalling 13 million euro as decided by the AGM.

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 pilots' defined benefit plans according to IAS 19. The value of the item at the end of March 2017 was 30.6 million euros (31 Dec 2016: 33.9) after deferred taxes, and it was particularly affected by changes in the fair value of the aforementioned hedging instruments.

## **Cash flow and financial position**

Finnair has a strong financial position, which supports business development and future investments. In the first quarter of 2017, net cash flow from operating activities amounted to 23.9 million euros (10.4). The year-on-year increase in cash flow was primarily attributable to the improvement of comparable operating result. Net cash flow from investments amounted to 145.1 million euros (-247.3) and was particularly attributable to the realisation of money market investments with maturities exceeding three months as part of the Group's liquidity management.

The equity ratio on 31 March 2016 stood at 30.9 per cent (31 Dec 2016: 33.9) and gearing was negative at -10.4 per cent (31 Dec 2016: -11.2). The adjusted gearing was 84.4 per cent (31 Dec 2016: 78.3). At the end of March, adjusted interest-bearing debt amounted to 802.1 million euros (31 Dec 2016: 701.5) and interest-bearing net debt was negative at -85.4 million euros (31 Dec 2016: -95.8).

The company's liquidity was strong in the review period. The Group's cash funds at period-end amounted to 887.5 million euros (31 Dec 2016: 797.3). 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. Using these reserves requires a bank guarantee. Finnair has an entirely unused 175-million-euro syndicated credit facility, intended as reserve funding. The arrangement has a maturity of three years from June 2016 with two optional one-year extensions. During the first quarter, Finnair issued a 200-million-euro bond and redeemed 85 million euros of its earlier bond.

Finnair has a 200-million-euro short-term commercial paper program, which was unused at the end of the review period. Net cash flow from financing in January–March amounted to 103.4 million euros (118.5). Financial income was 0,0 million euros (0,6) due to the negative interest environment, while a gain on the termination of interest rate derivatives related to the bond redeemed during the quarter also netted financial expenses to 0,0 million euros (-1.7).

## **Capital expenditure**

In the first quarter of 2017, capital expenditure excluding advance payments totalled 33.4 million euros (111.1) and was primarily related to fleet investments. Net cash flow from investments (capital expenditure) totalled 37.8 million euros, including advance payments.

Cash flow from investments for 2017 is estimated at approximately 510 million euros, or 350 million net, taking into account the sale and leaseback agreement for the A350 aircraft delivered after the review period in April 2017. The cash flow from investments includes, in addition to investment commitments, also an estimate of investments which have been decided on, but not yet concluded with a counterparty. The investment financing need in 2017 may potentially be reduced by sales of aircraft to be carried out at a later time.

Finnair will add seating capacity to its current Airbus narrow-body aircraft in 2017–2018 by modifying storage and technical space at the front and rear of the aircraft. The investment concerns 23 narrow-body aircraft.

In addition to fleet investments, Finnair is developing a modern cargo terminal to be commissioned in 2017. Finnair will also introduce WiFi connectivity to the majority of its current wide-body and narrow-body fleet between 2016–2018. Nearly all of Finnair's wide-body fleet already has WiFi connectivity.

The current favourable state of the credit markets and Finnair's good debt capacity enable the financing of future fixed-asset investments on competitive terms. The company has 35 unencumbered aircraft, which account for approximately 60 per cent of the balance sheet value of the entire fleet of 1 081 million euros. The balance sheet value includes seven finance-leased aircraft.

## Fleet

### Fleet operated by Finnair

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of March 2017, Finnair itself operated 50 aircraft, of which 19 are wide-body and 31 narrow-body aircraft. Of the aircraft, 26 were owned by Finnair, 17 were on operating lease and 7 on finance lease.

At the end of the first quarter of 2017, the average age of the fleet operated by Finnair was 9,8 years.

Fleet operated by Finnair 31.3.2017*	Seats	#	Change from 31.12.2016	Own**	Leased (Operating leasing) (Finance leasing)		Average age 31.3.2017	Ordered
<b>Narrow-body fleet</b>								
Airbus A319	138	8	-1	7	1		15,9	
Airbus A320	165	10		7	1	2	14,6	
Airbus A321	209/196	13	2	4	7	2	8,7	
<b>Wide-body fleet</b>								
Airbus A330	289/263	8			5	3	7,4	
Airbus A340***	263/257	4		4			9,3	
Airbus A350	297/336	7		4	3		1,0	12
<b>Total</b>		<b>50</b>	<b>1</b>	<b>26</b>	<b>17</b>	<b>7</b>	<b>9,8</b>	<b>12</b>

\* Finnair's Air Operator Certificate (AOC).

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

\*\*\* None of the A340s have been in operation after January.

### Fleet renewal

Finnair has ordered a total of 19 Airbus A350 XWB aircraft from Airbus S.A.S, three of which were delivered in 2015 and four in 2016. According to the current delivery schedule, Finnair will receive four new A350 aircraft in 2017 (of which one has subsequently been delivered) and the remaining eight between 2018 and 2023. Finnair's investment commitments for property, plant and equipment, totalling 1,557 million euros, include the upcoming investments in the wide-body fleet.

Finnair has phased out its A340 aircraft, following the successful delivery and entry into service of the A350 XWB aircraft. Finnair has agreed to sell its remaining four Airbus A340-300 aircraft back to Airbus. Finnair has the possibility to adjust the size of its fleet flexibly based on demand and outlook due to the staggered maturities of its lease agreements.

In 2017, Finnair will add seven new Airbus A321 narrow-body aircraft to its fleet with an operating lease agreement. During the first quarter, Finnair took delivery of two of these A321 aircraft and returned one Airbus A319 aircraft to the lessor at the end of the lease period. At the same time, Finnair will reduce its narrow-body wet lease capacity.



### Fleet operated by Norra (purchased traffic)

Nordic Regional Airlines (Norra) operates a fleet of 24 aircraft for Finnair on a contract flying basis. Of the aircraft operated by Norra, 15 are owned and 9 are leased by Finnair. The previously announced sale of one ATR 72 from the fleet has been cancelled.

Fleet operated by Norra 31.3.2017*	Seats	#	Change from 31.12.2016	Own**	Leased (Operating leasing)	Average age 31.3.2017	Ordered
ATR	68-72	12		6	6	7,7	
Embraer E190	100	12		9	3	8,8	
<b>Total</b>		<b>24</b>	<b>0</b>	<b>15</b>	<b>9</b>	<b>8,2</b>	

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

\*\* Includes JOLCO-financed E190 aircraft

## **Air traffic services and products**

### Route network and alliances

Finnair specialises in traffic between Asia and Europe with 18 destinations in Asia and over 70 in Europe. There are more than 800 flights weekly from Helsinki to other Finnish and European destinations. The maximum weekly number of flights to Asia is 78 in the winter season 2016/2017 and 87 in the coming summer season.

Finnair is part of the **oneworld** alliance and it also engages in closer cooperation with certain **oneworld** partners through participation in joint businesses, namely the Siberian Joint Business and the Atlantic Joint Business. The joint businesses are agreements covering revenue sharing and coordination of prices and capacity for the route areas in question.

For the winter season 2016/2017, Finnair increased capacity from Helsinki to Finnish Lapland by approximately 10% and plans on an even larger increase for the next winter. For summer 2017, Finnair will add frequencies to Tokyo and Hong Kong and introduce new routes from Helsinki to San Francisco, Alicante, Ibiza, Corfu, Menorca and Reykjavik.

For winter 2017/2018, Finnair announced several new leisure-focused destinations, including Havana, Puerto Vallarta and Goa, and direct flights to Finnish Lapland from London, Paris, Frankfurt and Zurich.

### Other renewals and services

Finnair was the first airline in the world to offer Alipay as a payment method, which is widely used by Chinese customers. The payment method has been piloted on the Shanghai route from 27 January. Experiences have been positive, and the Alipay pilot has also been extended to the Beijing route.

Almost the entire Finnair wide-body fleet now has wireless WiFi connectivity. The new A350 aircraft have the service installed at the factory, and installations in the last A330 will also be completed in May. Installations in the Airbus narrow-body fleet begin in the summer and will last for about a year.

## Awards

The OAG Punctuality League publication released in January ranked Finnair's arrival punctuality in 2016 (84.12%) as the sixteenth-highest in the world. In January, FlightStats recognised the **oneworld** alliance as the most punctual airline alliance in 2016.

In March, Finnair was named the best European airline operating in China at the TTG China Travel Awards for the second consecutive year. The award was based on votes cast by the readers of TTG's publications.

The German ESG rating company oekom research AG confirmed its analysis of Finnair's responsibility. The ESG rating remains B-, which is the highest rating in the category comprising 72 companies in the transport and logistics sector. Finnair also kept its *Prime* status indicating the suitability of Finnair's securities for responsible investors.

In March, Aurinkomatkat - Suntours was again found to be Finland's most sustainable travel service company by Sustainable Brands Index, which is the largest brand study focused on sustainability and corporate responsibility in the Nordics. The study is made annually by interviewing consumers in four Nordic countries and the Netherlands. The survey is based on the 10 principles of the UN Global Compact initiative.

## **Personnel**

Finnair employed an average of 4,864 (4,756)\* people in January–March 2017, which is 2.3 per cent more than in the comparison period. Taking into account the divestment of SMT in November 2016 and the transfer of 50 maintenance employees from Norra to Finnair in a business transfer in May 2016, the number of personnel in continuing operations grew by 5.0 per cent from the comparison period.

The number of employees in an employment relationship on 31 March 2017 was 4,880 (31 Mar 2016: 4,779; 31 Dec 2016: 4,838). During the review period, the number of personnel increased by 42, primarily due to an increase in the number of cabin crew and pilots.

Terms of employment agreed between Finnair as represented by Service Sector Employers PALTA and office personnel, customer service personnel and technical personnel, represented by FINTO, PRO and IAU, on terms of employment in line with the national competitiveness pact have taken effect. Collective labour agreement was renewed with the cabin crew union SLSY in autumn 2016, and with the pilots' union SLL in February 2017.

*\* 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.*

## **Own shares**

In January–March 2017, Finnair used its authorisation granted by the AGM to dispose of its own shares. In February, Finnair transferred 167,353 matching shares as incentives to participants of the FlyShare employee share savings plan. In addition, Finnair transferred in March 180,904 shares as a reward to the key personnel included in Finnair's share-based incentive scheme 2014–2016.

On 31 March 2017, Finnair held a total of 440,707 of its own shares (31 Dec 2016: 788,964), representing 0.34 per cent of the total share capital.

## Share price development and trading

At the end of March 2017, Finnair's market value stood at 602.2 million euros (31 Dec 2016: 516.4), and the closing price of the share was 4.70 euros (4,03). In the first quarter of 2017, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 4.70 euros, the lowest price 3.98 euros and the average price 4.22 euros. Some 5.5 million of the company's shares, with a total value of 23.3 million euros, were traded.

The number of Finnair shares recorded in the Trade Register 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 8.7 per cent (8,9) were held by foreign investors or in the name of a nominee.

## Corporate responsibility

Economic, social and environmental sustainability is integral to Finnair's overall business strategy and operations. Finnair wants to be a responsible global citizen and respond to its stakeholders' needs, also from the perspective of corporate responsibility. Finnair cooperates with industry operators and the authorities in areas such as reducing the climate impacts of aviation, promoting the use of biofuels and the consideration of sustainability within the supply chain. Finnair's corporate responsibility is reflected in its strategy and vision as well as its values of commitment to care, simplicity and courage.

In 2016, Finnair revised its sustainability strategy, which was crystallised in a three-pronged commitment: cleaner, caring, collaborative, and it embeds sustainability even deeper in the group strategy, brand and product development. The programme measures are geared to contribute to cost containment, risk mitigation as well as value creation.

Finnair's long term target was to reduce the carbon emissions in its mainline traffic relative to the revenue tonne kilometres (RTK) by 20 per cent from the level of 2009 by 2017. The target was completed almost in full, as the relative annual carbon emissions decreased by 19.4 per cent during the period. The achievement was largely based on the purchase of new aircraft as well as an improvement in the passenger and cargo load factors. In addition, fuel efficiency was improved during the period by modernising existing fleet and by improving processes. In addition, Finnair is committed to the sector's common goals of carbon-neutral growth from 2020 onwards, and cutting emissions from the level of 2005 in half by 2050.

At the beginning of the year, Aurinkomatkat began cooperation with the Finnish Association for Fair Tourism to train the entire personnel of the company so that they become familiar with the key principles, concerns and development practices of fair tourism and apply them in practice. The topics of the training include biodiversity, climate change, challenges related to human rights and children's rights, supporting local population, culture and economy in the travel destinations, and ethical tourism entrepreneurship.

Finnair's GRI sustainability report was published in February as part of the Annual Report. The key performance indicators for corporate responsibility are presented in this interim report under "Key Figures", the first table in the tables section below

## Significant near-term risks and uncertainties

Aviation is an industry that is sensitive to global economic cycles and reacts quickly to external disruptions, seasonal variation and economic trends. In the implementation of its strategy, Finnair is faced with various risks and opportunities. Finnair has 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. To exploit value creation opportunities, Finnair is also prepared to take and manage risks within the limits of its risk-bearing capacity.

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.

Exceptional variations in fuel price and how these are passed on to ticket prices or affect capacity growth in Finnair's main markets pose for Finnair's revenue development, as do sudden adverse changes in foreign exchange rates and slowing demand growth.

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.

The achievement of the additional revenue and cost reductions sought through Finnair's digital business transformation and new services involves risks. The implementation of Finnair's strategy and fleet renewal includes significant operating and internal changes, which involve risks. 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 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.

Geopolitical uncertainty, the elevated 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 market access required for the implementation of Finnair's growth plan.

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 to minimise the negative impacts of the expansion project. The expansion will facilitate the increase of the airport's annual passenger volume to 20 million and 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 at <https://investors.finnair.com/en/governance/risk-management>.

### **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, overflight 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 by using a variety of derivative instruments, such as forward contracts, swaps and options, in compliance with the risk management policy approved 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.

<b>Sensitivities in business operations, impact on comparable operating profit</b>		<b>1 percentage (point) change</b>
(rolling 12 months from date of financial statements)		
Passenger load factor (PLF, %)		EUR 23 million
Average yield of passenger traffic		EUR 20 million
Unit cost (CASK ex. fuel)		EUR 18 million

<b>Fuel sensitivities</b>	<b>10% change without hedging</b>	<b>10% change, taking hedging into account</b>	<b>Hedging ratio</b>	
(rolling 12 months from date of financial statements)			H1/2017	H2/2017
Fuel	EUR 47 million	EUR 23 million	73%	70%

<b>Currency distribution %</b>	<b>1–3 2017</b>	<b>1–3 2016</b>	<b>2016</b>	<b>Currency sensitivities USD and JPY</b>		<b>Hedging ratio for operational cash flows (rolling next 12 months)</b>
				(rolling 12 months from date of financial statements for operational cash flows)		
<b>Sales currencies</b>				10% change without hedging	10% change, taking hedging into account	
EUR	61	62	56	-	-	
USD*	3	3	4	see below	see below	see below
JPY	7	6	9	EUR 20 mill.	EUR 10 mill.	70%
CNY	5	5	7	-	-	
KRW	3	2	3	-	-	
SEK	6	5	5	-	-	
Other	15	17	16	-	-	
<b>Purchase</b>						
EUR	57	55	54	-	-	
USD*	35	37	38	EUR 54 mill.	EUR 17 mill.	71%
Other	8	8	8			

\* Hedging ratio for and sensitivity analysis for USD basket, which consists of net cash flows in USD CNY and HKD. The sensitivity analysis assumes that the correlation of the Chinese yuan and the Hong Kong dollar with the US dollar continue in line with historical levels.

## Events after the review period

At the beginning of April, Finnair took delivery of its eighth Airbus A350 and finalised an agreement to sell the aircraft to GE Capital Aviation Services Limited ("GECAS") and lease it back for its own operation. The arrangement has a positive one-time effect of approximately 50 million euro on Finnair's operating profit for the second quarter of 2017, including a gain on sale and currency gains on pre-delivery payments and hedges.

In April, 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, will return to Finnair's control, and the preparation and development of in-flight meals will be part of Finnair's operations. The arrangement was effective as of 21 April. The name of the catering company became Finnair Kitchen Oy and it was integrated into Finnair's Customer Experience unit. LSG Sky Chefs Oy has been under the control LSG since 2012. The company has approximately 500 employees. The change does not have significant effect on Finnair's operative or financial results.

## Financial reporting

The publication dates of Finnair's financial reports in 2017 are as follows:

Half-Year Report 1 January – 30 June 2017:	20 July 2017
Interim Report 1 January – 31 September 2017:	25 October 2017

FINNAIR PLC  
Board of Directors

## Briefings

Finnair will hold a result press conference on 28 April 2017 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 and webcast will begin at 2:30 p.m. Finnish time. The conference may be attended by dialling your local access number 09 7479 0362 (Finland), 0200 880 389 (Sweden), 0800 279 6839 (UK) or +44 330 336 9105 (all other countries). The confirmation code is 3476429. To join the live webcast, please register at: <https://slideassist.webcasts.com/starthere.jsp?ei=1143128>

## For further information, please contact:

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Key figures	Q1 2017	Q1 2016	Change %	2016
<b>Revenue and result</b>				
Revenue, EUR million	554.4	536.4	3.3	2,316.8
Comparable operating result, EUR million	-9.0	-15.3	41.2	55.2
Comparable operating result, % of revenue	-1.6	-2.9	1.2 %-p	2.4
Operating result, EUR million	-10.0	-17.6	43.3	116.2
Comparable EBITDAR, EUR million	50.1	36.4	37.8	270.4
Net result, EUR million	-8.0	-15.1	46.9	85.1
<b>Balance sheet and cash flow</b>				
Equity ratio, %	30.9	32.5	-1.7 %-p	33.9
Gearing, %	-10.4	-35.1	24.7 %-p	-11.2
Adjusted gearing, %	84.4	70.7	13.7 %-p	78.3
Interest-bearing net debt, EUR million	-85.4	-249.0	65.7	-95.8
Adjusted net debt, EUR million	689.6	501.3	37.6	670.6
Adjusted net debt / Comparable EBITDAR, LTM	2.4	2.0	0.4%-p	2.5
Gross capital expenditure, EUR million	33.4	111.1	-70.0	518.9
Return on capital employed (ROCE), LTM, %	7.9	10.7	-2.8 %-p	8.9
Return on equity (ROE), LTM, %	12.1	13.5	-1.5 %-p	10.7
Net cash flow from operating activities, EUR million	23.9	10.4	129.3	219.7
<b>Share</b>				
Share price at the end of quarter, EUR	4.70	5.45	-13.8	4.03
Earnings per share (EPS), EUR	-0.09	-0.15	41.1	0.55
<b>Traffic data and responsibility indicators</b>				
Passengers, 1,000	2,604	2,501	4.1	10,867
Available seat kilometres (ASK), million	8,128	8,121	0.1	33,914
Revenue passenger kilometres (RPK), million	6,617	6,400	3.4	27,065
Passenger load factor, %	81.4	78.8	2.6 %-p	79.8
Unit revenue per available seat kilometre, (RASK), cents/ASK	6.82	6.61	3.3	6.83
RASK at constant currency, cents/ASK	6.78	6.61	2.6	6.83
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.39	6.31	1.2	6.71
Unit cost per available seat kilometre (CASK), cents/ASK	6.93	6.79	2.0	6.67
CASK excluding fuel, cents/ASK	5.56	5.30	4.9	5.22
CASK excluding fuel at constant currency, cents/ASK	5.36	5.30	1.2	5.22
Ancillary and retail revenue per passenger (PAX)	12.99	11.87	9.4	11.55
Available cargo tonne kilometres (cargo ATK), million	336	354	-5.1	1,464
Revenue cargo tonne kilometres (cargo RTK), million	192	199	-3.3	873
Cargo and mail, tonnes	31,987	32,930	-2.9	144,596
Cargo traffic unit revenue per revenue cargo tonne kilometre, cents/cargo RTK	20.37	19.94	2.1	19.90
Overall load factor, %	64.8	64.9	-0.1 %-p	65.6
Flights, number	27,268	26,921	1.3	110,198
Arrival punctuality, %	82.5	81.7	0.8 %-p	85.3
Fuel consumption, tonnes	207,151	214,319	-3.3	874,148
Fuel consumption, tonnes/ASK	0.0255	0.0264	-3.4	0.0258
Fuel consumption, tonnes/RTK	0.2642	0.2779	-4.9	0.2653
CO <sup>2</sup> emissions, tonnes	652,527	675,106	-3.3	2,753,567
CO <sup>2</sup> emissions, tonnes/ASK	0.0803	0.0831	-3.4	0.0812
CO <sup>2</sup> emissions, tonnes/RTK	0.8323	0.8753	-4.9	0.8358
Customer satisfaction on a scale of 1 (very poor) - 10 (very good)	8.2	8.0	2.5	8.1
<b>Personnel</b>				
Average number of employees*	4,864	4,756	2.3	4,906

\* 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.

## CONSOLIDATED INCOME STATEMENT

in mill. EUR	Q1 2017	Q1 2016	Change %	2016	LTM
<b>Revenue</b>	<b>554.4</b>	<b>536.4</b>	<b>3.3</b>	<b>2,316.8</b>	<b>2,334.7</b>
Other operating income	20.2	22.1	-8.5	75.5	73.6
<b>Operating expenses</b>					
Staff costs	-90.5	-91.9	-1.4	-362.5	-361.2
Fuel costs	-111.6	-121.6	-8.2	-491.5	-481.5
Other rents	-44.4	-42.1	5.4	-167.4	-169.7
Aircraft materials and overhaul	-35.6	-36.6	-2.7	-147.3	-146.3
Traffic charges	-58.2	-61.1	-4.7	-262.8	-259.9
Ground handling and catering expenses	-66.9	-65.1	2.7	-258.9	-260.7
Expenses for tour operations	-28.6	-26.9	6.4	-87.8	-89.5
Sales and marketing expenses	-17.5	-18.1	-3.2	-76.9	-76.3
Other expenses	-71.2	-58.8	21.0	-266.6	-279.0
<b>Comparable EBITDAR</b>	<b>50.1</b>	<b>36.4</b>	<b>37.8</b>	<b>270.4</b>	<b>284.2</b>
Lease payments for aircraft	-30.0	-28.8	4.3	-109.5	-110.7
Depreciation and impairment	-29.1	-22.9	27.1	-105.8	-112.0
<b>Comparable operating result</b>	<b>-9.0</b>	<b>-15.3</b>	<b>41.2</b>	<b>55.2</b>	<b>61.5</b>
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	3.5	4.4	-20.8	32.0	31.1
Items affecting comparability	-4.5	-6.7	33.4	29.0	31.3
<b>Operating result</b>	<b>-10.0</b>	<b>-17.6</b>	<b>43.3</b>	<b>116.2</b>	<b>123.9</b>
Financial income	0.0	0.6	<-200 %	1.0	0.4
Financial expenses	0.0	-1.7	> 200 %	-11.5	-9.8
<b>Result before taxes</b>	<b>-10.0</b>	<b>-18.7</b>	<b>46.8</b>	<b>105.8</b>	<b>114.5</b>
Income taxes	2.0	3.7	-46.5	-20.6	-22.3
<b>Result for the period</b>	<b>-8.0</b>	<b>-15.1</b>	<b>46.9</b>	<b>85.1</b>	<b>92.2</b>
<b>Attributable to</b>					
Owners of the parent company	-8.0	-15.1	46.9	85.1	92.2
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	-0.09	-0.15	41.1	0.55	0.61

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in mill. EUR	Q1 2017	Q1 2016	Change %	2016	LTM
<b>Result for the period</b>	<b>-8.0</b>	<b>-15.1</b>	<b>46.9</b>	<b>85.1</b>	<b>92.2</b>
<b>Other comprehensive income items</b>					
<b>Items that may be reclassified to profit or loss in subsequent periods</b>					
Change in fair value of hedging instruments	-47.5	7.2	<-200 %	145.2	90.5
Tax effect	9.5	-1.4	> 200 %	-29.0	-18.1
<b>Items that will not be reclassified to profit or loss in subsequent periods</b>					
Actuarial gains and losses from defined benefit plans	24.5	-6.4	> 200 %	-18.1	12.8
Tax effect	-4.9	1.3	<-200 %	3.6	-2.6
<b>Other comprehensive income items total</b>	<b>-18.4</b>	<b>0.7</b>	<b>&lt;-200 %</b>	<b>101.7</b>	<b>82.7</b>
<b>Comprehensive income for the period</b>	<b>-26.4</b>	<b>-14.4</b>	<b>-83.7</b>	<b>186.9</b>	<b>174.9</b>
<b>Attributable to</b>					
Owners of the parent company	-26.4	-14.4	-83.7	186.9	174.9



## CONSOLIDATED BALANCE SHEET

in mill. EUR		31 Mar 2017	31 Mar 2016	31 Dec 2016
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	O	15.0	10.3	12.4
Tangible assets	O	1,187.1	958.6	1,166.5
Investments in associates and joint ventures	O	2.5	2.6	2.5
Loan and other receivables	O	6.7	8.0	7.4
Deferred tax assets	O	0.0	12.8	0.0
<b>Non-current assets total</b>		<b>1,211.2</b>	<b>992.4</b>	<b>1,188.7</b>
<b>Current assets</b>				
Inventories	O	13.1	12.2	14.9
Trade and other receivables	O	285.5	255.4	211.9
Derivative financial instruments	O/IA*	121.4	82.5	176.6
Other financial assets	IA	713.5	551.1	727.9
Cash and cash equivalents	IA	174.0	181.9	69.4
<b>Current assets total</b>		<b>1,307.5</b>	<b>1,083.1</b>	<b>1,200.7</b>
Assets held for sale	O	131.1	103.3	139.3
<b>Assets total</b>		<b>2,649.9</b>	<b>2,178.7</b>	<b>2,528.7</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	E	75.4	75.4	75.4
Other equity	E	742.1	633.6	781.6
<b>Equity total</b>		<b>817.5</b>	<b>709.1</b>	<b>857.0</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	O	25.9	0.0	32.7
Interest-bearing liabilities	IL	716.3	373.8	617.3
Pension obligations	O	10.6	14.0	31.9
Provisions	O	63.9	51.8	63.6
Other liabilities	O	4.6	3.9	4.9
<b>Non-current liabilities total</b>		<b>821.3</b>	<b>443.5</b>	<b>750.4</b>
<b>Current liabilities</b>				
Provisions	O	7.3	33.6	22.2
Interest-bearing liabilities	IL	98.8	105.9	100.4
Trade payables	O	89.4	74.8	94.4
Derivative financial instruments	O/IL*	26.8	143.0	25.2
Deferred income and advances received	O	546.6	445.8	424.6
Liabilities related to employee benefits	O	95.6	95.9	93.4
Other liabilities	O	146.5	127.1	161.1
<b>Current liabilities total</b>		<b>1,011.0</b>	<b>1,026.1</b>	<b>921.3</b>
<b>Liabilities total</b>		<b>1,832.3</b>	<b>1,469.6</b>	<b>1,671.7</b>
<b>Equity and liabilities total</b>		<b>2,649.9</b>	<b>2,178.7</b>	<b>2,528.7</b>

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 Mar 2017	31 Mar 2016	31 Dec 2016
Interest-bearing liabilities		815.1	479.8	717.7
Cross currency Interest rate swaps *		-13.0	4.2	-16.1
<b>Adjusted interest-bearing liabilities</b>		<b>802.1</b>	<b>483.9</b>	<b>701.5</b>
Other financial assets		-713.5	-551.1	-727.9
Cash and cash equivalents		-174.0	-181.9	-69.4
<b>Interest-bearing net debt</b>		<b>-85.4</b>	<b>-249.0</b>	<b>-95.8</b>
Lease payments for aircraft for the last twelve months (LTM) * 7		775.0	750.3	766.4
<b>Adjusted interest-bearing net debt</b>		<b>689.6</b>	<b>501.3</b>	<b>670.6</b>
Equity total		817.5	709.1	857.0
<b>Adjusted gearing, %</b>		<b>84.4 %</b>	<b>70.7 %</b>	<b>78.3 %</b>

\* 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 5, is considered an interest-bearing liability in the net debt calculation.

**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 total
<b>Equity 31 Dec 2016</b>	<b>75.4</b>	<b>168.1</b>	<b>33.9</b>	<b>248.6</b>	<b>132.8</b>	<b>198.2</b>	<b>857.0</b>
Change in accounting principles			15.2		-16.1		-0.9
<b>Equity 1 Jan 2017</b>	<b>75.4</b>	<b>168.1</b>	<b>49.0</b>	<b>248.6</b>	<b>116.6</b>	<b>198.2</b>	<b>856.1</b>
Result for the period					-8.0		-8.0
Change in fair value of hedging instruments			-38.0				-38.0
Actuarial gains and losses from defined benefit plans			19.6				19.6
<b>Comprehensive income for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>-18.4</b>	<b>0.0</b>	<b>-8.0</b>	<b>0.0</b>	<b>-26.4</b>
Dividend					-12.8		-12.8
Share-based payments				0.6			0.6
<b>Equity 31 Mar 2017</b>	<b>75.4</b>	<b>168.1</b>	<b>30.6</b>	<b>249.3</b>	<b>95.9</b>	<b>198.2</b>	<b>817.5</b>

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
<b>Equity 1 Jan 2016</b>	<b>75.4</b>	<b>168.1</b>	<b>-67.9</b>	<b>248.1</b>	<b>67.6</b>	<b>236.2</b>	<b>727.5</b>
Result for the period					-15.1		-15.1
Change in fair value of hedging instruments			5.8				5.8
Actuarial gains and losses from defined benefit plans			-5.1				-5.1
<b>Comprehensive income for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>	<b>0.0</b>	<b>-15.1</b>	<b>0.0</b>	<b>-14.4</b>
Purchase of own shares					-4.3		-4.3
Share-based payments				0.3			0.3
<b>Equity 31 Mar 2016</b>	<b>75.4</b>	<b>168.1</b>	<b>-67.2</b>	<b>248.4</b>	<b>48.2</b>	<b>236.2</b>	<b>709.1</b>

**CONSOLIDATED CASH FLOW STATEMENT**

in mill. EUR	Q1 2017	Q1 2016	2016	LTM
<b>Cash flow from operating activities</b>				
Result for the period	-8.0	-15.1	85.1	92.2
Depreciation and impairment	29.1	28.0	102.9	104.1
Other adjustments to result for the period				
Financial income and expenses	0.0	1.1	10.5	9.3
Income taxes	-2.0	-3.7	20.6	22.3
<b>EBITDA</b>	<b>19.1</b>	<b>10.3</b>	<b>219.2</b>	<b>228.0</b>
Gains and losses on aircraft and other transactions	4.5	6.2	-30.4	-32.1
Non-cash transactions *	-7.0	-6.3	-19.6	-20.3
Changes in working capital	5.5	1.6	55.5	59.4
Financial expenses paid, net	1.7	-1.2	-5.0	-2.0
Income taxes paid	0.0	-0.2	0.0	0.2
<b>Net cash flow from operating activities</b>	<b>23.9</b>	<b>10.4</b>	<b>219.7</b>	<b>233.1</b>
<b>Cash flow from investing activities</b>				
Investments in intangible assets	-4.1	-2.6	-10.3	-11.8
Investments in tangible assets	-37.8	-116.9	-475.7	-396.6
Divestments of fixed assets and group shares	0.4	15.0	153.2	138.6
Net change in financial assets maturing after more than three months	186.0	-143.2	-168.4	160.8
Change in non-current receivables	0.7	0.3	1.6	2.0
<b>Net cash flow from investing activities</b>	<b>145.1</b>	<b>-247.3</b>	<b>-499.6</b>	<b>-107.1</b>
<b>Cash flow from financing activities</b>				
Proceeds from loans	199.3	135.7	377.4	441.0
Loan repayments and changes	-95.9	-12.9	-115.1	-198.1
Hybrid bond repayments	0.0	0.0	-38.3	-38.3
Hybrid bond interests and expenses	0.0	0.0	-19.1	-19.1
Purchase of own shares	0.0	-4.3	-4.3	0.0
<b>Net cash flow from financing activities</b>	<b>103.4</b>	<b>118.5</b>	<b>200.5</b>	<b>185.4</b>
<b>Change in cash flows</b>	<b>272.4</b>	<b>-118.5</b>	<b>-79.3</b>	<b>311.5</b>
Liquid funds, at beginning	378.4	457.7	457.7	339.3
Change in cash flows	272.4	-118.5	-79.3	311.5
<b>Liquid funds, at end **</b>	<b>650.8</b>	<b>339.3</b>	<b>378.4</b>	<b>650.8</b>
<b>Notes to consolidated cash flow statement</b>				
<b>* Non-cash transactions</b>				
Employee benefits	2.8	3.5	15.1	14.4
Fair value changes in derivatives	-1.3	-1.3	-34.0	-34.0
Other adjustments	-8.4	-8.4	-0.6	-0.7
<b>Total</b>	<b>-7.0</b>	<b>-6.3</b>	<b>-19.6</b>	<b>-20.3</b>
<b>** Liquid funds</b>				
Other financial assets	713.5	551.1	727.9	713.5
Cash and cash equivalents	174.0	181.9	69.4	174.0
<b>Liquid funds in balance sheet</b>	<b>887.5</b>	<b>733.0</b>	<b>797.3</b>	<b>887.5</b>
Maturing after more than three months	-236.7	-393.7	-418.9	-236.7
<b>Total</b>	<b>650.8</b>	<b>339.3</b>	<b>378.4</b>	<b>650.8</b>

## 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

Finnair Group early adopted IFRS 9: Financial Instruments (2014), endorsed by the EU on 22.11.2016, with a date of initial application on 1 January 2017. The following changes to the accounting principles are described in the note 17 Changes in accounting principles. Otherwise the accounting principles applied are disclosed in the 2016 Consolidated Financial Statements.

The figures presented in this statement are not rounded; therefore, the total sum of individual figures does not necessarily match the corresponding sum stated herein. The key figures stated here are calculated using the exact figures.

### 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 critical accounting estimates and sources of uncertainty are disclosed in the financial statements 2016.

### 4. SEGMENT INFORMATION, REVENUE AND ITEMS AFFECTING COMPARABILITY

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.

#### Revenue by product and traffic area

Q1 2017, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	176.4	22.8	166.4	52.2	4.9	<b>422.6</b>	76.2
Ancillary and retail revenue	8.7	0.9	8.0	1.2	14.9	<b>33.8</b>	6.1
Cargo	29.0	2.3	5.5	0.8	1.5	<b>39.2</b>	7.1
Travel services	22.0	7.1	29.4	0.0	0.3	<b>58.8</b>	10.6
<b>Total</b>	<b>236.2</b>	<b>33.1</b>	<b>209.4</b>	<b>54.2</b>	<b>21.5</b>	<b>554.4</b>	
Share %	42.6	6.0	37.8	9.8	3.9		

Q1 2016, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	165.0	25.8	160.9	48.7	3.7	<b>404.0</b>	75.3
Ancillary and retail revenue	6.9	1.0	7.3	1.1	13.4	<b>29.7</b>	5.5
Cargo	30.3	2.6	3.9	1.0	1.8	<b>39.6</b>	7.4
Travel services	23.0	7.9	27.7	0.1	0.5	<b>59.1</b>	11.0
Travel agencies					4.0	<b>4.0</b>	0.7
<b>Total</b>	<b>225.2</b>	<b>37.3</b>	<b>199.8</b>	<b>50.9</b>	<b>23.3</b>	<b>536.4</b>	
Share %	42.0	6.9	37.2	9.5	4.3		

2016, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	739.5	115.7	761.0	165.1	34.9	<b>1,816.1</b>	78.4
Ancillary and retail revenue	27.5	4.6	35.8	3.5	54.1	<b>125.5</b>	5.4
Cargo	134.5	11.1	15.8	4.0	8.4	<b>173.8</b>	7.5
Travel services	35.5	11.4	139.2	0.5	1.0	<b>187.5</b>	8.1
Travel agencies					13.8	<b>13.8</b>	0.6
<b>Total</b>	<b>937.0</b>	<b>142.7</b>	<b>951.8</b>	<b>173.0</b>	<b>112.2</b>	<b>2,316.8</b>	
Share %	40.4	6.2	41.1	7.5	4.8		

PLF, %	Q1 2017	Q1 2016	Change %	2016
Asia	87.6	82.8	4.8 %-p	81.8
North Atlantic	78.2	80.4	-2.2 %-p	79.5
Europe	75.8	74.3	1.4 %-p	78.6
Domestic	70.0	71.4	-1.5 %-p	69.1
<b>Total</b>	<b>81.4</b>	<b>78.8</b>	<b>2.6 %-p</b>	<b>79.8</b>

ASK, mill. km	Q1 2017	Q1 2016	Change %	2016
Asia	4,011.4	4,021.5	-0.3	16,434.2
North Atlantic	606.2	632.4	-4.1	2,692.7
Europe	2,990.6	2,998.6	-0.3	13,247.9
Domestic	519.5	468.2	11.0	1,539.4
<b>Total</b>	<b>8,127.7</b>	<b>8,120.6</b>	<b>0.1</b>	<b>33,914.2</b>

RPK, mill. km	Q1 2017	Q1 2016	Change %	2016
Asia	3,513.0	3,328.5	5.5	13,446.8
North Atlantic	474.3	508.6	-6.7	2,140.7
Europe	2,266.1	2,228.8	1.7	10,413.8
Domestic	363.6	334.5	8.7	1,064.0
<b>Total</b>	<b>6,617.1</b>	<b>6,400.4</b>	<b>3.4</b>	<b>27,065.3</b>

#### Items affecting comparability

Items affecting comparability are classified into three categories: Gains and losses on aircraft transactions, Gains and losses on other transactions and Restructuring costs. Gains and losses on transactions include sales gains and losses and other items that can be considered to be directly related to the sale of the asset. As an example, write-down that might occur when item is classified as assets held for sale according IFRS 5, is reported as gains and losses on transactions. Restructuring costs include termination benefits and other costs that are directly linked to restructurings of operations.

in mill. EUR	Q1 2017	Q1 2016	Change %	2016
Unrealized changes in foreign currencies of fleet overhaul provisions	2.1	3.0	-29.9	-2.0
Fair value changes of derivatives where hedge accounting is not applied	1.3	1.3	0.0	34.0
<b>Fair value changes in derivatives and changes in exchange rates of fleet overhauls</b>	<b>3.5</b>	<b>4.4</b>	<b>-20.8</b>	<b>32.0</b>
Gains and losses on aircraft transactions	-5.0	-5.8	15.2	26.6
Gains and losses on other transactions	0.5	-0.4	> 200 %	3.8
Restructuring costs	0.0	-0.5	100.0	-1.4
<b>Items affecting comparability</b>	<b>-4.5</b>	<b>-6.7</b>	<b>33.4</b>	<b>29.0</b>

## 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 the information presented in the Group's 2016 financial statements. 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 2017		31 Mar 2016		31 Dec 2016	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
<b>Currency derivatives</b>						
Operational cash flow hedging (forward contracts)	444.3	9.7				
Operational cash flow hedging (options)						
Bought options	169.3	2.8				
Sold options	179.7	-2.9				
Jet fuel currency hedging			285.7	0.7	307.3	16.5
Fair value hedging of aircraft acquisitions	389.3	66.8	495.3	42.4	377.1	74.6
Currency hedging of lease payments	154.1	5.8	178.6	6.5	172.4	9.6
<b>Hedge accounting items total</b>	<b>1,336.7</b>	<b>82.1</b>	<b>959.6</b>	<b>49.6</b>	<b>856.8</b>	<b>100.7</b>
Operational cash flow hedging (forward contracts)	155.7	0.0	227.1	3.7	157.4	3.3
Operational cash flow hedging (options)						
Bought options			181.3	2.1	173.2	5.9
Sold options	21.4	0.0	311.4	-4.3	245.4	-2.4
Hedging of assets held for sale	123.5	-6.1			123.7	-7.3
Balance sheet hedging (forward contracts)	133.6	1.0	56.9	-1.2	118.3	1.5
Items outside hedge accounting total	434.2	-5.1	776.6	0.3	818.0	0.9
<b>Currency derivatives total</b>	<b>1,770.9</b>	<b>77.0</b>	<b>1,736.2</b>	<b>49.9</b>	<b>1,674.8</b>	<b>101.6</b>
<b>Commodity derivatives</b>						
Jet fuel forward contracts, tonnes	722,000	-0.3	552,000	-99.6	650,000	18.9
Options						
Bought options, jet fuel, tonnes	206,000	3.8				
Sold options, jet fuel, tonnes	206,000	-2.4				
Electricity derivatives, MWh	9,902	0.0	13,141	-0.1	13,140	0.0
<b>Hedge accounting items total</b>		<b>1.0</b>		<b>-99.7</b>		<b>18.9</b>
Jet fuel forward contracts, tonnes			18,000	-2.4	24,000	0.6
Options						
Bought options, jet fuel, tonnes			137,000	0.8	236,000	13.3
Sold options, jet fuel, tonnes	194,000	-0.5	344,000	-14.2	472,000	-4.4
Electricity derivatives, MWh			19,804	-0.2		
Items outside hedge accounting total		-0.5		-16.1		9.4
<b>Commodity derivatives total</b>		<b>0.6</b>		<b>-115.7</b>		<b>28.4</b>
<b>Currency and interest rate swaps and options</b>						
Interest rate swaps	64.9	1.3	150.0	5.3	150.0	3.6
<b>Hedge accounting items total</b>	<b>64.9</b>	<b>1.3</b>	<b>150.0</b>	<b>5.3</b>	<b>150.0</b>	<b>3.6</b>
Cross currency Interest rate swaps	283.0	13.0	102.6	-4.2	291.8	16.1
Items outside hedge accounting total	283.0	13.0	102.6	-4.2	291.8	16.1
<b>Interest rate derivatives total</b>	<b>347.9</b>	<b>14.4</b>	<b>252.6</b>	<b>1.1</b>	<b>441.8</b>	<b>19.8</b>
<b>Equity derivatives</b>						
Stock options						
Bought options	3.0	3.0	3.0	5.5	3.0	1.8
Sold options	3.0	-0.4	3.0	-1.4	3.0	-0.2
<b>Hedge accounting items total</b>	<b>6.0</b>	<b>2.7</b>	<b>6.0</b>	<b>4.1</b>	<b>6.0</b>	<b>1.6</b>
<b>Equity derivatives total</b>	<b>6.0</b>	<b>2.7</b>	<b>6.0</b>	<b>4.1</b>	<b>6.0</b>	<b>1.6</b>
<b>Derivatives total</b>		<b>94.6</b>		<b>-60.5</b>		<b>151.4</b>

## 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 2017	Level 1	Level 2
<b>Financial assets at fair value through profit and loss</b>			
Securities held for trading	713.5	596.7	116.8
Derivatives held for trading			
Currency and interest rate swaps and options	14.4		14.4
- of which in fair value hedge accounting	1.3		1.3
Currency derivatives	90.3		90.3
- of which in fair value hedge accounting	66.8		66.8
- of which in cash flow hedge accounting	21.8		21.8
Commodity derivatives	13.8		13.8
- of which in cash flow hedge accounting	13.8		13.8
Equity derivatives	3.0		3.0
- of which in fair value hedge accounting	3.0		3.0
<b>Total</b>	<b>834.9</b>	<b>596.7</b>	<b>238.2</b>

### Financial liabilities recognised at fair value through profit and loss

Derivatives held for trading			
Currency derivatives	13.3		13.3
- of which in fair value hedge accounting	0.1		0.1
- of which in cash flow hedge accounting	6.5		6.5
Commodity derivatives	13.2		13.2
- of which in cash flow hedge accounting	12.7		12.7
Equity derivatives	0.4		0.4
- of which in fair value hedge accounting	0.4		0.4
<b>Total</b>	<b>26.8</b>	<b>0.0</b>	<b>26.8</b>

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 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.

## 7. COMPANY ACQUISITIONS AND DIVESTMENTS

There were no business acquisitions or disposals during Q1 2017.

## 8. INCOME TAXES

The effective tax rate for Q1 2017 was -19.8% (-19.7%).

## 9. DIVIDEND PER SHARE

A dividend for 2016 of 0.10 euro per share, amounting to a total of EUR 12.8 million, was decided in the Annual General Meeting on 16 March 2017. The dividend was paid on 4 April 2017. Dividend was accounted for and included in Other liabilities as of 31 of March 2017.

The Annual General Meeting on 17 March 2016 decided that no dividend was paid for 2015.

## 10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Carrying amount at the beginning of period	1,178.8	821.0	821.0
Additions	33.4	111.1	518.9
Change in advances	10.7	26.9	80.4
Currency hedging of aircraft acquisitions	7.8	38.6	6.4
Disposals and reclassifications	0.5	-0.8	-139.9
Depreciation	-29.1	-22.9	-105.8
Depreciation included in items affecting comparability		-5.1	-2.2
<b>Carrying amount at the end of period</b>	<b>1,202.1</b>	<b>968.9</b>	<b>1,178.8</b>
Proportion of assets held for sale at the beginning of period	139.3	123.0	123.0
Proportion of assets held for sale at the end of period	131.1	101.7	139.3

## 11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include mainly aircraft. Aircraft classified as held for sale include four A340 aircraft which are expected to be sold to Airbus during 2017. These wide-body aircrafts have been replaced or are going to be replaced by new A350 aircraft. The sale of one ATR 72 aircraft, that was classified as assets held for sale at the end of 2016, was cancelled and therefore reclassified to tangible assets.

Non-current assets held for sale	31 Mar 2017	31 Mar 2016	31 Dec 2016
Intangible and tangible assets	131.1	101.7	139.3
Inventories	0.0	1.5	0.0
<b>Total</b>	<b>131.1</b>	<b>103.3</b>	<b>139.3</b>



## 12. INTEREST-BEARING LIABILITIES

During the first quarter of 2017, Finnair issued a senior unsecured bond of EUR 200 million. The bond matures on 29 March 2022, it bears a fixed annual interest at the rate of 2.250 percent and had an issue price of 99.925 percent. The bond is callable before its final maturity. In conjunction with the new issue, Finnair purchased back EUR 85,082,000 out of the total outstanding nominal amount of EUR 150 million of its senior unsecured bond maturing in 29 August 2018. The purchase price for the notes was 107.096 percent.

## 13. CONTINGENT LIABILITIES

in mill. EUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Pledges on own behalf		157.7	
Guarantees on behalf of group undertakings	72.4	70.3	69.0
Guarantees on behalf of others		0.1	0.0
<b>Total</b>	<b>72.4</b>	<b>228.1</b>	<b>69.0</b>

Investment commitments for property, plant and equipment as at 31 March 2017 totalled 1,557 million euros (31 December 2016: 1,601).

## 14. OPERATING LEASE COMMITMENTS

in mill. EUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Lease commitments for fleet payments	1,122.7	956.8	1,069.9
Other lease commitments	296.6	304.2	290.0
<b>Total</b>	<b>1,419.2</b>	<b>1,261.0</b>	<b>1,359.8</b>

## 15. RELATED PARTY TRANSACTIONS

in mill. EUR	Q1 2017	Q1 2016	2016
<b>Sales of goods and services</b>			
Associates and joint ventures	11.1	10.8	42.9
Pension fund			0.1
<b>Purchases of goods and services</b>			
Associates and joint ventures	27.4	30.2	106.8
Pension fund	0.8	0.8	3.2
<b>Receivables</b>			
Current receivables from associates and joint ventures	9.3	11.5	9.3
<b>Liabilities</b>			
Non-current liabilities to pension fund	7.5	12.2	29.7
Current liabilities to associates and joint ventures	0.2	0.7	0.2

## 16. EVENTS AFTER THE CLOSING DATE

At the beginning of April, Finnair took delivery of its eighth Airbus A350 and finalised an agreement to sell the aircraft to GE Capital Aviation Services Limited ("GECAS") and lease it back for its own operation. The arrangement has a positive one-time effect of approximately 50 million euro on Finnair's operating profit for the second quarter of 2017, including a gain on sale and currency gains on pre-delivery payments and hedges.

In April, Finnair announced having signed an agreement with LSG Sky Chefs based on which the catering company operating at Helsinki Airport, LSG Sky Chefs Finland Oy, will return under the control of Finnair and the preparation and development of the meals for their flights will be part of Finnair's operations. The name of the catering company will be Finnair Kitchen Oy and it will become a part of Finnair's Customer Experience unit. LSG Sky Chefs Oy has been under the control LSG since 2012. The change does not have significant effect on Finnair's operative or financial results. LSG Finland employees (approx. 500) will be transferred to Finnair Kitchen when control is transferred. The closing date is still subject to final approval of the Finnish Competition and Consumer Authority.

## 17. CHANGES IN ACCOUNTING PRINCIPLES

### IFRS 9 Financial Instruments

Finnair Group early adopted IFRS 9: Financial Instruments (2014), endorsed by the EU on 22.11.2016, with a date of initial application on 1 January 2017.

IFRS 9 replaces IAS 39 and addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new hedge accounting rules have aligned the accounting for hedging instruments more closely with Finnair's risk management practices. Under IFRS 9, more hedge relationships are eligible for hedge accounting. The change has decreased volatility in Finnair's operating result, because unrealised fair value changes of a larger amount of derivatives are recognised in other comprehensive income instead of operating result. Changes related to the classification and impairment of financial instruments did not have any significant effects on Finnair.

The key changes that have impacted Finnair's financial statements are described in more detail below.

#### 1 Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL), rather than only incurred credit losses as is the case under IAS 39. The only aspect affecting Finnair is related to the credit risk from trade receivables, and the change resulted in earlier recognition of credit losses on trade receivables. There was no impact on Finnair's credit risk position when moving from IAS 39 to IFRS 9.

Credit risk from trade receivables – According to IFRS 9, Finnair can use 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 and an expected default rate. The lifetime expected credit loss allowance total was recognised as an adjustment of 1.2 million euros to the opening balance of retained earnings in the year 2017, and thereafter the changes in expected credit losses will be recognised in profit and loss. However, the yearly recognition of credit losses in profit and loss is expected to be low due to nature of the business; flight tickets and other services provided by Finnair are usually paid before the service is delivered.

The impairment model does not affect investments in bonds and money market funds included in other financial assets as those are measured at fair value through profit and loss both under IAS 39 and 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.

#### 2 Changes in the classification of financial assets and liabilities

The new business-model driven classification of financial assets contains three different classes: amortised cost (replaces Finnair's previous classification "Loans and trade receivables" and "Held-to-maturity investments"), fair value through profit and loss (replaces "Held for trading") and fair value through other comprehensive income (replaces "Available for sale financial assets").

Based on Finnair's analysis, the application of IFRS 9 did not have any significant impact on the recognition or measurement of the Group's financial assets. Investments in debt securities, such as commercial paper and deposits, 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. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Other financial assets, such as investments in bonds and money market funds, are measured at fair value. The changes in the fair values of financial assets are recognised in the income statement.

Liabilities are classified into two different classes: amortised cost (replaces "Loans and receivables" and "Valued at amortised cost") and fair value through profit and loss. Finnair's liabilities are mainly classified as amortised cost, except for derivative liabilities. IFRS 9 did not bring any changes to company's previous classification and measurement of financial liabilities.

### 3 Hedge accounting

IFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and more closely align hedge accounting with risk management strategy and objectives.

The key changes impacting Finnair Group's hedge accounting include:

**Risk components** – IFRS 9 (2014) allows derivatives that are hedging a non-financial component of a price risk that is separately identifiable and measurable to be designated in a hedge relationship for that risk component only. The Group uses options and swaps on jet fuel, and could potentially use gasoil and Brent oil to hedge exposure to movements in the price of jet fuel. Previously, non-financial components were prohibited from being designated as hedged items under IAS39, and the use of such component hedges would have resulted in ineffectiveness stemming from the differences in the fair value changes of gasoil or Brent derivatives and the underlying jet fuel exposure. The change will allow Finnair to apply hedge accounting to such instruments under IFRS 9, which would not have been possible under IAS 39.

**Cost of hedging** – IFRS 9 allows the time value of options to be excluded from the designation of a hedging instrument and accounted for as a cost of hedging. The fair value changes of the time value are recognised in other comprehensive income, and depending on the nature of the hedged item will either be transferred to the Income Statement in the same period that the underlying transaction affects the Consolidated Income Statement or will be capitalised into the initial carrying value of a hedged item. Under IAS 39, Finnair did not apply hedge accounting when options were used for hedging future cash flows, and all the unrealised fair value changes of options were recognised in operating result as "Fair value changes in derivatives and changes in exchange rates of fleet overhauls". Finnair may use options when hedging against foreign currency exchange and fuel price risk, and the ability to apply hedge accounting for those will reduce the fair value changes of derivative instruments being recognised in the Consolidated Income Statement as non-designated derivatives.

**Hedge effectiveness** – Under IFRS 9, IAS 39 requirements for retrospective effectiveness testing as well as for hedge effectiveness of 80 to 125 per cent are removed. The ineffectiveness of hedges previously used by Finnair was minor or non-existent. Finnair expects that the hedge ineffectiveness will also be minor for hedge relationships that become eligible for hedge accounting under IFRS 9.

IFRS 9 (2014) requires that the hedge effectiveness assessment is forward-looking and does not prescribe defined effectiveness parameters for the application of hedge accounting. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively, and hedge accounting could only be applied if the relationship was 80 to 125 per cent effective. Under IFRS 9, hedge effectiveness is defined as the extent to which changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item.

IFRS 9 introduces three hedge effectiveness requirements for the application of hedge accounting, the first of which is an economic relationship between the hedged item and the hedging instrument. Therefore, there must be an expectation that the value of the hedging instrument and the value of the hedged item will move in opposite directions as a result of the common underlying or hedged risk. The second criterion relates to the fact that the change in the credit risk of the hedging instrument or the hedged item must not be of such magnitude that it dominates the value changes that result from that economic relationship. The third criterion is that 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. IFRS 9 requires that the hedge ratio used for hedge accounting purposes is the same as that used for risk management purposes. This change has not had a material impact on the Consolidated Income Statement.

Finnair Group has applied the hedge accounting principles of IFRS 9 on a prospective basis. Accordingly, there was no transitional restatement of the Group results.

**Transition adjustment to retained earnings:**

The opening balance of retained earnings is adjusted to take into account the jet fuel hedges (options and swaps) and operative cash flow hedges (forwards and options), which were previously excluded from hedge accounting, but are included in hedge accounting according to IFRS 9. The adjustment due to the reclassification of certain types of derivatives from profit and loss to the hedging reserve resulted in a reduction of retained earnings by 19 million euros (15 million euros net of taxes).

On the date of initial application, 1 January 2017, the financial instruments of the company were as follows, with any reclassifications noted:

	Measurement category		Carrying amount, 1 January 2017		
	Original (IAS 39)	New (IFRS 9)	New EUR mill.	Original EUR mill.	Difference
<b>Non-current financial assets</b>					
Loan and other receivables	Loans and receivables	Amortised cost	7.4	7.4	-
<b>Current financial assets</b>					
Cash and cash equivalents	Loans and receivables	Amortised cost	69.4	69.4	-
Commercial paper, certificates and bonds	Financial assets at fair value through profit and loss	FVPL*	261.2	261.2	-
Money market funds	Financial assets at fair value through profit and loss	FVPL*	466.6	466.6	-
Trade receivables and other receivables	Loans and receivables	Amortised cost	211.9	211.9	-
Derivatives	Hedge accounting items	Hedge accounting items	158.5	133.2	25.3
Derivatives	Financial assets at fair value through profit and loss	FVPL*	18.0	43.3	-25.3
<b>Non-current liabilities</b>					
Interest-bearing liabilities	Financial liabilities valued at amortised cost	Amortised cost	499.6	499.6	-
Finance lease liabilities	Financial liabilities valued at amortised cost	Amortised cost	117.6	117.6	-
Trade payables and other liabilities	Loans and receivables	Amortised cost	4.9	4.9	-
<b>Current liabilities</b>					
Interest-bearing liabilities	Financial liabilities valued at amortised cost	Amortised cost	78.5	78.5	-
Finance lease liabilities	Financial liabilities valued at amortised cost	Amortised cost	22.0	22.0	-
Derivatives	Hedge accounting items	Hedge accounting items	14.7	8.4	6.3
Derivatives	Financial liabilities at fair value through profit and loss	FVPL*	10.5	16.8	-6.3
Trade payables and other liabilities	Financial liabilities valued at amortised cost	Amortised cost	773.5	773.5	-

\* FVPL = financial assets or liabilities measured at fair value through profit or loss

On the date of initial application, 1 January 2017, the derivative contracts of the company were as follows, with any change in the application of hedge accounting noted:

	Carrying amount, 1 January 2017	
	New EUR mill.	Original EUR mill.
<b>Currency derivatives</b>		
Jet fuel currency hedging	16.5	16.5
- of which in cash flow hedge accounting	16.5	16.5
Fair value hedging of aircraft acquisitions	74.6	74.6
- of which in fair value hedge accounting	74.6	74.6
Currency hedging of lease payments	9.6	9.6
- of which in cash flow hedge accounting	9.6	9.6
Operational cash flow hedging (forward contracts)	3.3	3.3
- of which in cash flow hedge accounting	3.3	
Operational cash flow hedging (options)	3.5	3.5
- of which in cash flow hedge accounting	3.5	
Hedging of assets held for sale	-7.3	-7.3
Balance sheet hedging (forward contracts)	1.5	1.5
<b>Commodity derivatives</b>		
Jet fuel forward contracts	19.5	19.5
- of which in cash flow hedge accounting	19.5	18.9
Jet fuel options	8.9	8.9
- of which in cash flow hedge accounting	11.6	
<b>Currency and interest rate swaps and options</b>		
Interest rate swaps	3.6	3.6
- of which in fair value hedge accounting	3.6	3.6
Cross currency Interest rate swaps	16.1	16.1
<b>Equity derivatives</b>		
Stock options	1.6	1.6
- of which in fair value hedge accounting	1.6	1.6
<b>Derivatives total</b>	<b>151.4</b>	<b>151.4</b>
<b>-Items in cash flow hedge accounting total*</b>	<b>64.0</b>	<b>45.0</b>
<b>-Items in fair value hedge accounting total</b>	<b>79.9</b>	<b>79.9</b>

\*The change in the carrying amount of items in cash flow hedge accounting resulting from the application of IFRS 9 was recognised as an adjustment to the opening balance of retained earnings on the date of initial application.

## 18. CALCULATION OF KEY RATIOS

### Comparable operating result:

Operating result excluding fair value changes in derivatives, changes in the exchange rates of fleet overhauls and items affecting comparability

### Items affecting comparability:

Gains and losses on aircraft and other transactions and restructuring costs

### Comparable EBITDAR:

Comparable operating result + depreciation and impairment + lease payments for aircraft

### EBITDA:

Operating result + depreciation and impairment

### Shareholders' equity:

Equity attributable to owners of the parent

### Gross capital expenditure:

Investments in intangible and tangible assets excluding advance payments

### Last twelve months (LTM):

Twelve months preceding the reporting date

### Liquid funds:

Cash and cash equivalents + other financial assets

### Adjusted interest-bearing liabilities:

Interest-bearing liabilities + cross currency interest rate swaps in derivative financial instruments

### Interest-bearing net debt:

Adjusted interest-bearing liabilities - liquid funds

### Adjusted interest-bearing net debt:

Interest-bearing net debt + lease payments for aircraft, LTMx7

### Average capital employed:

Equity + interest-bearing liabilities (average of reporting period and comparison period)

### Earnings per share:

$$\frac{\text{Result for the period - hybrid bond expenses net of tax}}{\text{Average number of shares during the period, adjusted for share issues}}$$

### Equity/share:

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

### Equity ratio, %:

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

### Gearing, %:

$$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity} + \text{non-controlling interest}} \times 100$$

### Adjusted gearing, %:

$$\frac{\text{Adjusted net debt}}{\text{Shareholders' equity} + \text{non-controlling interest}} \times 100$$

The figures of the Interim Report are unaudited.

### Return on equity (ROE), %:

$$\frac{\text{Result for the period, LTM}}{\text{Shareholders' equity} + \text{non-controlling interest (average)}} \times 100$$

### Return on capital employed (ROCE), %:

$$\frac{\text{Result before taxes, LTM} + \text{financial expenses, LTM}}{\text{Average capital employed}} \times 100$$

### Available seat kilometres (ASK):

Total number of seats available × kilometres flown

### Revenue passenger kilometres (RPK):

Number of revenue passengers × kilometres flown

### Passenger load factor, %:

Share of revenue passenger kilometres of available seat kilometres

### Available cargo tonne kilometres (cargo ATK):

Number of tonnes of capacity for carriage of cargo and mail × kilometres flown

### Revenue cargo tonne kilometres (cargo RTK):

Total revenue load consisting of cargo and mail × kilometres flown

### Overall load factor, %:

Share of revenue tonne kilometres of available tonne kilometres

### 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.

### 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.

### Unit revenue per revenue passenger kilometre (yield):

Passenger Revenue by product divided by Revenue passenger kilometres (RPK).

### Cargo traffic unit revenue per cargo revenue tonne kilometre:

Cargo Revenue by product divided by Revenue cargo tonne kilometres (cargo RTK).