



Finnair Group Interim Report 1 January – 31 March 2018

25 April 2018

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Strong growth continued – Comparable operating result has improved for 14 consecutive quarters and totalled 3.9 million euros in Q1

January–March 2018

- Revenue increased by 14.6% to 635.3 million euros (554.4)*.
- Available seat kilometres (ASK) grew by 18.9%.
- Passenger load factor (PLF) increased by 1.5 points to 82.9%.
- Comparable operating result was 3.9 million euros (-9.0). Operating result was 6.0 million euros (-10.0).
- Net cash flow from operating activities was 78.0 million euros (23.9), and net cash flow from investing activities was -53.9 million euros (145.1).**
- Unit revenue (RASK) decreased by 3.6%. Unit revenue at constant currency decreased by 1.7%.
- Unit cost (CASK) decreased by 5.8%. Unit cost at constant currency excluding fuel decreased by 4.5%.
- Earnings per share were -0.01 euros (-0.09).

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

** Net cash flow from investing activities in Q1, includes 9.9 million euros of redemptions from money market funds or other financial assets maturing after more than three months. These redemptions are part of the Group's liquidity management.

Outlook

Global airline traffic is expected to grow strongly in 2018. Finnair expects increased competition as existing and new operators increase capacity, particularly on routes linking Europe with Asia and North America.

Finnair plans on increasing its capacity by more than 15 per cent in 2018, with most of this growth coming in the first half of the year. Passenger volume is expected to grow broadly in line with capacity while revenue growth is expected to be slightly lower.

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

CEO Pekka Vauramo:

I am delighted that for the first time in ten years we achieved a profitable comparable operating result in the first quarter, carrying a record three million passengers as well as expanding capacity by nearly one fifth in a quarter that is traditionally the weakest for us. I wish to thank all those working at Finnair for this achievement and for going above and beyond to make our growth possible and serve our customers in the best possible way.

Our passenger numbers developed robustly in all traffic areas and our passenger load factor improved. Especially international leisure travel demand, transfer traffic to Nordic countries, and local demand increased. Also ancillary sales, cargo and travel services revenue developed well – but I still see great potential for growing revenue in these areas.

The market environment continues to be highly competitive, with new market entrants and increasing jet fuel prices challenging the current industry dynamics. During the quarter, difficult weather conditions caused flight

delays and cancellations, which affected our customer satisfaction; however, we are redoubling our efforts to work more closely with the local airport operator Finavia to serve our customers even better in exceptional weather circumstances.

We have introduced many novelties and new service elements to our passengers to make their travel more comfortable. The wellbeing and safety of our customers and employees continues to be a priority for us, while we strive to be the best for service, quality, and customer and employee satisfaction.

Our long-haul fleet renewal in 2015–2017, as well as our recent decisions to advance the deliveries of two A350 aircraft to 2019 and 2020, have positioned Finnair to benefit from the anticipated market growth in traffic between Asia and Europe. We will continue to invest in customer experience, people experience and transformation, to enhance our competitive offering and to support continued profitability.

Business environment in Q1

Traffic continued to grow in Finnair's main markets in the first quarter of 2018. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations increased by 8.3 per cent (2.8), while direct market capacity between Finnair's Asian and European destinations grew by 8.6 per cent (2.2) year-on-year. In European traffic, Finnair's market share decreased slightly to 59.2 per cent (60.3), and increased in Asian traffic to 6.3 per cent (5.9).¹

Market demand in traffic between Asia and Europe increased somewhat faster than market capacity growth, and Finnair's capacity additions in this traffic area were well absorbed by the markets. Demand for flights between Asia and Europe increased across the Finnair network from practically all origins to almost every destination. Demand and capacity growth remained balanced in North Atlantic traffic.

Finnair engages in closer cooperation with certain oneworld partners through participation in joint businesses, namely the Siberian Joint Business (SJB) in flights between Europe and Japan, and the Atlantic Joint Businesses (AJB) in flights between Europe and North America. Demand and revenue developed positively in both joint businesses.

Difficult winter and wind conditions adversely affected the punctuality of Finnair's flight operations both in Finnair's home hub Helsinki–Vantaa and in some other European hubs.

Allotment based charter-type package holiday capacity in the Finnish market continued to grow, despite all tour operators growing their dynamic "flight+hotel" inventories. Key package holiday destinations were Canary Islands, Thailand, United Arab Emirates and Madeira.

The air cargo market continued to grow as well. Globally, all regions made a positive contribution, but especially the markets in Japan and Norway showed strong growth. Market capacity growth levelled out and there were no changes in the demand environment compared to previous quarters. However, the air cargo market still suffers from significant overcapacity and that affects unit revenues.

The US dollar, which is the most significant expense currency for Finnair after the euro, depreciated by 13.4 per cent against the euro. With regard to key income currencies, the Japanese yen was 9.1 per cent weaker against the euro than in the comparison period. The Chinese yuan depreciated by 6.2 per cent against the euro. The market price of jet fuel was 26.0 per cent higher in the first quarter than in the comparison period. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected directly in its result.

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

Financial performance

Revenue

Revenue grew by 14.6 per cent to 635.3 million euros (554.4). Passenger revenue grew by 14.7 per cent, and ancillary revenue, cargo revenue and travel services showed healthy growth. Unit revenue (RASK) decreased by 3.6 per cent and amounted to 6.57 euro cents. The unit revenue at constant currency decreased by 1.7%.

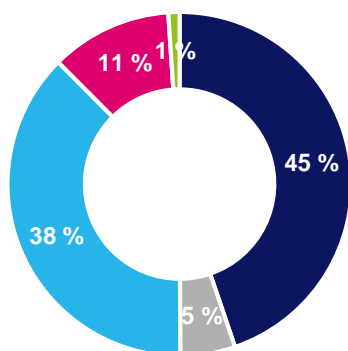
Revenue by product

EUR million	Q1/2018	Q1/2017	Change %
Passenger revenue	484.6	422.6	14.7
Ancillary revenue	39.1	33.8	15.7
Cargo	40.5	39.2	3.4
Travel services	71.2	58.8	21.0
Total	635.3	554.4	14.6

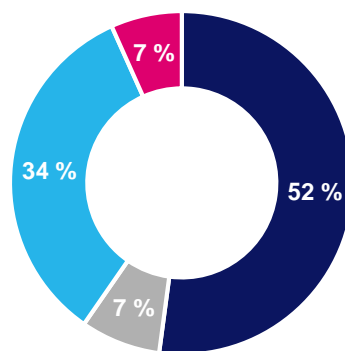
Passenger revenue and traffic data by area, Q1 2018

Traffic area	Ticket revenue		ASK		RPK		PLF	
	MEUR	Change, %	Mill. km	Change, %	Mill. km	Change, %	%	Change, %-yks.
Asia	217.0	23.1	5,037.4	25.6	4,473.9	27.4	88.8	1.2
North Atlantic	25.0	9.8	728.1	20.1	590.0	24.4	81.0	2.8
Europe	182.2	9.5	3,252.5	8.8	2,533.7	11.8	77.9	2.1
Domestic	55.3	5.9	647.8	24.7	418.1	15.0	64.5	-5.4
Unallocated	5.1	5.1						
Total	484.6	14.7	9,665.7	18.9	8,015.8	21.1	82.9	1.5

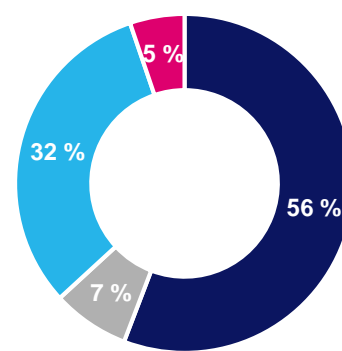
Q1 passenger revenue (M€)



Q1 capacity (ASKs)



Q1 traffic (RPKs)



- Asia
- Europe
- North-America
- Domestic
- Un-allocated

Passenger traffic capacity measured in Available Seat Kilometres (ASK) grew by 18.9 per cent overall against the comparison period. The number of passengers increased by 15.9 per cent to 3,017,500 passengers. Traffic measured in Revenue Passenger Kilometres (RPK) grew by 21.1 per cent and the passenger load factor (PLF) increased by 1.5 percentage points to 82.9 per cent.

The maximum weekly number of flights to Asia was 89 in the winter season 2017/2018 (78 in the winter season 2016/2017) and it will be 97 in the summer season 2018 that started in late March (87 in the summer season 2017). In Asian traffic, ASKs increased by 25.6 per cent. Capacity grew as a result of the introduction of new A350 aircraft after the review period. The growth was allocated especially to new frequencies to Bangkok, Hong Kong, Singapore and Chongqing, as well as to Goa, a new seasonal destination for Finnair. RPKs increased by 27.4 per cent and the PLF rose by 1.2 percentage points to 88.8 per cent.

Capacity on the North Atlantic routes increased by 20.1 per cent. Finnair flew to New York and Miami as well as to new seasonal destinations such as Puerto Vallarta, Puerto Plata and Havana. RPKs increased by 24.4 per cent and the PLF rose by 2.8 percentage points to 81.0 per cent.

In European traffic, ASKs grew by 8.8 per cent and RPKs increased by 11.8 per cent as the PLF rose by 2.1 percentage points to 77.9 per cent. Capacity increased thanks to new A321 aircraft which were taken into use after the comparison period and adding seats to the current Airbus narrow-body fleet. The new capacity was allocated to additional frequencies on the Berlin, Stockholm and Copenhagen routes, in particular. Finnair also operated direct flights to Finnish Lapland from London, Paris and Zürich. Domestic traffic capacity increased by 24.7 per cent, as Finnair prepared for the growth of international passenger demand for travel to Lapland during the winter season. RPKs grew in domestic traffic by 15.0 per cent and the PLF declined by 5.4 percentage points to 64.5 per cent.

Ancillary revenue increased by 15.7 per cent and amounted to 39.1 million euros (33.8), or 12.97 euros per passenger (12.99). Advance seat reservations and retail sales were the largest ancillary categories.

Available cargo tonne kilometres increased by 10.3 per cent, whereas revenue cargo tonne kilometres increased by 1.8 per cent. Average cargo yields increased by 1.2 per cent year on year. The cargo revenue increased by 3.4 per cent, amounting to 40.5 million euros (39.2).

The total number of travel services passengers including both Aurinkomatkat Suntours customers and Finnair Holidays' customers grew by 13 per cent. The load factor in Suntours' fixed seat allotment was 96 per cent. Finnair Holidays, a new leisure travel concept combining the best of independent travelling and package holidays, was introduced in Estonia in March, following the Finnish and Swedish launches 2017. Travel Services revenue increased by 21.0 per cent to 71.2 million euros (58.8).

Cost development and result

Finnair's operating expenses increased by 11.6 per cent to 651.2 million euros (583.6). Unit cost (CASK) decreased by 5.8 per cent and totalled 6.53 euro cents (6.93). CASK ex fuel at constant currency decreased by 4.5 per cent.

Q1 split of operating costs (€651.2 million in total)



Operating expenses excluding fuel increased by 11.0 per cent, and amounted to 523.8 million euros (472.0). Fuel costs, including hedging results and emissions trading costs, increased by 14.2 per cent to 127.4 million euros (111.6). While volume growth explains majority of the cost increase, the most rapid increase inside this category was seen in emission trading costs. Fuel efficiency as measured by fuel consumption per ASK improved by 3.9 per cent reflecting particularly 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 1.9 per cent.

Staff costs increased to 106.3 million euros (90.5). The growth is attributable to the significant increase in the number of personnel. Fleet growth and renewal increased aircraft leases and depreciations. The acquisition of Finnair Kitchen in April 2017 reduced catering costs as personnel costs related to catering are now booked in personnel expenses, but also the cost level in other catering costs has decreased after taking catering back in-house. Other costs increased mainly due to the investment made in digitalisation.

Finnair's comparable EBITDAR increased to 78.3 million euros (50.1). 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, returned to black and totalled 3.9 million euros (-9.0).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 2.0 million euros (3.5). The items affecting comparability amounted to 0.1 million euros (-4.5). The operating result was 6.0 million euros (-10.0), the result before taxes was 2.0 million euros (-10.0) and the result after taxes was 1.6 million euros (-8.0).

Balance sheet on 31 March 2018

The Group's balance sheet totaled 2,979.5 million euros at year-end (31/12/2017: 2,887.1). Advance payments related to A350 aircraft and the purchase of one A320 aircraft in the period increased the non-current assets by 23.9 million euros. Trade and other receivables totalled 381.3 million euros (31/12/2017: 319.8). They include an approximately 100 million euros receivable from Airbus that is related to the sale of four A340 aircraft back to Airbus in 2017 and which will be received in 2018.

Shareholders' equity was 972.6 million euros (31/12/2017: 1,015.7), or 7.60 euros per share (7.95). The decrease mainly relates to the dividend payable of -38.4 million euros that was recognized according to the decision made by the Annual General Meeting in March. The dividends were paid in April. The changes in accounting principles recognized in equity related to implementations of IFRS 15 Revenue from Contracts with Customers and amendment of IFRS 2 Share-based Payment. The impacts were insignificant.²

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of jet fuel and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of March was 58.0 million euros after deferred taxes (31/12/2017: 63.0).

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In Q1, net cash flow from operating activities amounted to 78.0 million euros (23.9). The increase in cash flow was among other things attributable to the growth of the comparable operating result. Net cash flow from investments amounted to -53.9 million euros (145.1).

The equity ratio on 31 March 2018 stood at 32.6 per cent (30.9) and gearing was negative at -28.0 per cent (-10.4). Adjusted gearing was 76.7 per cent (84.4). Adjusted interest-bearing debt amounted to 746.0 million euros (689.6) and interest-bearing net debt was negative at -272.1 million euros (-85.4).

² More information is available in Note 17. Changes in Accounting Principles.

The company's liquidity was strong during the review period. The Group's cash funds at period-end amounted to 986.5 million euros (887.5). Finnair has an entirely unused 175 million euro unsecured syndicated credit facility, intended for use as reserve funding. The arrangement has a maturity of three years from June 2016 with option for two one-year extensions.

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 amounted to -10.0 million euros (103.4). Financial income was -0.7 million euros (0.0) due to negative interest rates, while financial expenses were -3.4 million euros (0.0).

Capital expenditure

Capital expenditure excluding advance payments totalled 55.8 million euros (33.4) and was primarily related to fleet investments. Cash flow from investments totalled -65.6 million euros, including advance payments. Net change in financial assets maturing after more than three months totalled 9.9 million. Net Cash flow from investments amounted to -53.9 million euros (145.1).

Gross Investment cash flow for financial year 2018 is expected to amount to 314 million euros including advance payments. Investment cash flow includes both committed investments as well as estimate for planned but not yet committed investments.

Finnair continues to add seating capacity to the majority of its Airbus narrow-body fleet by modifying galley areas in the front and rear of the aircraft. Finnair also continues to introduce Wi-Fi connectivity to these aircraft during 2018.

The current favourable state of the credit markets and Finnair's good debt capacity support the financing of future fixed-asset investments on competitive terms. The company has 38 unencumbered aircraft, which account for approximately 66 per cent of the balance sheet value of the entire fleet of 1.154 million euros.

Fleet

Finnair's operating fleet

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair. At the end of the first quarter in 2018, Finnair itself operated 55 aircraft, of which 19 were wide-body and 36 narrow-body aircraft. Of the aircraft, 26 were owned by Finnair Aircraft Finance Oy, 22 were on operating leases and seven on finance leases.

At the end review period, the average age of the fleet operated by Finnair was 9.2 years.

Fleet operated by Finnair* 31/3/2018	Seats	#	Change from 31/12/2017	Own**	Leased (Operating leasing)	(Finance leasing)	Average age 31/3/2018	Ordered
Narrow-body fleet								
Airbus A319	138/144	8		7	1		16.9	
Airbus A320	165/174	10		8		2	15.6	
Airbus A321	209	18		4	12	2	7.2	
Wide-body fleet								
Airbus A330	289/263	8			5	3	8.4	
Airbus A350	297/336	11		7	4		1.6	8
Total		55	0	26	22	7	9.2	8

* Finnair's Air Operator Certificate (AOC).

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

Fleet renewal

At the end of March, Finnair operated eleven A350 XWB aircraft delivered in 2015–2017. During the review period, Finnair decided to advance the deliveries of two A350 aircraft. The first of these two aircraft will be delivered to Finnair in 2019 instead of 2023, and the second will be delivered in 2020 instead of 2022. According to the current delivery schedule, Finnair will receive all remaining eight A350 XWB aircraft during 2018–2022. Finnair's investment commitments for property, plant and equipment, totalling 908.6 million euros, include the upcoming investments in the wide-body fleet.

Finnair added seven new Airbus A321 narrow-body aircraft to its fleet in 2017, all on operating lease agreements. In Q1, Finnair purchased one operating leased A320 aircraft that it has operated and whose lease term was to expire during the year.

Finnair has the possibility to adjust the size of its fleet based on outlook due to the staggered maturities of its lease agreements.

Fleet operated by Norra (purchased traffic)

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

Fleet operated by Norra*	Seats	#	Change from 31/12/2017	Own**	Leased (Operating leasing)	Average age 31/3/2018	Ordered
ATR	68-72	12		6	6	8.7	
Embraer E190	100	12		9	3	9.8	
Total		24	0	15	9	9.2	

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

Customer Experience and Transformation

During the review period, Finnair introduced a number of renewed services and products. At the same time, the company invested significantly in transformation by continuing the development of digital tools and processes.

In February, Finnair began the renewal of its business class service with the aim of making it more personal and able to cater to the individual needs of passengers. The new Nordic Business Class concept has been employed on the Seoul, Tokyo and Shanghai routes since February and it will be introduced to the other long-haul routes during 2018. This renewal supports Finnair's objective to offer the best long-haul business class service when compared to other European airlines in 2020.

Moomin-themed services and products aimed at families with children were launched during the period under review. Additionally, Finnair introduced electronic newspapers on its long-haul flights and, in the area of additional services, Finnair tested, for example, offering last-minute travel class upgrades in-flight on some of its routes. Finnair also initiated work for the development of the customer experience on European and domestic flights.

During the review period, Finnair's traffic was adversely affected by delays caused by harsh winter conditions at Helsinki Airport and other European hubs. Arrival punctuality was 73.4 per cent (82.5), which was reflected as a slight drop in customer satisfaction when compared to the same period last year. The Net Promoter Score measuring customer satisfaction was 44 (46).

For the third time running, Finnair was awarded the title of best European airline in China at the TTG China Travel Awards ceremony. In April, Finnair received a TripAdvisor Travelers' Choice award in the Major Airline-Europe category.

In Travel Services, Finnair launched its Finnair Holidays product in Estonia. This product combines the best characteristics of self-service travel and package tours. The product was launched in Finland and Sweden in 2017. Aurinkomatkat Suntours was selected as Finland's responsible tour operator in the Sustainable Brand Index 2018 study for the third consecutive year. Suntours was also awarded for the best mobile service and received honourable mentions for the best webstore and the most profitable campaign at the digital marketing communications GrandOne gala in April.

The development of digital tools continued during the review period and, at the beginning of the year, a new mobile application for Finnair personnel for reporting occupational safety observations was introduced. Investments made in digital tools and channels were visible as growth in the number of users of Finnair's digital services and growth in the number of flight tickets purchased through these channels. The average number of visitors increased by 5.1% from the comparison period and totalled 2.46 million visitors. The number of active users of the Finnair mobile application increased by 76.5 per cent to 240,000. During the period under review, direct sales in Finnair's digital channels represented 25.3 per cent (25.3) of all tickets sold and 58.3 per cent of ancillary sales (58.5).

People experience

Finnair employed an average of 6,094 (4,864) people in the first quarter of 2018, which is 25.3 per cent more than in the comparison period. The number of personnel in ongoing operations grew by 14.8 per cent when compared to the same period last year. This number does not include the LSG personnel who transferred to Finnair Kitchen Oy in April 2017. At the end of March, the number of employees in an employment relationship was 6,179 (31/3/2017: 4,880, 31/12/2017: 5,918). The number of personnel increased by 261 during the review period. This change was mainly due to the growth in the number of cabin crew and pilots. Attrition rate decreased by 0.7 per cent to 3.1 per cent (3.8).

Development of competencies, leadership, new ways of working and wellbeing at work were the focus of the development of the people experience. Comprehensive training for new flight crew members continued. The utilisation of digital tools and the development and management of flexible working methods remained at the core of the development work. In the area of wellbeing at work, the strengthening of occupational safety proceeded as planned. In March, Finnair published its own occupational safety policy that is part of Finnair's occupational safety system currently being developed. A good example of the results of the work already done in this area was the first quarter of Finnair Technical Services where there were no workplace accidents that would have required an absence from work. LTIF (Lost Time Incident Frequency), which measures the frequency of accidents at the company level, went down 16.0 per cent to 10.0 (11.9). The number of absences due to sickness remained at the same level as in the comparison period and was 4.65 per cent (4.69).

Own shares

In February, Finnair transferred, using the authorisation granted by the AGM 2017, a total of 102,529 own shares as incentives to the participants of the FlyShare employee share savings plan. It also transferred 123,430 own shares as a reward to the key personnel included in Finnair's share-based incentive scheme 2015–2017 in March.

Finnair did not exercise during the review period the authorisation granted by the AGM 2017 to acquire its own shares.

At the end of March, Finnair held a total of 207,408 of its own shares (433,367 at year end 2017), representing 0.16 per cent of the total share capital.

Share price development and trading

Finnair's market capitalisation was 1,447.9 million euros at the end of March (31/12/2017: 1,642.7). The closing price of the share on 31 March 2018 was 11.30 euros (31/12/2017: 12.82 euros). In the review period, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 13.22 euros, the lowest price 8.14 euros and the average price 11.35 euros. Some 25.1 million company shares, with a total value of 285.0 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 22.7 per cent (19.5 on 31 December 2017) were held by foreign investors or in the name of a nominee.

Decision made by and authorisations granted by the Annual General Meeting 2018

The Annual General Meeting (AGM) of Finnair Plc, held on 20 March 2018, approved the proposals of the Shareholders' Nomination Board and the company's Board of Directors as they were. Colm Barrington, Mengmeng Du, Maija-Liisa Friman, Jouko Karvinen, Jonas Mårtensson and Jaana Tuominen were re-elected to the Board of Directors, and Montie Brewer and Henrik Kjellberg were elected as new members to the Board of Directors. Jouko Karvinen was elected Chairman of the Board.

The AGM authorised the Board of Directors to decide on the repurchase of the Company's own shares and/or on the acceptance as pledge and on the disposal of own shares held by the company. The authorisation shall not exceed 5,000,000 shares, which corresponds to approximately 3.9 per cent of all the shares in the company. The authorisations are effective for a period of 18 months from the resolution of the AGM.

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

The resolutions of the AGM are available in full on the company's website <https://investors.finnair.com/en/governance/general-meetings/agm-2018>

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, including 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 equality and inclusion 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. Its corporate responsibility strategy is crystallised in a three-pronged commitment: cleaner, caring and collaborative, and it embeds sustainability even deeper into the group strategy, brand and product development. The program measures are geared to contribute to cost containment and risk mitigation as well as value creation.

Finnair's ethical business principles are outlined in its Code of Conduct. The Code applies to all Finnair personnel and all locations. Finnair requires that its suppliers comply with ethical standards essentially similar to those which Finnair complies with in its own operations. Finnair's Supplier Code of Conduct provides clear principles to ensure ethical purchasing, including zero tolerance for corruption. Finnair is working to further integrate sustainability and ethical business conduct to an overall responsibility strategy.

Safety has the highest priority at Finnair operations. We are committed to implementing, maintaining and constantly reviewing and improving strategies and processes to ensure that all our aviation activities take place under an appropriate allocation of organisational resources. This is to achieve the highest level of safety performance and compliance with the regulatory requirements while delivering our services.

Finnair is also committed to the sector's common goals of carbon-neutral growth from 2020 onwards, and cutting emissions from the 2005 level in half by 2050. On top of that, Finnair has set an ambitious target to cut 17% of carbon dioxide emissions by year 2020 from year 2013 level.

In Q1, Finnair signed the Diversity Charter Finland, by Finnish Business & Society (FIBS). By signing this Charter it pledges to develop management and service practices supporting diversity within its own organisation. The Charter means that Finnair offers equal opportunities, recognises and utilises individual know-how and needs, manages its employees and customers with fairness as well as communicates its goals and achievements.

In addition, Finnair and Finnish Paralympic Committee signed a three-year partnership agreement. Equality and non-discrimination are embedded to Finnair values, and Finnair is committed to providing its customers, personnel and partners with equal opportunities. By working with Paralympic committee Finnair gets valuable information about the accessibility of its services and how to develop them further.

The key performance indicators for corporate responsibility are presented in the Key Figures table of this interim report.

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 prepared to take and manage risks within the limits of its risk-bearing capacity.

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

Exceptional variations in the fuel price are passed on to customers via ticket prices or affect capacity growth in Finnair's main markets; they also pose a risk to Finnair's revenue development, as do sudden adverse changes in the foreign exchange rates and slowing growth in demand.

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

The aviation industry is affected by a number of regulatory projects at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory projects include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy protection and the decision made by the Court of Justice of the European Union in October 2012 regarding flight passengers' rights. Interpretation of these decisions involves risks, for example relating to the injunction sought by the Finnish Consumer

Ombudsman in September regarding Finnair's compensation practices. In addition, regulations on the reporting of non-financial information (corporate responsibility) and other stakeholder requirements have increased substantially.

Geopolitical uncertainty, the threat of terrorism and other potential external disruptions may, if they materialise, significantly affect the demand for air travel and Finnair's operations. Potentially increasing protectionism in the political environment may also hinder the market access required for the implementation of Finnair's growth plan.

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

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website 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 the 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 using a variety of derivative instruments, such as forward contracts, swaps and options, in compliance with the risk management policy approved annually by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months.

Sensitivities in business operations, impact on comparable operating profit (rolling 12 months from date of financial statements)		1 percentage (point) change		
Passenger load factor (PLF, %)		EUR 25 million		
Average yield of passenger traffic		EUR 23 million		
Unit cost (CASK ex. fuel)		EUR 22 million		

Fuel sensitivities (rolling 12 months from date of financial statements)	10% change without hedging	10% change, taking hedging into account	Hedging ratio	
			H1/2018	H2/2018
Fuel	EUR 56 million	EUR 25 million	73%	68%

Currency distribution %	Q1 2018	Q1 2017	2017	Currency sensitivities USD and JPY (rolling 12 months from date of financial statements for operational cash flows)		Hedging ratio for operational cash flows (rolling next 12 months)
Sales currencies				10% change without hedging	10% change, taking hedging into account	
EUR	62	61	55	-	-	
USD*	2	3	4	see below	see below	see below
JPY	6	7	10	EUR 20m	EUR 9m	69%
CNY	5	5	7	-	-	
KRW	2	3	3	-	-	
SEK	5	6	4	-	-	
Other	17	15	17	-	-	
Purchase currencies						
EUR	58	57	57	-	-	
USD*	34	35	35	EUR 61m	EUR 22 m	67%
Other	8	7	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 is strong.

Financial reporting

The publication dates of Finnair's financial reports in 2018 are as follows:

Interim Report 1 January–30 June 2018:	17 July 2018
Interim Report 1 January–30 September 2018:	25 October 2018

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a results press conference on 25 April 2018 at 11:00 a.m. and an analyst briefing at 12:30 p.m. at its office located 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 0361 (Finland), 0200 880 389 (Sweden), 0800 358 6377 (UK) or +44 (0)330 336 9105 (all other countries). The confirmation code is 7914394. To join the live webcast, please register at: <https://slideassist.webcasts.com/starthere.jsp?ei=1190558>

For further information, please contact:

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Director, Financial Communications **Mari Reponen**, tel. +358 9 818 2037, mari.reponen@finnair.com

Key figures	Q1 2018	Q1 2017	Change %	2017	LTM
Revenue and profitability					
Revenue, EUR million	635.3	554.4	14.6	2,568.4	2,649.4
Comparable operating result, EUR million	3.9	-9.0	> 200 %	170.4	183.3
Comparable operating result, % of revenue	0.6	-1.6	2.2 %-p	6.6	6.9
Operating result, EUR million	6.0	-10.0	> 200 %	224.8	240.8
Comparable EBITDAR, % of revenue	12.3	9.0	3.3 %-p	17.0	17.5
Earnings per share (EPS), EUR	-0.01	-0.09	85.8	1.23	1.30
Unit revenue per available seat kilometre, (RASK), cents/ASK	6.57	6.82	-3.6	6.96	6.89
RASK at constant currency, cents/ASK	6.71	6.82	-1.7	6.96	6.96
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.05	6.39	-5.3	6.57	6.48
Unit cost per available seat kilometre (CASK), cents/ASK	6.53	6.93	-5.8	6.49	6.41
CASK excluding fuel, cents/ASK	5.21	5.56	-6.2	5.22	5.14
CASK excluding fuel at constant currency, cents/ASK	5.31	5.56	-4.5	5.22	5.23
Capital structure					
Equity ratio, %	32.6	30.9	1.8 %-p	35.2	
Gearing, %	-28.0	-10.4	-17.5 %-p	-24.2	
Adjusted gearing, %	76.7	84.4	-7.6 %-p	69.9	
Interest-bearing net debt, EUR million	-272.1	-85.4	<-200 %	-246.0	
Adjusted net debt, EUR million	746.0	689.6	8.2	710.3	
Adjusted net debt / Comparable EBITDAR, LTM	1.6	2.4	-0.8 %-p	1.6	1.6
Gross capital expenditure, EUR million	55.8	33.4	67.1	519.0	541.4
Return on capital employed (ROCE), LTM, %	14.6	7.9	6.7 %-p	13.6	14.6
Growth and traffic					
Passengers, 1,000	3,018	2,604	15.9	11,905	12,319
Ancillary revenue, EUR million	39.1	33.8	15.7	144.6	149.9
Ancillary revenue per passenger (PAX)	12.97	12.99	-0.2	12.15	12.17
Flights, number	29,746	27,268	9.1	114,718	117,196
Available seat kilometres (ASK), million	9,666	8,128	18.9	36,922	38,460
Revenue passenger kilometres (RPK), million	8,016	6,617	21.1	30,750	32,148
Passenger load factor (PLF), %	82.9	81.4	1.5 %-p	83.3	83.6
Fuel consumption, tonnes	236,608	207,127	14.2	921,520	951,001
CO ² emissions, tonnes/ASK	0.0771	0.0803	-3.9	0.0786	0.0779
CO ² emissions, tonnes/RTK	0.8164	0.8322	-1.9	0.7801	0.7781
Customer Experience					
Net Promoter Score	44	46	-4.3	47	47
Arrival punctuality, %	73.4	82.5	-9.0 %-p	83.2	80.9
People Experience					
Average number of employees	6,094	4,864	25.3	5,526	5,833
WeTogether@Finnair Personnel Experience overall grade *	-	-	-	3.78	3.78
Absences due to illness, % **	4.65	4.69	-0.04 %-p	4.10	4.11
LTIF (Lost-time injury frequency)	10.0	11.9	-16.0	15.6	15.1
Attrition rate, LTM, %	3.1	3.8	-0.7 %-p	3.4	3.1
Transformation					
Share of digital direct ticket sales, % ***	25.3	25.3	0.0 %-p	24.1	24.1
Share of digital direct ancillary sales, % ***	58.3	58.5	-0.2 %-p	56.5	56.6
Average number of monthly visitors at finnair.com, millions	2.5	2.3	5.1	1.8	2.4
Active users for Finnair mobile app, thousands	240.0	136.0	76.5	157.5	196.0

* Measured bi-annually in Q2 and Q4.

** Excluding Finnair Kitchen.

*** In Finnair's own digital channels.

CONSOLIDATED INCOME STATEMENT

in mill. EUR	Q1 2018	Q1 2017	Change %	2017	LTM
Revenue	635.3	554.4	14.6	2,568.4	2,649.4
Other operating income	19.8	20.2	-2.2	77.0	76.5
Operating expenses					
Staff costs	-106.3	-90.5	17.5	-423.3	-439.1
Fuel costs	-127.4	-111.6	14.2	-472.2	-488.0
Other rents	-36.5	-44.4	-17.7	-157.9	-150.1
Aircraft materials and overhaul	-38.8	-35.6	8.9	-165.7	-168.9
Traffic charges	-65.1	-58.2	11.8	-266.5	-273.3
Ground handling and catering expenses	-63.7	-66.9	-4.7	-252.2	-249.1
Expenses for tour operations	-33.1	-28.6	15.7	-100.5	-105.0
Sales and marketing expenses	-22.7	-17.5	29.7	-85.8	-91.0
Other expenses	-83.1	-71.2	16.8	-285.1	-297.0
Comparable EBITDAR	78.3	50.1	56.2	436.2	464.4
Lease payments for aircraft	-38.8	-30.0	29.4	-136.6	-145.4
Depreciation and impairment	-35.6	-29.1	22.2	-129.2	-135.7
Comparable operating result	3.9	-9.0	> 200 %	170.4	183.3
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	2.0	3.5	-41.5	11.1	9.7
Items affecting comparability	0.1	-4.5	> 200 %	43.3	47.8
Operating result	6.0	-10.0	> 200 %	224.8	240.8
Financial income	-0.7	0.0	<-200 %	-0.3	-1.0
Financial expenses	-3.4	0.0	<-200 %	-13.4	-16.8
Result before taxes	2.0	-10.0	> 200 %	211.1	223.1
Income taxes	-0.4	2.0	<-200 %	-41.7	-44.1
Result for the period	1.6	-8.0	> 200 %	169.4	179.0
Attributable to					
Owners of the parent company	1.6	-8.0	> 200 %	169.4	179.0
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	-0.01	-0.09	85.8	1.23	1.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in mill. EUR	Q1 2018	Q1 2017	Change %	2017	LTM
Result for the period	1.6	-8.0	> 200 %	169.4	179.0
Other comprehensive income items					
Items that may be reclassified to profit or loss in subsequent periods					
Change in fair value of hedging instruments	-1.7	-47.5	96.4	-18.5	27.3
Tax effect	0.3	9.5	-96.4	3.7	-5.5
Items that will not be reclassified to profit or loss in subsequent periods					
Actuarial gains and losses from defined benefit plans	-4.5	24.5	<-200 %	35.9	7.0
Tax effect	0.9	-4.9	> 200 %	-7.2	-1.4
Other comprehensive income items total	-5.0	-18.4	73.0	14.0	27.4
Comprehensive income for the period	-3.4	-26.4	87.1	183.4	206.4
Attributable to					
Owners of the parent company	-3.4	-26.4	87.1	183.4	206.4

CONSOLIDATED BALANCE SHEET

in mill. EUR		31 Mar 2018	31 Mar 2017	31 Dec 2017
ASSETS				
Non-current assets				
Intangible assets	O	17.3	15.0	15.5
Tangible assets	O	1,444.9	1,187.1	1,422.1
Investments in associates and joint ventures	O	2.5	2.5	2.5
Loan and other receivables	O	4.9	6.7	5.6
Non-current assets total		1,469.6	1,211.2	1,445.7
Current assets				
Inventories	O	23.1	13.1	17.2
Trade and other receivables	O	381.3	285.5	319.8
Derivative financial instruments	O/IA*	102.3	121.4	104.5
Other financial assets	IA	822.7	713.5	833.0
Cash and cash equivalents	IA	163.8	174.0	150.2
Current assets total		1,493.2	1,307.5	1,424.6
Assets held for sale	O	16.7	131.1	16.7
Assets total		2,979.5	2,649.9	2,887.1
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	E	75.4	75.4	75.4
Other equity	E	897.1	742.1	940.3
Equity total		972.6	817.5	1,015.7
Non-current liabilities				
Deferred tax liabilities	O	71.9	25.9	73.9
Interest-bearing liabilities	IL	571.4	716.3	586.2
Pension obligations	O	14.0	10.6	6.4
Provisions	O	75.1	63.9	79.0
Other liabilities	O	1.1	4.6	1.1
Non-current liabilities total		733.5	821.3	746.7
Current liabilities				
Provisions	O	21.0	7.3	21.1
Interest-bearing liabilities	IL	118.6	98.8	132.4
Trade payables	O	91.7	89.4	90.7
Derivative financial instruments	O/IL*	94.4	26.8	81.3
Deferred income and advances received	O	613.4	546.6	475.3
Liabilities related to employee benefits	O	129.1	95.6	139.2
Other liabilities	O	194.4	146.5	173.4
Current liabilities total		1,262.5	1,011.0	1,113.4
Liabilities related to assets held for sale	O	10.9	0.0	11.2
Liabilities total		2,007.0	1,832.3	1,871.4
Equity and liabilities total		2,979.5	2,649.9	2,887.1

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

Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing		31 Mar 2018	31 Mar 2017	31 Dec 2017
Interest-bearing liabilities		690.0	815.1	718.6
Cross currency Interest rate swaps *		24.5	-13.0	18.5
Adjusted interest-bearing liabilities		714.5	802.1	737.1
Other financial assets		-822.7	-713.5	-833.0
Cash and cash equivalents		-163.8	-174.0	-150.2
Interest-bearing net debt		-272.1	-85.4	-246.0
Lease payments for aircraft for the last twelve months (LTM) * 7		1,018.1	775.0	956.4
Adjusted interest-bearing net debt		746.0	689.6	710.3
Equity total		972.6	817.5	1,015.7
Adjusted gearing, %		76.7 %	84.4 %	69.9 %

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in Note 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
Equity 31 Dec 2017	75.4	168.1	63.0	250.3	260.7	198.2	1,015.7
Change in accounting principles				3.8	-4.7		-1.0
Equity 1 Jan 2018	75.4	168.1	63.0	254.0	256.0	198.2	1,014.7
Result for the period					1.6		1.6
Change in fair value of hedging instruments			-1.4				-1.4
Actuarial gains and losses from defined benefit plans			-3.6				-3.6
Comprehensive income for the period	0.0	0.0	-5.0	0.0	1.6	0.0	-3.4
Dividend					-38.4		-38.4
Share-based payments				-0.4			-0.4
Equity 31 Mar 2018	75.4	168.1	58.0	253.6	219.1	198.2	972.6

Retained earnings was adjusted with -4.7 million euros due to implementation of IFRS 15 Revenue from Contracts with Customers. Unrestricted equity funds increased 3.8 million euros due to amendment to IFRS 2 Share-based Payment. More detailed information in note 17. Changes in accounting principles.

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 31 Dec 2016	75.4	168.1	33.9	248.6	132.8	198.2	857.0
Change in accounting principles			15.2		-16.1		-0.9
Equity 1 Jan 2017	75.4	168.1	49.0	248.6	116.6	198.2	856.1
Result for the 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
Comprehensive income for the period	0.0	0.0	-18.4	0.0	-8.0	0.0	-26.4
Dividend					-12.8		-12.8
Share-based payments				0.6			0.6
Equity 31 Mar 2017	75.4	168.1	30.6	249.3	95.9	198.2	817.5

CONSOLIDATED CASH FLOW STATEMENT

in mill. EUR	Q1 2018	Q1 2017	2017	LTM
Cash flow from operating activities				
Result for the period	1.6	-8.0	169.4	179.0
Depreciation and impairment	35.6	29.1	129.2	135.7
Other adjustments to result for the period				
Financial income and expenses	4.1	0.0	13.6	17.7
Income taxes	0.4	-2.0	41.7	44.1
EBITDA	41.6	19.1	353.9	376.5
Gains and losses on aircraft and other transactions	-0.2	4.5	-44.1	-48.8
Non-cash transactions *	-0.1	-7.0	33.4	40.3
Changes in working capital	40.5	5.5	56.8	91.7
Financial expenses paid, net	-3.8	1.7	-17.1	-22.6
Income taxes paid	0.0	0.0	-0.7	-0.7
Net cash flow from operating activities	78.0	23.9	382.3	436.5
Cash flow from investing activities				
Investments in intangible assets	-2.4	-4.1	-11.3	-9.6
Investments in tangible assets	-63.3	-37.8	-393.6	-419.1
Investments in group shares	0.1	0.0	7.5	7.5
Divestments of fixed assets and group shares	1.9	0.4	156.9	158.4
Net change in financial assets maturing after more than three months	9.9	186.0	82.9	-93.2
Change in non-current receivables	0.0	0.7	0.0	-0.7
Net cash flow from investing activities	-53.9	145.1	-157.5	-356.6
Cash flow from financing activities				
Proceeds from loans	0.0	199.3	199.3	0.0
Loan repayments and changes	-10.0	-95.9	-130.0	-44.1
Hybrid bond interests and expenses	0.0	0.0	-15.8	-15.8
Dividends paid	0.0	0.0	-12.8	-12.8
Net cash flow from financing activities	-10.0	103.4	40.8	-72.6
Change in cash flows	14.1	272.4	265.5	7.3
Liquid funds, at beginning	643.9	378.4	378.4	650.8
Change in cash flows	14.1	272.4	265.5	7.3
Liquid funds, at end **	658.1	650.8	643.9	658.1
Notes to consolidated cash flow statement				
* Non-cash transactions				
Employee benefits	3.6	3.8	16.0	15.8
Change in provisions	-3.9	-9.4	17.8	23.3
Other adjustments	0.3	-1.3	-0.4	1.2
Total	-0.1	-7.0	33.4	40.3
** Liquid funds				
Other financial assets	822.7	713.5	833.0	822.7
Cash and cash equivalents	163.8	174.0	150.2	163.8
Liquid funds in balance sheet	986.5	887.5	983.2	986.5
Maturing after more than three months	-328.5	-236.7	-339.2	-328.5
Total	658.1	650.8	643.9	658.1

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 adopted IFRS 15: Revenue from Contracts with Customers and amendment to IFRS 2: Share-based Payment, with a date of initial application on 1 January 2018. The following changes to the accounting principles are described in the note 17 Changes in accounting principles. Finnair also presents an evaluation of the upcoming implementation and effects of IFRS 16 standard IFRS 16 (Leases). Otherwise the accounting principles applied are disclosed in the 2017 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 2017.

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 2018, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share %
Passenger revenue	217.0	25.0	182.2	55.3	5.1	484.6	76.3
Ancillary revenue	12.2	1.8	7.3	0.9	17.0	39.1	6.2
Cargo	29.2	2.2	5.7	0.2	3.3	40.5	6.4
Travel services	26.1	10.2	33.2	0.2	1.4	71.2	11.2
Total	284.6	39.2	228.3	56.5	26.8	635.3	
Share %	44.8	6.2	35.9	8.9	4.2		

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

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

PLF, %	Q1 2018	Q1 2017	Change %	2017
Asia	88.8	87.6	1.2 %-p	86.7
North Atlantic	81.0	78.2	2.8 %-p	83.3
Europe	77.9	75.8	2.1 %-p	80.7
Domestic	64.5	70.0	-5.4 %-p	67.4
Total	82.9	81.4	1.5 %-p	83.3

ASK, mill. km	Q1 2018	Q1 2017	Change %	2017
Asia	5,037.4	4,011.4	25.6	18,355.0
North Atlantic	728.1	606.2	20.1	2,776.1
Europe	3,252.5	2,990.6	8.8	14,152.0
Domestic	647.8	519.5	24.7	1,638.9
Total	9,665.7	8,127.7	18.9	36,922.0

RPK, mill. km	Q1 2018	Q1 2017	Change %	2017
Asia	4,473.9	3,513.0	27.4	15,911.3
North Atlantic	590.0	474.3	24.4	2,311.5
Europe	2,533.7	2,266.1	11.8	11,421.6
Domestic	418.1	363.6	15.0	1,105.2
Total	8,015.8	6,617.1	21.1	30,749.7

Key figures quarterly, last 24 months	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Revenue	635.3	645.3	735.4	633.4	554.4	569.9	640.9	569.6
Passenger revenue	484.6	491.3	597.7	509.2	422.6	437.9	515.9	458.3
Ancillary revenue	39.1	37.3	37.4	36.2	33.8	31.7	33.8	30.3
Cargo	40.5	57.1	51.6	49.4	39.2	46.2	45.5	42.6
Travel services	71.2	59.6	48.7	38.5	58.8	52.3	42.0	34.1
Travel agencies						1.7	3.7	4.4
Comparable operating result	3.9	22.9	118.9	37.5	-9.0	1.6	65.7	3.2
ASK, mill. km	9,665.7	9,606.7	10,092.9	9,094.8	8,127.7	8,194.3	9,086.7	8,512.5
RPK, mill. km	8,015.8	7,717.6	8,799.0	7,616.0	6,617.1	6,420.3	7,653.3	6,591.3
PLF, %	82.9	80.3	87.2	83.7	81.4	78.3	84.2	77.4

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 2018	Q1 2017	Change %	2017
Unrealized changes in foreign currencies of fleet overhaul provisions	2.4	2.1	13.1	10.9
Fair value changes of derivatives where hedge accounting is not applied	-0.4	1.3	<-200 %	0.3
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	2.0	3.5	-41.5	11.1
Gains and losses on aircraft transactions	-0.2	-5.0	96.0	41.0
Gains and losses on other transactions	0.4	0.5	-10.1	3.1
Restructuring costs	-0.1	0.0	-	-0.9
Items affecting comparability	0.1	-4.5	> 200 %	43.3

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 2017 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 2018		31 Mar 2017		31 Dec 2017	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
Currency derivatives						
Operational cash flow hedging (forward contracts)	412.4	-13.7	444.3	9.7	385.2	-10.5
Operational cash flow hedging (options)						
Bought options	228.8	3.4	169.3	2.8	195.1	5.1
Sold options	233.0	-4.7	179.7	-2.9	200.1	-4.0
Fair value hedging of aircraft acquisitions	383.2	-25.3	389.3	66.8	316.2	-17.4
Currency hedging of lease payments	111.2	-9.3	154.1	5.8	131.7	-8.6
Hedge accounting items total	1,368.7	-49.7	1,336.7	82.1	1,228.4	-35.5
Operational cash flow hedging (forward contracts)			155.7	0.0		
Operational cash flow hedging (options)						
Sold options			21.4	0.0		
Hedging of assets held for sale	98.7	4.2	123.5	-6.1	101.3	3.6
Balance sheet hedging (forward contracts)	106.5	-0.5	133.6	1.0	101.0	-0.9
Items outside hedge accounting total	205.1	3.7	434.2	-5.1	202.3	2.6
Currency derivatives total	1,573.8	-46.0	1,770.9	77.0	1,430.7	-32.8
Commodity derivatives						
Jet fuel forward contracts, tonnes	803,000	64.3	722,000	-0.3	808,000	58.3
Options						
Bought options, jet fuel, tonnes	162,000	4.9	206,000	3.8	91,000	4.8
Sold options, jet fuel, tonnes	162,000	-1.6	206,000	-2.4	91,000	-0.1
Electricity derivatives, MWh			9,902	0.0		
Hedge accounting items total		67.6		1.0		63.0
Options						
Sold options, jet fuel, tonnes	68,000	-0.6	194,000	-0.5	37,000	-0.4
Items outside hedge accounting total		-0.6		-0.5		-0.4
Commodity derivatives total		67.0		0.6		62.7
Currency and interest rate swaps and options						
Interest rate swaps	64.9	0.4	64.9	1.3	64.9	0.7
Hedge accounting items total	64.9	0.4	64.9	1.3	64.9	0.7
Cross currency Interest rate swaps	229.0	-24.5	283.0	13.0	239.6	-18.5
Items outside hedge accounting total	229.0	-24.5	283.0	13.0	239.6	-18.5
Interest rate derivatives total	293.9	-24.1	347.9	14.4	304.5	-17.9
Equity derivatives						
Stock options						
Bought options	3.0	21.4	3.0	3.0	3.0	26.0
Sold options	3.0	-10.3	3.0	-0.4	3.0	-14.7
Hedge accounting items total	6.0	11.1	6.0	2.7	6.0	11.3
Equity derivatives total	6.0	11.1	6.0	2.7	6.0	11.3
Derivatives total		7.9		94.6		23.2

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 2018	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	822.7	734.2	88.5
Derivatives held for trading			
Currency and interest rate swaps and options	0.4		0.4
- of which in fair value hedge accounting	0.4		0.4
Currency derivatives	11.3		11.3
- of which in fair value hedge accounting	0.3		0.3
- of which in cash flow hedge accounting	6.8		6.8
Commodity derivatives	69.2		69.2
- of which in cash flow hedge accounting	69.2		69.2
Equity derivatives	21.4		21.4
- of which in fair value hedge accounting	21.4		21.4
Total	925.0	734.2	190.8

Financial liabilities recognised at fair value through profit and loss

Derivatives held for trading			
Currency and interest rate swaps and options	24.5		24.5
- of which in fair value hedge accounting	0.0		0.0
Currency derivatives	57.3		57.3
- of which in fair value hedge accounting	25.6		25.6
- of which in cash flow hedge accounting	31.1		31.1
Commodity derivatives	2.2		2.2
- of which in cash flow hedge accounting	1.6		1.6
Equity derivatives	10.3		10.3
- of which in fair value hedge accounting	10.3		10.3
Total	94.4	0.0	94.4

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 2018.

8. INCOME TAXES

The effective tax rate for Q1 2018 was 20.0% (-19.8%).

9. DIVIDEND PER SHARE

A dividend for 2017 of 0.30 euro per share, amounting to a total of EUR 38.4 million, was decided in the Annual General Meeting on 20 March 2018. The dividend was paid on 4 April 2018. Dividend was accounted for and included in Other liabilities as of 31 of March 2018.

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.

10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	31 Mar 2018	31 Mar 2017	31 Dec 2017
Carrying amount at the beginning of period	1,437.6	1,178.8	1,178.8
Additions	55.8	33.4	518.6
Acquisitions through business combinations			0.4
Change in advances	2.6	10.7	-135.2
Currency hedging of aircraft acquisitions	7.9	7.8	92.0
Disposals and reclassifications	-6.1	0.5	-87.8
Depreciation	-35.6	-29.1	-129.2
Carrying amount at the end of period	1,462.2	1,202.1	1,437.6
Proportion of assets held for sale at the beginning of period	0.1	139.3	139.3
Proportion of assets held for sale at the end of period	0.0	131.1	0.1

11. ASSETS HELD FOR SALE

Assets and liabilities held for sale include Finnair's ownership in Nordic Regional Airlines Ab, which was acquired to Finnair's full ownership on an interim basis during fourth quarter of 2017. Previously Finnair owned 40% share and it was classified as joint venture. Finnair expects to sell the 60% share to new partners in the near future.

Non-current assets held for sale	31 Mar 2018	31 Mar 2017	31 Dec 2017
Intangible and tangible assets	0.0	131.1	0.1
Assets from subsidiary held for sale	16.7		16.6
Total	16.7	131.1	16.7

Liabilities of non-current assets held for sale	31 Mar 2018	31 Mar 2017	31 Dec 2017
Liabilities from subsidiary held for sale	10.9		11.2
Total	10.9	0.0	11.2

12. INTEREST-BEARING LIABILITIES

During the first quarter of 2018 Finnair amortized its loans according to the loan instalment program.

13. CONTINGENT LIABILITIES

in mill. EUR	31 Mar 2018	31 Mar 2017	31 Dec 2017
Guarantees on behalf of group undertakings	79.5	72.4	71.0
Total	79.5	72.4	71.0

Investment commitments for property, plant and equipment as at 31 March 2018 totalled 909 million euros (31 December 2017: 1,013).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	31 Mar 2018	31 Mar 2017	31 Dec 2017
Lease commitments for fleet payments	1,117.7	1,122.7	1,163.6
Other lease commitments	254.6	296.6	265.8
Total	1,372.3	1,419.2	1,429.4

15. RELATED PARTY TRANSACTIONS

in mill. EUR	Q1 2018	Q1 2017	2017
Sales of goods and services			
Associates and joint ventures	11.0	11.1	42.2
Purchases of goods and services			
Associates and joint ventures	26.2	27.4	105.6
Pension fund	0.8	0.8	3.5
Receivables			
Current receivables from associates and joint ventures		9.3	
Liabilities			
Non-current liabilities to pension fund	11.1	7.5	4.1
Current liabilities to associates and joint ventures		0.2	

Nordic Regional Airlines Ab was acquired to Finnair Group on 17 November 2017, with 100% ownership interest. Before the acquisition, the Group was Finnair's, Staffpoint Holding Oy's and Kilco Oy's joint venture, and transactions before the acquisition are disclosed as related party transactions. Norra is classified as an asset held for sale, and the transactions related to the purchase traffic arrangement between the parties are not eliminated from Finnair's results from continuing operations, as the arrangement is expected to continue after the sale of the 60% share. Assets and liabilities between Finnair and Norra have been eliminated. Therefore, those sales and purchase transactions have been included in related party transactions, but not in receivables and liabilities.

16. EVENTS AFTER THE CLOSING DATE

There has not been any material events after the closing date.

17. CHANGES IN ACCOUNTING PRINCIPLES

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

IFRS 2 Share-based Payment

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

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

IFRS 16 Leases

The new leasing standard, published in January 2016 and endorsed by EU, will be effective from 2019 onwards. Finnair expects to adopt the standard from 2019 onwards, and plans to apply the full retrospective method to each prior reporting period presented. IFRS 16 replaces the previous standard (IAS 17 Leases).

Finnair plans to use the exemption provided by the standard not to account for lease liability for leases which have a lease term of 12 months or less, and do not include an option to purchase the underlying asset. In addition, Finnair does not plan to account for lease liability for leases in which the underlying asset is not material to Finnair. The assessment of whether the underlying asset is material and is within the scope or excluded from the recognition requirements of IFRS 16 is based on the concept of materiality in the Conceptual Framework and IAS 1. The leases recognized as right-of-use assets under IFRS 16 based on Finnair's latest analysis are comprised of leased aircraft, premises, land, cars, ground equipment and spare engines.

Finnair expects that the new standard will have a significant impact on its financial statements and key ratios. The present value of the future operating lease payments for aircraft, real estate and other operating lease arrangements will be recognised as right-of-use assets and interest-bearing liabilities in the balance sheet. Currently, future lease payments are presented in the notes as operating lease commitments at their nominal value. The currently reported lease commitments at the end of Q1 2018 amounted to 1,372 million euros (see note 14. Operating lease commitments for more detail). Based on Finnair's preliminary evaluation, service contracts that relate to the usage of airports and terminals (HEL hub) do not qualify as lease arrangements for IFRS 16 purposes.

The leasing standard will also impact Finnair's income statement. In the future, operating lease cost will be divided into the depreciation of the right-of-use asset (affecting the comparable operating result) and interest cost associated with the liability (affecting finance net). The interest cost for the liability is at its highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortised. Currently, lease expenses are accrued over the lease term primarily on a straight line basis and recognised in the operating result as lease payments for aircraft and other rents, according to the lease contract terms. In addition to impact on operating result and EBITDA, also cash flow from operating activities will increase, as the amortisation of lease liabilities is transferred from operating activities to financing activities in cash flow.

The new standard will have significant impact on Finnair's balance sheet -related KPIs, such as the equity ratio and gearing. On the other hand, Finnair currently discloses a key ratio called "Adjusted gearing", which takes future operating lease payments into account in the following way: aircraft lease costs for the last twelve months are multiplied by 7 and added to the interest-bearing net debt (see Balance sheet: "Additional information to Balance sheet: Interest-bearing net debt and adjusted gearing").

Although the assets associated with operating leases will be denominated in Euros when converted into right of use assets, the majority of Finnair's aircraft lease contracts are payable in US dollars. This will result in an increase of the foreign exchange exposure in Finnair's balance sheet. The company is investigating options to mitigate the effects of this volatility.

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, %:

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

Gearing, %:

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

Adjusted gearing, %:

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

Return on capital employed (ROCE), %:

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

Available seat kilometres (ASK):

Total number of seats available × kilometres flown

Revenue passenger kilometres (RPK):

Number of revenue passengers × kilometres flown

Passenger load factor (PLF), %:

Share of revenue passenger kilometres of available seat kilometres

Revenue tonne kilometres (RTK):

Total revenue load consisting of passengers, cargo and mail × kilometres flown

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).

The figures of the Interim Report are unaudited.