Finnair Group Financial Statements Release 1 January–31 December 2018

15 February 2019

Finnair Group Financial Statements Release 2018

Finnair carried a record number of passengers in Q4; full-year comparable operating profit totalled 169.4 million euros

October–December 2018

- Revenue increased by 5.8% to 683.1 million euros (645.3)*.
- Available seat kilometres (ASK) grew by 9.0%.
- Passenger load factor (PLF) was 76.9% (-3.4 percentage points).
- Comparable operating result was 9.2 million euros (22.9). Operating result was 55.9 million euros (23.5).
- Net cash flow from operating activities was 37.5 million euros (92.6), and net cash flow from investing activities was -49.5 million euros (-85.6).**
- Unit revenue (RASK) decreased by 2.9%. Unit revenue at constant currency decreased by 2.4%.
- Unit cost (CASK) decreased by 0.7%. Unit cost at constant currency excluding fuel decreased by 4.3%.
- Earnings per share were 0.29 euros (0.11).

January–December 2018

- Revenue increased by 10.4% to 2,834.6 million euros (2,568.4)*.
- Available seat kilometres (ASK) grew by 14.8%.
- Passenger load factor (PLF) was 81.8% (-1.5 percentage points).
- Comparable operating result was 169.4 million euros (170.4). Operating result was 207.5 million euros (224.8).
- Net cash flow from operating activities was 383.1 million euros (382.3), and net cash flow from investing activities was -194.0 million euros (-157.5).**
- Unit revenue (RASK) decreased by 3.9%. Unit revenue at constant currency decreased by 2.6%.
- Unit cost (CASK) decreased by 3.2%. Unit cost at constant currency excluding fuel decreased by 6.2%.
- Earnings per share were 1.08 euros (1.23).
- The Board of Directors proposes to the Annual General Meeting that a dividend of 0.274 euros per share be distributed for 2018.

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

** *In Q4, net cash flow from investing activities includes 2.3 million euros of investments in money market funds or other financial assets maturing after more than three months. In January–December, these increased in net terms by 81.8 million euros. These redemptions are part of the Group's liquidity management.*

Outlook

<u>Guidance on 15 February 2019:</u>

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

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

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

CEO Topi Manner:

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

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

We continued investments that our renewal requires. Even if our operating result weakened towards the end of the year, our long-term target continues to be profitable, sustainable growth.

Our market environment also has more uncertainty than a year ago, as the growth in global economy seems to soften. Our goal is to create value for our shareholders, customers and employees alike. Therefore, it is important that we take care of our profitability so that we can develop in all these areas and create value in the more challenging environment we operate in. In practice this means that we invest into items that are key for our future, we question our way of working in a healthy manner, we develop our productivity and react to changes in external environment. At the same time, we continue to develop our customer experience and people experience in long-term.

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

Business environment in Q4

In the last quarter of the year competition continued to intensify and questions about the future rate of growth in the global economy became more pronounced. Traffic growth in Finnair's main markets was faster than in the comparison period. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations increased by 14.3 per cent (6.5), and competition increased, especially on routes to other Nordic countries and to the Mediterranean. In European traffic, Finnair's market share decreased to 55.4 per cent (58.2).[1] Direct market capacity between Finnair's Asian and European destinations grew by 7.6 per cent (7.4) year-on-year. Overall demand growth on Europe to Asia routes fell short of the growth in available seats. Demand was, however, strong from Japan to Europe. In Asian traffic, Finnair's market share decreased to 5.8 per cent (6.3).[1]

Finnair engages in closer cooperation with certain oneworld partners through participation in joint businesses, namely the Siberian Joint Business (SJB) on flights between Europe and Japan, and the Atlantic Joint Businesses (AJB) on flights between Europe and North America. In both joint businesses, capacity grew in the fourth quarter, and demand developed accordingly resulting in a good development within the joint business traffic.

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

The supply of travel packages from Finland to abroad from the largest tour operators was at the level of the comparison period. Tour operators operating in Finland, including Aurinkomatkat, started offering travel packages to Egypt in the autumn after a six-year break. The market environment as a whole remained challenging and the demand for trips after the exceptionally sunny summer in Finland was weaker than in the comparison period. The share of dynamic and customized travel packages is estimated to grow in winter season production.

Industry-wide air freight volumes continued to trend modestly upwards in early Q4 levelling down to the previous year numbers in the latter part of the Q4. Cargo yields trended upwards in H2 2018, albeit at a slower pace than in the comparison period. Finnair's global cargo operations continued to increase to the record- breaking volumes with Japan and Finland showing particularly strong growth year-on-year.

The US dollar, which is the most significant expense currency for Finnair after the euro, appreciated by 3.2 per cent against the euro. With regard to key income currencies, the Japanese yen was 3.2 per cent stronger against the euro than in the comparison period. The Chinese yuan depreciated by 1.3 per cent against the euro. The market price of jet fuel was 14.2 per cent higher in the fourth 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.

Financial performance in Q4

Revenue in Q4

Finnair revenue grew by 5.8 per cent to 683.1 million euros (645.3). Passenger revenue grew by 8.0 per cent, ancillary revenue by 5.2 per cent, and cargo revenue by 4.9 per cent. Travel services revenue declined in the challenging market environment by 10.7 per cent.

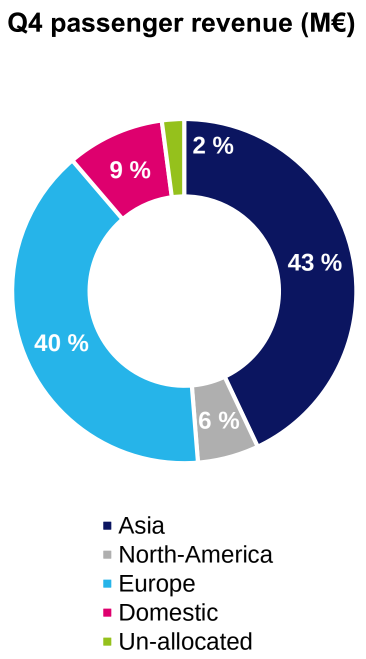
Unit revenue (RASK) decreased by 2.9 per cent and amounted to 6.52 euro cents (6.72). The unit revenue at constant currency decreased by 2.4 per cent.

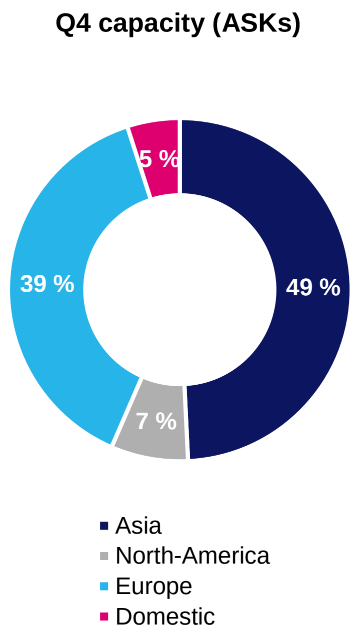
Revenue by product

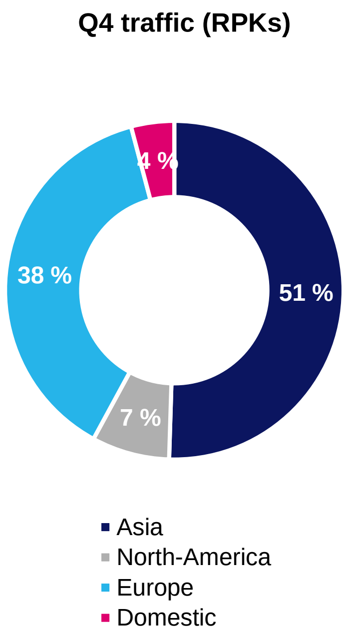
EUR million	Q4/2018	Q4/2017	Change %
Passenger revenue	530.7	491.3	8.0
Ancillary revenue	39.2	37.3	5.2
Cargo	59.9	57.1	4.9
Travel services	53.2	59.6	-10.7
Total	**683.1**	**645.3**	**5.8**

Ticket revenue and traffic data by area, Q4 2018

	Ticket revenue		ASK		RPK		PLF	
Traffic area	MEUR	Change, %	Mill. km	Change, %	Mill. km	Change, %	%	Change, %-p
Asia	228.1	7.4	5,156.4	2.3	4,067.2	-2.1	78.9	-3.5
North Atlantic	30.5	18.0	762.1	5.5	599.2	5.1	78.6	-0.3
Europe	212.3	4.9	4,036.4	19.3	3,057.5	13.8	75.7	-3.6
Domestic	48.7	-1.7	518.4	12.5	331.5	7.4	63.9	-3.1
Unallocated	11.1	>200						
Total	**530,7**	**8,0**	**10 473,3**	**9,0**	**8 055,4**	**4,4**	**76,9**	**-3,4**







Passenger traffic capacity, measured in Available Seat Kilometres (ASK), grew by 9.0 per cent overall against the comparison period. The number of passengers increased by 6.7 per cent to 3,155,100 passengers, a new record for Q4. Traffic measured in Revenue Passenger Kilometres (RPK) grew by 4.4 per cent and the passenger load factor (PLF) decreased by 3.4 percentage points to 76.9 per cent.

The maximum weekly number of flights to Asia in the winter season 2018/19 is 101 (89 in 2017/18). In Asian traffic, ASKs increased by 2.3 per cent. The capacity growth was allocated especially to increased frequency to Hong Kong, Tokyo and Osaka, as well as to a new year-round destination, Nanjing. RPKs decreased by 2.1 per cent and the PLF decreased by 3.5 percentage points to 78.9 per cent.

Capacity on the North Atlantic routes increased by 5.5 per cent. Flight operations to Chicago and San Francisco were extended to early December, and flights to seasonal leisure destinations started later than in the comparison period. RPKs increased by 5.1 per cent and the PLF decreased by -0.3 percentage points to 78.6 per cent.

In European traffic, capacity increased due to the new A321 aircraft that entered revenue service after the comparison period and to additional seats installed on the majority of the current Airbus narrow-body aircraft. ASKs grew by 19.3 per cent and the rapid growth caused a temporary imbalance between long- and short-haul capacity. RPKs increased by 13.8 per cent as the PLF declined by 3.6 percentage points to 75.7 per cent. The new capacity was allocated to additional flights to central and Southern Europe in particular. Domestic traffic capacity increased by 12.5 per cent as Finnair added flights between Helsinki and destinations in Northern Finland. RPKs grew in domestic traffic by 7.4 per cent and the PLF decreased by 3.1 percentage points to 63.9 per cent.

Ancillary revenue increased by 5.2 per cent and amounted to 39.2 million euros (37.3), or 12.42 euros per passenger (12.60). Advance seat reservations and inflight sales were the largest ancillary categories.

Available scheduled cargo tonne kilometres increased by 15.5 per cent, whereas revenue cargo tonne kilometres increased by 13.9 per cent. The cargo revenue increased by 4.9 per cent, amounting to 59.9 million euros (57.1).

The total number of travel services passengers grew by 5.5 per cent. The load factor in Aurinkomatkat's fixed seat allotment was 93.4 per cent. The largest passenger growth came from the growth of Finnair Holidays and

Aurinkomatkat city holidays. Travel Services revenue decreased by 10.7 per cent to 53.2 million euros (59.6) reflecting the intense competition and changes in consumer purchasing behaviour.

Cost development in Q4

Finnair's operating expenses increased by 7.8 per cent to 692.5 million euros (642.2). Unit cost (CASK) decreased by 0.7 per cent and totalled 6.43 euro cents (6.48). CASK excluding fuel at constant currency decreased by 4.3 per cent.

Q4 split of operating costs (€692.5 million in total)

Operating expenses excluding fuel increased by 5.2 per cent and amounted to 547.1 million euros (519.9). Fuel costs, including hedging results and emissions trading costs, increased by 18.9 per cent to 145.4 million euros (122.3). Most of the cost increase was due to the higher fuel price, but Finnair's capacity growth also affected costs. Fuel efficiency (as measured by fuel consumption per ASK) improved by 1.4 per cent, partly reflecting the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for developments in both passenger and cargo load factors, increased by 1.6 per cent.

Staff costs decreased by 9.5 per cent to 102.3 million euros (113.0). The comparison figure in 2017 included some reservation for the extra reward to employees, which was paid in 2018, and an 11-million euro reservation for the pilots' share-linked incentive scheme, which was reversed in the review period. Fleet growth and renewal increased aircraft lease expenses and depreciation, as well as overhaul costs. Traffic charges increased in line with the traffic growth. Ground handling and catering costs grew at a slower pace than Finnair's passenger numbers and capacity. Other costs increased mainly due to the capacity increase and to the investments made in digitalisation.

Result in Q4

Finnair's comparable EBITDAR was 90.0 million euros (94.0). 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, decreased to 9.2 million euros (22.9).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 3.0 million euros (0.3). The items affecting comparability amounted to 43.7 million euros (0.3) and included a gain from one A350 aircraft sale and leaseback transaction. The operating result was 55.9 million euros (23.5), the result before taxes was 51.3 million euros (20.7) and the result after taxes was 40.8 million euros (17.1).

Financial performance in January–December

<u>Revenue</u>

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

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

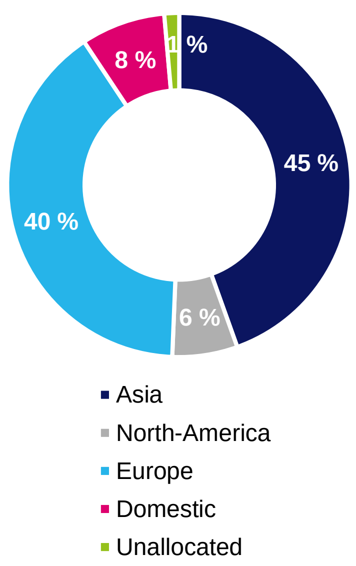
Revenue by product

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

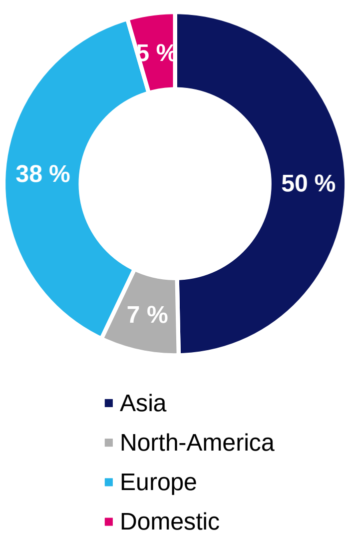
Ticket revenue and traffic data by area, 2018

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

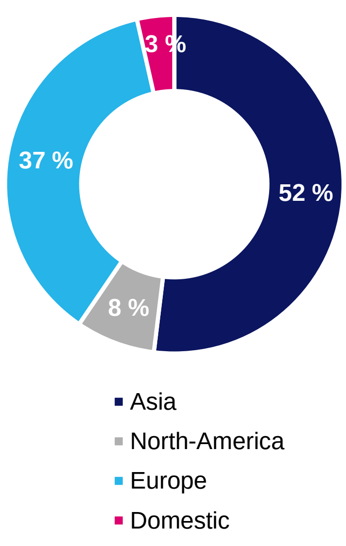
FY passenger revenue (M€)



FY capacity (ASKs)



FY traffic (RPKs)



During the year, Finnair achieved several monthly records of numbers of passengers and capacity growth. Passenger traffic capacity, measured in Available Seat Kilometres (ASK), grew by 14.8 per cent during 2018. Traffic, measured in Revenue Passenger Kilometres (RPK), grew by 12.7 per cent in 2018; the passenger load factor (PLF) decreased by 1.5 percentage points to 81.8 per cent. The number of passengers carried increased by 11.6 per cent to a new annual high, 13.3 million passengers.

In Asian traffic, ASKs increased by 14.7 per cent, and the growth was particularly strong in H1. The new capacity was allocated primarily to increased frequencies to Bangkok, Hong Kong, and Tokyo, as well as to new year-round service to Nanjing. RPKs increased by 13.1 percent and the PLF decreased by only 1.2 percentage points to 85.5 per cent, despite a substantial increase in capacity.

Capacity on the North Atlantic routes increased by 13.0 per cent. Finnair operated year-round flights to New York, and offered flights to seasonal destinations (Miami, Puerto Vallarta, Puerto Plata and Havana in the winter seasons; flights to Chicago and San Francisco in the summer season) with extended schedules to early December. RPKs increased by 13.6 per cent and the PLF rose by 0.5 percentage points to 83.8 per cent.

In European traffic, ASKs grew by 15.2 per cent in 2018 due to the new A321 aircraft which entered revenue service in 2017 and 2018, and because of the densification of the current Airbus narrow-body fleet. The growth was focused on the latter half of the year. The new capacity was allocated to additional departures from Helsinki to other Nordic countries and destinations in Northern Europe in particular. Finnair also operated direct flights to Finnish Lapland from London, Paris and Zürich in winter seasons. Full year RPKs increased by 12.1 per cent as the PLF declined by 2.1 percentage points to 78.6 per cent.

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

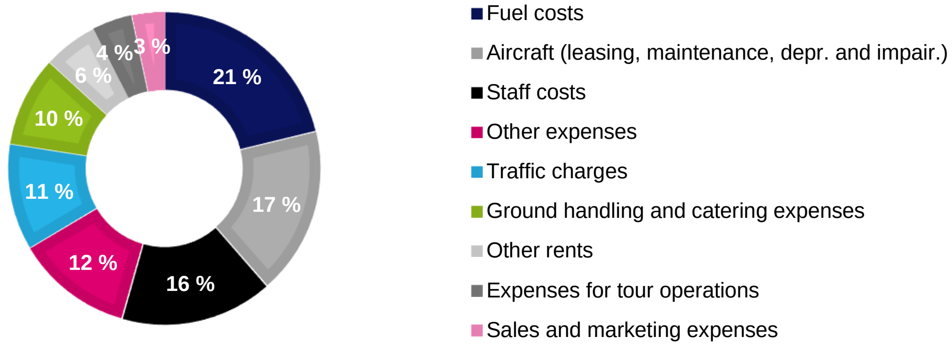
Ancillary and retail revenue increased by 11.2 per cent and amounted to 160.8 million euros (144.6), reflecting the growth in passenger volumes. On average customers spent 12.11 euros per passenger (12.15 euros). During the year, particularly advance seat reservations, travel class upgrades, extra luggage and inflight sales grew. The largest ancillary revenue source was advance seat reservations.
In 2018, available scheduled cargo tonne kilometres increased by 17.5 per cent, and revenue cargo tonne kilometres increased by 11.5 per cent. The volume of cargo carried increased by 0.7 per cent to 158,140 tonnes (157,028). Cargo revenue increased by 4.8 per cent to 206.9 million euros (197.4).

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

Cost development

Finnair's operating expenses increased by 10.7 per cent to 2,739.0 million euros (2,475.0). Unit cost (CASK) decreased by 3.2 per cent and totalled 6.29 euro cents (6.49). CASK excluding fuel at constant currency decreased by 6.2 per cent.

Split of operating costs (€2,739.0 million in total)



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

Staff costs increased 2.4 per cent to 433.4 million euros (423.3). Staff costs were up due to the increase in the number of personnel but offset by one-off items. The comparison figure in 2017 included a 13-million euro reservation for the extra reward to employees, which was paid in 2018, and an 11-million euro reservation for the pilots' share-linked incentive scheme, which was reversed in the review period. Comparable staff costs increased by approximately 8 per cent. Fleet growth and renewal increased aircraft lease expenses and depreciation. Overhaul costs remained at the level of the previous year. Traffic charges increased in line with the traffic growth. Ground handling and catering costs grew at a slower pace than Finnair's passenger numbers and capacity. Other costs increased mainly due to the capacity increase and to the investments made in digitalisation.

Result

Finnair's comparable EBITDAR was 475.4 million euros (436.2), 16.8 per cent (17.0) of the revenue. The comparable operating result was at the previous year's level 169.4 million euros (170.4).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -4.5 million euros (11.1). The items affecting comparability amounted to 42.6 million euros (43.3) and included a gain from the sale of one A350 aircraft in Q4 and some restructuring costs. Also in the comparison period, these items included a gain from the sale of an A350 aircraft and one-time expenses related to an A340 aircraft sold to Airbus. The operating result was 207.5 million euros (224.8), the result before taxes was 188.6 million euros (211.1) and the result after taxes was 150.7 million euros (169.4).

Financial position and capital expenditure

Balance sheet

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

The profitable result increased shareholder's equity whereas changes in the fair value of derivatives used in hedge accounting and the dividends paid in April had a decreasing effect. Shareholders' equity totalled 1,021.7 million euros (1,015.7), or 8.01 euros per share (7.95). The changes in accounting principles recognised in equity related to implementations of IFRS 15 Revenue from Contracts with Customers and amendment of IFRS 2 Share-based Payment. The impacts were insignificant.[2]

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

Cash flow and financial position

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

The equity ratio on 31 December 2018 stood at 34.7 per cent (35.2) and gearing was negative at -38.9 per cent (-24.2). Adjusted gearing was 67.2 per cent (69.9); the target level is below 175 per cent. Adjusted interest-bearing liabilities amounted to 675.2 million euros (737.1) and interest-bearing net debt was negative at -397.9 million euros (-246.0).

The company's liquidity was strong during the year. The Group's cash funds at period-end amounted to 1,073.1 million euros (983.2). At year-end, Finnair had an entirely unused 175 million euro unsecured syndicated revolving credit facility, intended for use as reserve funding, with a maturity date in June 2019. After the financial period, the unsecured syndicated revolving credit facility was refinanced, with the same size and terms substantially in line with the previous facility. The new facility has a maturity date in January 2022, and it includes two one-year extension options.

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

Capital expenditure

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

Capital expenditure excluding advance payments totalled 331.0 million euros (519.0) and was primarily related to fleet investments. Cash flow from investments totalled -327.1 million euros (-397.4), including advance payments. Net change in financial assets maturing after more than three months totalled -81.8 million (82.9). Net cash flow from investments amounted to -194.0 million euros (-157.5).

Cash flow investments for the financial year 2019 are expected to total 425 million euros, including advance payments. Investment cash flow includes both committed investments as well as estimates for planned, but not yet committed, investments.

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

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

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

The aim of Finnair's dividend policy is to pay, on average, at least one-third of the earnings per share as a dividend over an economic cycle. The aim is to take into account the company's earnings trend and outlook, financial situation and capital needs in the distribution of dividends. In 2018, earnings per share were 1.08 euros (1.23).

Finnair Plc's distributable equity amounted to 392,868,533.76 euros on 31 December 2018. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.274 euros per share be distributed for 2018.

Fleet

Finnair's operating fleet

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

In Q4, one new A350 aircraft was purchased and added to the fleet and a sale and leaseback transaction on one used A350 aircraft was executed. At the end of the year, the average age of the fleet operated by Finnair was 9.6 years.

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

* Finnair's Air Operator Certificate (AOC).
** Includes JOLCO-financed (Japanese Operating Lease with Call Option) A350 aircraft.

Fleet renewal

At the end of the year, Finnair operated twelve A350 XWB aircraft, which have been delivered between 2015–2018. In Q1 2018, Finnair decided to advance the deliveries of two A350 aircraft. According to the current delivery schedule, Finnair will receive the remaining seven A350 XWB aircraft as follows: two in 2019, two in 2020, two in 2021 and one in 2022. Finnair's investment commitments for property, plant and equipment, totalling 975 million euros, include the upcoming investments in the wide-body fleet.

In addition to one new A321 that was added to Finnair fleet in 2018, seven new A321 aircraft were added already in 2017, contributing to the strong year-on-year capacity growth in 2018 that was discussed under Financial performance.

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

Fleet operated by Norra (purchased traffic)

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

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

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

Customer Experience and Transformation

Finnair continued its investments in developing and improving its customer experience and digital tools and processes in Q4.

Installation of a new high-speed internet service on Finnair's narrow-body Airbus fleet on European flights continued. By the end of 2018, 28 narrow-body aircraft were equipped with internet connectivity and the rest of the narrow-body Airbus fleet will be internet enabled during 2019. The renewal of Finnair's business class service, with the aim of making it more personal and able to cater to the individual needs of passengers, continued. Finnair extended its "Seat & Meal" concept by adding a new "Seat and Meal Junior" package for children to its ancillary offering. Finnair's Travel Comfort product selection was also renewed.

The renewal of Finnair's Non-Schengen lounges started in Q4 2018. Finnair cooperates closely with the local airport operator, Finavia, on the renewal of Helsinki Airport both in designing the future and ensuring a smooth customer experience and operations during the airport's expansion period.

In Q4, Finnair's Net Promoter Score (NPS) measuring customer satisfaction was 46 (45), and Finnair's arrival punctuality was 78.9 per cent (76.4).

The development of digital tools for personnel continued during the review period. In Q4, a new MyDay work assignment app was launched to Finnair Kitchen and Ground Customer Experience staff. In Q1, a new mobile application for Finnair personnel for reporting occupational safety observations was introduced, and in Q2, Finnair launched a new SkyGuest application for its cabin crew members. This tailor-made application delivers passenger data in digital format and supports offering more personalized service to customers. A new Crew app facilitates the management of the inflight entertainment system on flights.

Investments made in digital tools and channels were visible as growth in the number of users of Finnair's digital services. The average number of monthly visitors totalled 1.5 million visitors (2.2)[3]. The number of active users of the Finnair mobile application increased by 37.3 per cent to 284,500. During the period under review, direct sales in Finnair's digital channels represented 25.0 per cent (25.3) of all tickets sold and 56.2 per cent of ancillary sales (57.2). The relative share of direct sales declined during the review period, as Finnair's growth focused on markets where traditional travel agents continue to hold strong positions.

People experience

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

[3] The measurement method was changed in Q2 2018 due to EU GDPR.

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

The number of employees increased by 544 or 9.2 per cent in 2018, totalling 6,462 at year-end (5,918). Altogether 1,000 new people were hired to Finnair. The change was due to growth in the number of cabin crew members, maintenance mechanics and Helsinki Airport service agents, where more than 500 employees were hired in 2018. We also increased our digital competence by recruitments in digital development. The attrition rate for 2018 was 3.3 per cent (3.4).

Development of competencies, leadership, new ways of working and well-being at work were the focus of the development of the people experience. We developed new leadership models for pilots and focused on leadership skills and value-based leadership. In 2018 leadership index in Employee Engegement (WeTogether) increased to level 3.94/5. 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 well-being at work, the strengthening of occupational safety proceeded as planned. In 2018, LTIF (Lost Time Incident Frequency), which measures the frequency of accidents at the company level, decreased by 25.0 per cent to 11.7 (15.6). The number of absences due to illness remained at the same level as in the comparison period and was 4.24 per cent (4.11).

Other events in Q4

New majority owner for Nordic Regional Airlines AB (Norra)

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

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

Finnair announced in autumn 2018 that it will renew the entire cabin of its ATR aircraft, which are currently used for domestic flights in Finland, on flights to the Baltics, to Gdansk in Poland and to Stockholm's Bromma airport. The flights are operated by Finnair's partner Norra. The ATR cabin renewal will start in 2019 and the refurbishment of the 12 aircraft will be completed by the end of Q1 2020.

Finnair announced that it will introduce a new Premium Economy cabin class for its long-haul fleet starting in Q4 2020. Located in its own cabin, the Premium Economy class will feature highly customised designs for Finnair and provide customers with increased space and comfort along with an enhanced service offering. The rollout is expected to be completed by the end of 2022. Detailed planning of the cabin design, service concept as well as the commercial aspects will be communicated in due course.

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 those concerned with 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 in Finnair operations. Finnair is committed to implementing, maintaining and constantly reviewing and improving strategies and processes to ensure that all its 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. In addition, Finnair has set an ambitious target to cut 17 per cent of its carbon dioxide emissions by 2020 (from the 2013 level).

Finnair conducted a consumer research study during summer 2018 to find out what Finns think of the different ways to reduce or compensate emissions resulting from aviation. According to the study's results, the majority of Finns are ready to pay to reduce the emissions caused by air travel but want the proceeds from possible additional charges to go directly to environmental work.

As a result, Finnair now invites its customers to join in on the work to make aviation more environmentally responsible. As of early 2019, customers can choose to support either the use of biofuels or carbon sink initiatives when they fly with Finnair. In Q4, Finnair selected partners for its offset program: for sustainable biofuels, Finnair's partner will be the Dutch SkyNRG company, and for emission reduction projects, Finnair will partner with the Nordic Environment Finance Corporation (NEFCO).

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

Changes in company management

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

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

Share price development and trading

Finnair's market capitalisation at year-end totalled 907.8 million euros (1,642.7). The closing price of the share on 31 December 2018 was 7.09 euros (12.82). In 2018, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 13.22 euros, the lowest price 5.59 euros and the average price 9.00 euros. Some 95.7 million company shares, with a total value of 861.5 million euros, were traded.

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 18.4 per cent (19.2) were held by foreign investors or in the name of a nominee.

Own shares

The Board of Directors of Finnair exercised the authorisation granted by the AGM to acquire its own shares. The maximum number of shares to be acquired was 600,000, corresponding to 0.47% of the total number of shares. The share buy-back started on 5 December and ended on 10 January 2019. The shares were acquired through public trading on the Nasdaq Helsinki exchange at the market price prevailing at the time of purchase.

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

During the year, Finnair transferred, using the authorisation granted by the AGM, a total of 236,359 own shares as incentives to the participants of the FlyShare employee share savings plan and as a reward to the key personnel included in Finnair’s share-based incentive scheme 2016–2017. Of these shares, 10,400 were transferred in Q4.

On 31 December 2018, Finnair held a total of 649,008 own shares (433,367), representing 0.57 per cent (0.34) of the total share capital. After share buy-backs that ended on 10 January 2018, Finnair held a total of 797,008 own shares, representing 0.62 per cent of the total share capital.

Share-based incentive schemes

Employee share savings plan FlyShare

In December, Finnair’s Board of Directors decided to launch a new, in order the seventh, 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan established in 2013 is to encourage the employees to become shareholders in the company, and thereby strengthen the employees’ interest in the development of Finnair’s shareholder value and to reward them over the long term. The share savings plan is described in a stock exchange release issued on 19 December 2018, in the Remuneration Statement 2018 and on the company’s website.

Share-based incentive plan for key personnel

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

Share-linked long-term incentive plan for Finnair pilots

The share-linked long-term incentive plan for Finnair pilots was discontinued in October, because the saving targets set as a prerequisite for implementing the plan were not to be reached over the agreed time period. Finnair and the pilots had not been able to find additional savings, which could have compensated for the difference. All related hedging arrangements and liabilities accrued during the program, totalling approximately 11 million euros, were reversed in Q4. The cancellation had a positive effect on Finnair’s 2018 comparable operating profit.

Authorisations granted by the Annual General Meeting 2018

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

IFRS 16 implementation and estimated impacts

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

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

From 1 January 2019 onwards, the present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements will be recognised as right-of-use assets and as interest-bearing lease liabilities on the balance sheet. Currently, future lease payments for operating leases are presented in the notes as operating lease commitments at their nominal value. Finnair estimates that its assets will increase by 1.0 billion euros due to recognition of right-of-use assets, and that its liabilities will increase in total by 1.1 billion euros due to the recognition of lease liabilities. The comparative information will be restated, and the cumulative effect of initially applying IFRS 16 is made as an adjustment to opening equity of 1.1.2018. The impact to equity will be 0.1 billion euros. As a consequence of these changes Finnair expects its equity ratio to decrease by more than 10 percentage points, and its gearing to increase significantly (by more than 100 percentage points), to approximately 70 per cent. Finnair's key figure "Adjusted gearing", which takes operating lease payments into account, will be given up following the adoption of the new standard.

The leasing standard will also impact Finnair's income statement. From 2019 onwards, operating lease expenses will be no longer presented, but instead the depreciations of the right-of-use assets (affecting the comparable operating result) and the interest costs associated with the liability (affecting finance net) will be presented in the income statement. The interest costs for the liability are at their highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortised. Currently, operating lease expenses are accrued over the lease term primarily on a straight-line basis and recognised in the operating result as lease payments for aircraft and other rents, according to the lease contract terms. This improves Finnair's operating result and EBITDA. Finnair estimates that its 2018 comparable operating result will improve by approximately 30 per cent due to adopting the new standard. Depreciation will increase due to depreciation of right of use assets, but the qualifying operating lease payments will no longer be included in operating result and will be instead included in lease liability repayments and financial expenses.

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

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

More information on the implementation of the standard and its estimated effects is available in Note 17 of this Financial Statements Release (Changes in accounting principles) and in Finnair Financial Statements 2018.

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.

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

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

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

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

The aviation industry is affected by a number of regulatory projects at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory projects include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy and consumer protection and the decisions made by the Court of Justice of the European Union regarding flight passengers' rights. Interpretation of these decisions involves risks, such as those relating to the injunction sought by the Finnish Consumer Ombudsman regarding Finnair's compensation practices. On 4 January 2019, the Market Court of Justice rejected the Consumer Ombudsman's action against Finnair. The Consumer Ombudsman has said that it will apply for a leave to appeal the case in the Supreme Court. In addition to the abovementioned topics, regulations on the reporting of non-financial information (corporate responsibility) and other stakeholder requirements have increased substantially.

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

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

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website 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 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 31 million
Average yield of passenger traffic	EUR 24 million
Unit cost (CASK excl. fuel)	EUR 26 million

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

Currency distribution, %	Q4 2018	Q4 2017	2018	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	56	59	55	55	-	-	
USD*	4	3	4	4	see below	see below	see below
JPY	10	7	10	10	EUR 32 m	EUR 15m	64%
CNY	6	6	7	7	-	-	
KRW	3	3	3	3	-	-	
SEK	4	4	3	4	-	-	
Other	18	18	17	17	-	-	
Purchase currencies							
EUR	55	58	56	57	-	-	
USD*	38	34	37	35	EUR 85 m	EUR 33 m	65%
Other	7	8	7	7			

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

Financial Reporting in 2019

The publication dates of Finnair's financial reports in 2019 are the following:

Interim Report 1 January – 31 March 2019: 24 April 2019
Half-year report 1 January – 30 June 2019: 17 July 2019
Interim Report 1 January – 30 September 2019: 22 October 2019

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a results press conference on 15 February 2019 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 +358 9 7479 0361 (Finland), 0200 880 389 (Sweden), 0800 358 6377 (UK) or +44 (0)330 336 9105 (all other countries). The confirmation code is 9344771. To join the live webcast, please register at: https://slideassist.webcasts.com/starthere.jsp?ei=1231175

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Key figures	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Revenue and profitability						
Revenue, EUR million	683,1	645,3	5,8	2 834,6	2 568,4	10,4
Comparable operating result, EUR million	9,2	22,9	-59,9	169,4	170,4	-0,6
Comparable operating result, % of revenue	1,3	3,5	-2.2 %-p	6,0	6,6	-0.7 %-p
Operating result, EUR million	55,9	23,5	137,9	207,5	224,8	-7,7
Comparable EBITDAR, % of revenue	13,2	14,6	-1.4 %-p	16,8	17,0	-0.2 %-p
Earnings per share (EPS), EUR	0,29	0,11	170,6	1,08	1,23	-12,1
Unit revenue per available seat kilometre, (RASK), cents/ASK	6,52	6,72	-2,9	6,69	6,96	-3,9
RASK at constant currency, cents/ASK	6,56	6,72	-2,4	6,78	6,96	-2,6
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6,59	6,37	3,5	6,48	6,57	-1,5
Unit cost per available seat kilometre (CASK), cents/ASK	6,43	6,48	-0,7	6,29	6,49	-3,2
CASK excluding fuel, cents/ASK	5,05	5,21	-3,1	4,92	5,22	-5,7
CASK excluding fuel at constant currency, cents/ASK	4,98	5,21	-4,3	4,89	5,22	-6,2
Capital structure						
Equity ratio, %				34,7	35,2	-0.5 %-p
Gearing, %				-38,9	-24,2	-14.7 %-p
Adjusted gearing, %				67,2	69,9	-2.7 %-p
Interest-bearing net debt, EUR million				-397,9	-246,0	-61,7
Adjusted net debt, EUR million				686,8	710,3	-3,3
Adjusted net debt / Comparable EBITDAR, LTM				1,4	1,6	-0.2 %-p
Gross capital expenditure, EUR million	162,5	78,7	106,4	331,0	519,0	-36,2
Return on capital employed (ROCE), LTM, %				11,9	13,6	-1.6 %-p
Growth and traffic						
Passengers, 1,000	3 155	2 956	6,7	13 281	11 905	11,6
Ancillary revenue, EUR million	39,2	37,3	5,2	160,8	144,6	11,2
Ancillary revenue per passenger (PAX)	12,42	12,60	-1,4	12,11	12,15	-0,3
Flights, number	31 089	28 969	7,3	125 848	114 718	9,7
Available seat kilometres (ASK), million	10 473	9 607	9,0	42 386	36 922	14,8
Revenue passenger kilometres (RPK), million	8 055	7 718	4,4	34 660	30 750	12,7
Passenger load factor (PLF), %	76,9	80,3	-3.4 %-p	81,8	83,3	-1.5 %-p
Fuel consumption, tonnes	254 193	236 410	7,5	1 031 125	921 520	11,9
CO^2 emissions, tonnes/ASK	0,0765	0,0775	-1,4	0,0766	0,0786	-2,5
CO^2 emissions, tonnes/RTK	0,7991	0,7866	1,6	0,7917	0,7801	1,5
Customer Experience						
Net Promoter Score	46	45	3,3	48	47	0,7
Arrival punctuality, %	78,9	76,4	2.4 %-p	79,7	83,2	-3.5 %-p
People Experience						
Average number of employees	6 422	5 852	9,7	6 360	5 526	15,1
WeTogether@Finnair Personnel Experience overall grade *	3,77	3,78	-0,3	3,77	3,78	-0,3
Absences due to illness, % **	3,89	4,39	-0.50 %-p	4,24	4,11	0.13 %-p
LTIF (Lost-time injury frequency)	10,6	15,6	-32,1	11,7	15,6	-25,0
Attrition rate, LTM, %	3,3	3,4	-0.1 %-p	3,3	3,4	-0.1 %-p
Transformation						
Share of digital direct ticket sales, % ***	25,0	25,3	-0.3 %-p	23,9	24,1	-0.2 %-p
Share of digital direct ancillary sales, % ***	56,2	57,2	-1.0 %-p	55,1	56,5	-1.4 %-p
Average number of monthly visitors at finnair.com, millions ****	1,5	2,2	-31,4	1,9	2,4	-18,3
Active users for Finnair mobile app, thousands	284,5	207,3	37,3	265,5	170,3	55,9

* Measured bi-annually in Q2 and Q4.

** Finnair Kitchen excluded in the figures of 2017.

*** In Finnair's own digital channels.

**** Measurement method changed due to EU GDPR in Q2 2018.

CONSOLIDATED INCOME STATEMENT

in mill. EUR	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Revenue	**683,1**	**645,3**	**5,8**	**2 834,6**	**2 568,4**	**10,4**
Other operating income	18,6	19,8	-5,8	73,7	77,0	-4,2
Operating expenses						
Staff costs	-102,3	-113,0	-9,5	-433,4	-423,3	2,4
Fuel costs	-145,4	-122,3	18,9	-581,0	-472,2	23,1
Other rents	-40,9	-38,4	6,5	-154,9	-157,9	-1,9
Aircraft materials and overhaul	-47,1	-40,7	15,5	-169,1	-165,7	2,0
Traffic charges	-74,4	-67,0	11,1	-300,8	-266,5	12,9
Ground handling and catering expenses	-65,4	-62,7	4,4	-256,9	-252,2	1,9
Expenses for tour operations	-27,8	-27,7	0,4	-113,4	-100,5	12,9
Sales and marketing expenses	-25,2	-25,5	-1,0	-92,4	-85,8	7,7
Other expenses	-83,1	-73,9	12,6	-330,9	-285,1	16,1
Comparable EBITDAR	**90,0**	**94,0**	**-4,2**	**475,4**	**436,2**	**9,0**
Lease payments for aircraft	-38,5	-36,1	6,5	-155,0	-136,6	13,4
Depreciation and impairment	-42,4	-34,9	21,2	-151,1	-129,2	16,9
Comparable operating result	**9,2**	**22,9**	**-59,9**	**169,4**	**170,4**	**-0,6**
Unrealized changes in foreign currencies of fleet overhaul provisions	-1,1	1,5	<-200 %	-4,7	10,9	<-200 %
Fair value changes of derivatives where hedge accounting is not applied	4,1	-1,2	> 200 %	0,2	0,3	-35,7
Sales gains and losses on aircraft and other transactions	43,2	0,6	> 200 %	42,7	44,1	-3,1
Restructuring costs	0,4	-0,3	> 200 %	-0,1	-0,9	84,6
Operating result	**55,9**	**23,5**	**137,9**	**207,5**	**224,8**	**-7,7**
Financial income	-1,1	-0,1	<-200 %	-2,9	-0,3	<-200 %
Financial expenses	-3,4	-2,6	-29,2	-16,0	-13,4	-19,8
Result before taxes	**51,3**	**20,7**	**147,6**	**188,6**	**211,1**	**-10,7**
Income taxes	-10,5	-3,6	-187,4	-37,9	-41,7	9,1
Result for the period	**40,8**	**17,1**	**139,1**	**150,7**	**169,4**	**-11,1**
Attributable to						
Owners of the parent company	40,8	17,1	139,1	150,7	169,4	-11,1
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	0,29	0,11	170,6	1,08	1,23	-12,1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in mill. EUR	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Result for the period	**40,8**	**17,1**	**139,1**	**150,7**	**169,4**	**-11,1**
Other comprehensive income items						
Items that may be reclassified to profit or loss in subsequent periods						
Change in fair value of hedging instruments	-194,8	36,4	<-200 %	-113,5	-18,5	<-200 %
Tax effect	39,0	-7,3	> 200 %	22,7	3,7	> 200 %
Items that will not be reclassified to profit or loss in subsequent periods						
Actuarial gains and losses from defined benefit plans	-2,9	0,8	<-200 %	0,7	35,9	-98,0
Tax effect	0,6	-0,2	> 200 %	-0,1	-7,2	98,0
Other comprehensive income items total	**-158,1**	**29,7**	**<-200 %**	**-90,2**	**14,0**	**<-200 %**
Comprehensive income for the period	**-117,3**	**46,8**	**<-200 %**	**60,5**	**183,4**	**-67,0**
Attributable to						
Owners of the parent company	-117,3	46,8	<-200 %	60,5	183,4	-67,0

CONSOLIDATED BALANCE SHEET

in mill. EUR		31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	O	20,4	15,5
Tangible assets	O	1 526,6	1 422,1
Investments in associates and joint ventures	O	3,3	2,5
Loan and other receivables	O	4,3	5,6
Non-current assets total		**1 554,7**	**1 445,7**
Current assets			
Inventories	O	25,1	17,2
Trade and other receivables	O	242,2	319,8
Derivative financial instruments	O/IA*	52,1	104,5
Other financial assets	IA	892,2	833,0
Cash and cash equivalents	IA	180,9	150,2
Current assets total		**1 392,5**	**1 424,6**
Assets held for sale	O	0,1	16,7
Assets total		**2 947,3**	**2 887,1**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	E	75,4	75,4
Other equity	E	946,2	940,3
Equity total		**1 021,7**	**1 015,7**
Non-current liabilities			
Deferred tax liabilities	O	73,5	73,9
Interest-bearing liabilities	IL	561,0	586,2
Pension obligations	O	17,0	6,4
Provisions	O	91,3	79,0
Other liabilities	O	4,8	1,1
Non-current liabilities total		**747,6**	**746,7**
Current liabilities			
Provisions	O	21,2	21,1
Interest-bearing liabilities	IL	108,4	132,4
Trade payables	O	72,6	90,7
Derivative financial instruments	O/IL*	107,1	81,3
Deferred income and advances received	O	548,9	475,3
Liabilities related to employee benefits	O	105,6	139,2
Other liabilities	O	214,2	173,4
Current liabilities total		**1 178,0**	**1 113,4**
Liabilities related to assets held for sale	O		11,2
Liabilities total		**1 925,6**	**1 871,4**
Equity and liabilities total		**2 947,3**	**2 887,1**

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

Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing	31 Dec 2018	31 Dec 2017
Interest-bearing liabilities	669,4	718,6
Cross currency Interest rate swaps *	5,8	18,5
Adjusted interest-bearing liabilities	**675,2**	**737,1**
Other financial assets	-892,2	-833,0
Cash and cash equivalents	-180,9	-150,2
Interest-bearing net debt	**-397,9**	**-246,0**
7 x Lease payments for aircraft for the last twelve months	1 084,7	956,4
Adjusted interest-bearing net debt	**686,8**	**710,3**
Equity total	1 021,7	1 015,7
Adjusted gearing, %	**67,2 %**	**69,9 %**

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in Note 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					150,7		150,7
Change in fair value of hedging instruments			-90,8				-90,8
Actuarial gains and losses from defined benefit plans			0,6				0,6
Comprehensive income for the period	**0,0**	**0,0**	**-90,2**	**0,0**	**150,7**	**0,0**	**60,5**
Hybrid bond interests and expenses					-12,6		-12,6
Dividend					-38,4		-38,4
Purchase of own shares					-3,7		-3,7
Share-based payments				1,1			1,1
Equity 31 Dec 2018	**75,4**	**168,1**	**-27,2**	**255,2**	**351,9**	**198,2**	**1 021,7**

Retained earnings was adjusted with -4.7 million euros due to implementation of IFRS 15 Revenue from Contracts with Customers. Unrestricted equity funds increased 3.8 million euros due to amendment to IFRS 2 Share-based Payment. More detailed information in note 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					169,4		169,4
Change in fair value of hedging instruments			-14,8				-14,8
Actuarial gains and losses from defined benefit plans			28,7				28,7
Comprehensive income for the period	**0,0**	**0,0**	**14,0**	**0,0**	**169,4**	**0,0**	**183,4**
Hybrid bond interests and expenses					-12,6		-12,6
Dividend					-12,8		-12,8
Share-based payments				1,6			1,6
Equity 31 Dec 2017	**75,4**	**168,1**	**63,0**	**250,3**	**260,7**	**198,2**	**1 015,7**

CONSOLIDATED CASH FLOW STATEMENT

in mill. EUR	Q4 2018	Q4 2017	2018	2017
Cash flow from operating activities				
Result for the period	40,8	17,1	150,7	169,4
Depreciation and impairment	42,4	34,9	151,1	129,2
Other adjustments to result for the period				
Financial income and expenses	4,5	2,7	18,9	13,6
Income taxes	10,5	3,6	37,9	41,7
EBITDA	**98,2**	**58,4**	**358,6**	**353,9**
Sales gains and losses on aircraft and other transactions	-43,2	-0,6	-42,7	-44,1
Non-cash transactions *	-4,5	9,3	25,7	33,4
Changes in working capital	-15,1	25,8	50,0	56,8
Financial expenses paid, net	2,2	0,3	-8,4	-17,1
Income taxes paid		-0,7		-0,7
Net cash flow from operating activities	**37,5**	**92,6**	**383,1**	**382,3**
Cash flow from investing activities				
Investments in intangible assets	-2,7	-2,3	-9,8	-11,3
Investments in tangible assets	-158,8	-57,5	-317,3	-393,6
Investments in group shares		0,8	0,1	7,5
Divestments of fixed assets and group shares	114,2	0,1	214,1	156,9
Net change in financial assets maturing after more than three months	-2,3	-26,8	-81,8	82,9
Change in non-current receivables	0,0	0,1	0,8	0,0
Net cash flow from investing activities	**-49,5**	**-85,6**	**-194,0**	**-157,5**
Cash flow from financing activities				
Proceeds from loans				199,3
Loan repayments and changes	-14,9	-12,0	-119,4	-130,0
Hybrid bond interests and expenses	-15,8	-15,8	-15,8	-15,8
Purchase of own shares	-3,7		-3,7	
Dividends paid			-38,4	-12,8
Net cash flow from financing activities	**-34,4**	**-27,7**	**-177,3**	**40,8**
Change in cash flows	**-46,4**	**-20,7**	**11,8**	**265,5**
Liquid funds, at beginning	702,2	664,7	643,9	378,4
Change in cash flows	-46,4	-20,7	11,8	265,5
Liquid funds, at end **	**655,8**	**643,9**	**655,8**	**643,9**
Notes to consolidated cash flow statement				
*** Non-cash transactions**				
Employee benefits	-7,9	1,9	3,0	16,0
Change in provisions	7,9	6,2	24,9	17,8
Other adjustments	-4,5	1,2	-2,1	-0,4
Total	**-4,5**	**9,3**	**25,7**	**33,4**
**** Liquid funds**				
Other financial assets	892,2	833,0	892,2	833,0
Cash and cash equivalents	180,9	150,2	180,9	150,2
Cash funds	**1 073,1**	**983,2**	**1 073,1**	**983,2**
Maturing after more than three months	-417,3	-339,2	-417,3	-339,2
Liquid funds	**655,8**	**643,9**	**655,8**	**643,9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS BULLETIN

1. BASICS OF PREPARATION

This Consolidated Financial Statements Bulletin has been prepared according to the International (IAS) Standard 34: Interim Financial Reporting. Consolidated income statement includes, in addition to operating result, comparable operating result and EBITDAR which are presented to better reflect the Group's business performance when comparing results to previous periods. Comparable operating result does not include capital gains and losses, changes in the value of foreign currency denominated fleet maintenance reserves, changes in the unrealised fair value of derivatives or restructuring costs. The basis for this is explained in more detail in the note 4. Segment information, revenue and items affecting comparability. Comparable EBITDAR is a common measure in airline business which aims to reflect comparable operating result excluding capital cost, independent of whether aircraft are owned or leased. Therefore, comparable EBITDAR is calculated by excluding depreciations and operating lease payments for aircraft from comparable operating result.

Finnair uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. Finnair's alternative performance measures reported in financial statements are comparable operating result and EBITDAR and adjusted net debt and gearing. Comparable operating result is reconciled in the note 4. Segment information, revenue and items affecting comparability. Finnair applies consistent principles when excluding items from comparable operating results. The principles are described in more detail in the note 4. Segment information, revenue and items affecting comparability.

Adjusted gearing is used to measure Finnair's indebtedness. In addition to interest-bearing loans, adjusted gearing also takes into account off-balance sheet lease commitments to better reflect Finnair's financial position. Finnair reconciles the calculation of interest-bearing net debt and adjusted gearing by giving additional information to the balance sheet. Calculation principles of key ratios are also defined in the note 18. Calculation of key ratios. Changes in accounting principles (see more in note 17) did not have an effect on calculating alternative performance measures.

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). The accounting principles applied are disclosed in the 2018 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 Financial Statements Bulletin 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 2018.

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

Q4 2018, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Un-allocated	Total	Share %
Passenger revenue	228,1	30,5	212,3	48,7	11,1	**530,7**	77,7
Ancillary and retail revenue	11,5	1,8	10,2	2,0	13,7	**39,2**	5,7
Cargo	47,7	3,5	10,0	0,2	-1,4	**59,9**	8,8
Travel services	7,9	3,0	39,8	0,4	2,1	**53,2**	7,8
Total	**295,1**	**38,9**	**272,4**	**51,2**	**25,4**	**683,1**	
Share %	43,2	5,7	39,9	7,5	3,7		

Q4 2017, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Un-allocated	Total	Share %
Passenger revenue	212,5	25,9	202,4	49,5	1,0	**491,3**	76,1
Ancillary and retail revenue	10,3	1,8	10,0	1,1	14,0	**37,3**	5,8
Cargo	44,0	2,7	9,5	0,5	0,5	**57,1**	8,9
Travel services	12,2	5,9	41,1	0,2	0,3	**59,6**	9,2
Total	**278,9**	**36,3**	**263,0**	**51,3**	**15,9**	**645,3**	
Share %	43,2	5,6	40,8	7,9	2,5		

2018, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Un-allocated	Total	Share %
Passenger revenue	999,3	137,5	898,1	178,0	31,4	**2 244,3**	79,2
Ancillary and retail revenue	45,3	7,5	40,7	4,4	62,9	**160,8**	5,7
Cargo	155,7	12,0	32,4	0,6	6,2	**206,9**	7,3
Travel services	35,9	13,3	165,2	1,3	6,9	**222,5**	7,9
Total	**1 236,2**	**170,3**	**1 136,4**	**184,4**	**107,4**	**2 834,6**	
Share %	43,6	6,0	40,1	6,5	3,8		

2017, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Un-allocated	Total	Share %
Passenger revenue	881,7	118,8	839,0	174,1	7,2	**2 020,8**	78,7
Ancillary and retail revenue	34,9	5,6	41,4	4,4	58,3	**144,6**	5,6
Cargo	147,1	10,9	31,0	1,8	6,5	**197,4**	7,7
Travel services	34,7	13,0	159,3	0,5	-1,9	**205,6**	8,0
Total	**1 098,4**	**148,3**	**1 070,7**	**180,8**	**70,2**	**2 568,4**	
Share %	42,8	5,8	41,7	7,0	2,7		

PLF, %	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Asia	78,9	82,4	-3.5 %-p	85,5	86,7	-1.2 %-p
North Atlantic	78,6	79,0	-0.3 %-p	83,8	83,3	0.5 %-p
Europe	75,7	79,4	-3.6 %-p	78,6	80,7	-2.1 %-p
Domestic	63,9	67,0	-3.1 %-p	64,7	67,4	-2.7 %-p
Total	**76,9**	**80,3**	**-3.4 %-p**	**81,8**	**83,3**	**-1.5 %-p**

ASK, mill. km	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Asia	5 156,4	5 039,2	2,3	21 052,1	18 355,0	14,7
North Atlantic	762,1	722,1	5,5	3 135,6	2 776,1	13,0
Europe	4 036,4	3 384,6	19,3	16 297,8	14 152,0	15,2
Domestic	518,4	460,7	12,5	1 900,2	1 638,9	15,9
Total	**10 473,3**	**9 606,7**	**9,0**	**42 385,8**	**36 922,0**	**14,8**

RPK, mill. km	Q4 2018	Q4 2017	Change %	2018	2017	Change %
Asia	4 067,2	4 153,0	-2,1	17 999,6	15 911,3	13,1
North Atlantic	599,2	570,2	5,1	2 626,3	2 311,5	13,6
Europe	3 057,5	2 685,8	13,8	12 804,9	11 421,6	12,1
Domestic	331,5	308,7	7,4	1 229,5	1 105,2	11,2
Total	**8 055,4**	**7 717,6**	**4,4**	**34 660,4**	**30 749,7**	**12,7**

Key figures quarterly, last 24 months	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	**683,1**	**801,2**	**715,0**	**635,3**	**645,3**	**735,4**	**633,4**	**554,4**
Passenger revenue	530,7	651,8	577,2	484,6	491,3	597,7	509,2	422,6
Ancillary and retail revenue	39,2	42,0	40,5	39,1	37,3	37,4	36,2	33,8
Cargo	59,9	54,9	51,6	40,5	57,1	51,6	49,4	39,2
Travel services	53,2	52,5	45,6	71,2	59,6	48,7	38,5	58,8
Comparable operating result	**9,2**	**108,4**	**47,9**	**3,9**	**22,9**	**118,9**	**37,5**	**-9,0**
Operating result	**55,9**	**105,7**	**39,9**	**6,0**	**23,5**	**122,2**	**89,1**	**-10,0**
ASK, mill. km	10 473,3	11 528,0	10 718,7	9 665,7	9 606,7	10 092,9	9 094,8	8 127,7
RPK, mill. km	8 055,4	9 742,7	8 846,5	8 015,8	7 717,6	8 799,0	7 616,0	6 617,1
PLF, %	76,9	84,5	82,5	82,9	80,3	87,2	83,7	81,4

Items affecting comparability

Comparable operating result aims to provide a comparable view on business development between periods. Therefore, items effecting comparability are excluded from the comparable operating result. The principles related to income statement presentation and principles related to usage of alternative preformance measures are described under Basics of preparation. Calculation principles of alternative performance measures are also defined in Note 18. Calculation of key ratios. The detailed content of items affecting comparability and the reasoning behind exluding those from comparable operating results is described below.

Unrealised exchange rate differences of mainly in US dollars denominated aircraft maintenance provisions are not included in the comparable operating result. These changes are not included in the comparable operating result until the maintenance event or redelivery occurs during a long period of time in the future and the exchange rate differences realise over a long period of time. Finnair provides for the redelivery condition related to lease aircraft according to the principles described in the note 1.3.5. Provisions in the 2018 Consolidated Financial Statements.

Further, unrealised fair value changes of derivatives where hedge accounting is not applied, are not included in the comparable operating result, as the business transactions which they are hedging are recognised to the comparable operating result only when they occur. The treatment of realised gains and losses on these derivatives is described in the note 3.8 Derivatives in the 2018 Consolidated Financial Statements.

In addition to above, gains and losses on aircraft and other transactions and restructuring costs are not included in the comparable operating result. Gains and losses on transactions include sales gains and losses as well as other items that can be considered to be directly related the sale of the asset. For example, a write-down that might occur when an asset is classified as “Assets held for sale” in accordance with IFRS 5, is included in gains and losses on the transactions. Restructuring costs include termination benefits and other costs that directly related to the restructuring of operations.

	Q4 2018			Q4 2017			
in mill. EUR	Operating result	Items affecting compa-rability	Compa-rable operating result	Operating result	Items affecting compa-rability	Compa-rable operating result	Change %
Revenue	**683,1**		**683,1**	**645,3**		**645,3**	**5,8**
Sales gains on aircraft and other transactions	43,8	-43,8	0,0	1,1	-1,1	0,0	> 200 %
Other operating income	18,6		18,6	19,8		19,8	-5,8
Operating expenses							
Staff costs	-101,9	-0,4	-102,3	-113,3	0,3	-113,0	-10,1
Fuel costs	-145,4		-145,4	-122,3		-122,3	18,9
Other rents	-40,9		-40,9	-38,4		-38,4	6,5
Aircraft materials and overhaul	-48,1	1,1	-47,1	-39,2	-1,5	-40,7	22,7
Traffic charges	-74,4		-74,4	-67,0		-67,0	11,1
Ground handling and catering expenses	-65,4		-65,4	-62,7		-62,7	4,4
Expenses for tour operations	-27,8		-27,8	-27,7		-27,7	0,4
Sales and marketing expenses	-25,2		-25,2	-25,5		-25,5	-1,0
Sales losses on aircraft and other transactions	-0,6	0,6	0,0	-0,5	0,5	0,0	10,8
Other expenses	-79,1	-4,1	-83,1	-75,1	1,2	-73,9	5,3
EBITDAR	**136,7**	**-46,7**	**90,0**	**94,5**	**-0,6**	**94,0**	**44,6**
Lease payments for aircraft	-38,5		-38,5	-36,1		-36,1	6,5
Depreciation and impairment	-42,4		-42,4	-34,9		-34,9	21,2
Operating result	**55,9**	**-46,7**	**9,2**	**23,5**	**-0,6**	**22,9**	**137,9**

	2018			2017			
in mill. EUR	Operating result	Items affecting compa-rability	Compa-rable operating result	Operating result	Items affecting compa-rability	Compa-rable operating result	Change %
Revenue	**2 834,6**		**2 834,6**	**2 568,4**		**2 568,4**	**10,4**
Sales gains on aircraft and other transactions	44,1	-44,1	0,0	53,9	-53,9	0,0	-18,3
Other operating income	73,7		73,7	77,0		77,0	-4,2
Operating expenses							
Staff costs	-433,5	0,1	-433,4	-424,2	0,8	-423,3	2,2
Fuel costs	-581,0		-581,0	-472,2		-472,2	23,1
Other rents	-154,9		-154,9	-157,9		-157,9	-1,9
Aircraft materials and overhaul	-173,8	4,7	-169,1	-154,9	-10,9	-165,7	12,2
Traffic charges	-300,8		-300,8	-266,5		-266,5	12,9
Ground handling and catering expenses	-256,9		-256,9	-252,2		-252,2	1,9
Expenses for tour operations	-113,4		-113,4	-100,5		-100,5	12,9
Sales and marketing expenses	-92,4		-92,4	-85,8		-85,8	7,7
Sales losses on aircraft and other transactions	-1,3	1,3	0,0	-9,8	9,8	0,0	-86,3
Other expenses	-330,8	-0,1	-330,9	-284,8	-0,2	-285,1	16,1
EBITDAR	**513,5**	**-38,1**	**475,4**	**490,6**	**-54,4**	**436,2**	**4,7**
Lease payments for aircraft	-155,0		-155,0	-136,6		-136,6	13,4
Depreciation and impairment	-151,1		-151,1	-129,2		-129,2	16,9
Operating result	**207,5**	**-38,1**	**169,4**	**224,8**	**-54,4**	**170,4**	**-7,7**

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 Dec 2018		31 Dec 2017	
	Nominal value	Fair net value	Nominal value	Fair net value
Currency derivatives				
Operational cash flow hedging (forward contracts)	700,1	10,1	385,2	-10,5
Operational cash flow hedging (options)				
Bought options	242,6	5,6	195,1	5,1
Sold options	242,0	-2,8	200,1	-4,0
Fair value hedging of aircraft acquisitions	445,4	17,5	316,2	-17,4
Currency hedging of lease payments	107,4	5,2	131,7	-8,6
Hedge accounting items total	1 737,6	35,5	1 228,4	-35,5
Hedging of assets held for sale			101,3	3,6
Balance sheet hedging (forward contracts)	131,8	1,7	101,0	-0,9
Items outside hedge accounting total	131,8	1,7	202,3	2,6
Currency derivatives total	**1 869,4**	**37,2**	**1 430,7**	**-32,8**
Commodity derivatives				
Jet fuel forward contracts, tonnes	924 500	-74,3	808 000	58,3
Options				
Bought options, jet fuel, tonnes	169 500	0,7	91 000	4,8
Sold options, jet fuel, tonnes	169 500	-11,6	91 000	-0,1
Hedge accounting items total		-85,2		63,0
Options				
Sold options, jet fuel, tonnes	146 500	-1,1	37 000	-0,4
Items outside hedge accounting total		-1,1		-0,4
Commodity derivatives total		**-86,4**		**62,7**
Currency and interest rate swaps and options				
Interest rate swaps			64,9	0,7
Hedge accounting items total	0,0	0,0	64,9	0,7
Cross currency Interest rate swaps	232,7	-5,8	239,6	-18,5
Items outside hedge accounting total	232,7	-5,8	239,6	-18,5
Interest rate derivatives total	**232,7**	**-5,8**	**304,5**	**-17,9**
Equity derivatives				
Stock options				
Bought options			3,0	26,0
Sold options			3,0	-14,7
Hedge accounting items total	0,0	0,0	6,0	11,3
Equity derivatives total	**0,0**	**0,0**	**6,0**	**11,3**
Derivatives total		**-54,9**		**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 Dec 2018	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	892,2	836,6	55,5
Derivatives held for trading			
Currency derivatives	47,7		47,7
- of which in fair value hedge accounting	18,1		18,1
- of which in cash flow hedge accounting	27,8		27,8
Commodity derivatives	4,0		4,0
- of which in cash flow hedge accounting	4,0		4,0
Total	**943,8**	**836,6**	**107,2**
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency and interest rate swaps and options	5,8		5,8
Currency derivatives	10,5		10,5
- of which in fair value hedge accounting	0,6		0,6
- of which in cash flow hedge accounting	9,7		9,7
Commodity derivatives	90,9		90,9
- of which in cash flow hedge accounting	89,7		89,7
Total	**107,1**	**0,0**	**107,1**

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

7. COMPANY ACQUISITIONS AND DIVESTMENTS

There were no business acquisitions or disposals during three first quarters of the 2018. Finnair announced at the end of August that it will sell 60 per cent of Nordic Regional Airlines AB to Danish Air Transport. The Finnish Competition and Consumer Authority approved the transaction at the end of September, and the transaction was closed in October.

8. INCOME TAXES

The effective tax rate for 2018 was 20.1% (19.8%).

9. DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.274 per share be paid for 2018.

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

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 Dec 2018	31 Dec 2017
Carrying amount at the beginning of period	1 437,6	1 178,8
Additions	331,0	518,6
Acquisitions through business combinations		0,4
Change in advances	40,7	-135,2
Currency hedging of aircraft acquisitions	-34,9	92,0
Disposals and reclassifications	-76,4	-87,8
Depreciation	-151,1	-129,2
Carrying amount at the end of period	**1 547,0**	**1 437,6**

Proportion of assets held for sale at the beginning of period	0,1	139,3
Proportion of assets held for sale at the end of period	0,1	0,1

11. ASSETS HELD FOR SALE

Assets and liabilities held for sale include Finnair's ownership in Nordic Regional Airlines Ab (Norra), 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 announced at the end of August that it will sell 60 per cent of Norra to Danish Air Transport. The Finnish Competition and Consumer Authority approved the transaction at the end of September, and the transaction was closed in October.

Non-current assets held for sale	31 Dec 2018	31 Dec 2017
Intangible and tangible assets	0,1	0,1
Assets from subsidiary held for sale		16,6
Total	**0,1**	**16,7**

Liabilities of non-current assets held for sale	31 Dec 2018	31 Dec 2017
Liabilities from subsidiary held for sale		11,2
Total	**0,0**	**11,2**

12. INTEREST-BEARING LIABILITIES

During the last quarter of 2018 Finnair amortized its loans according to the loan instalment programs.

13. CONTINGENT LIABILITIES

in mill. EUR	31 Dec 2018	31 Dec 2017
Guarantees on behalf of group undertakings	82,0	71,0
Guarantees on behalf of others	0,6	
Total	**82,6**	**71,0**

Investment commitments for property, plant and equipment as at 31 December 2018 totalled 975 million euros (31 December 2017: 1,013).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	31 Dec 2018	31 Dec 2017
Lease commitments for fleet payments	1 213,8	1 163,6
Other lease commitments	243,2	265,8
Total	**1 457,1**	**1 429,4**

15. RELATED PARTY TRANSACTIONS

in mill. EUR	2018	2017
Sales of goods and services		
Associates and joint ventures	44,1	42,2
Pension fund	0,2	0,0
Purchases of goods and services		
Associates and joint ventures	105,4	105,6
Pension fund	3,0	3,5
Transfers under finance arrangements		
Associates and joint ventures	2,0	2,0
Receivables		
Current receivables from associates and joint ventures	9,2	
Liabilities		
Non-current liabilities to joint ventures	3,6	
Non-current liabilities to pension fund	16,5	4,1
Current liabilities to associates and joint ventures	2,1	

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

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) Industry Accounting Working Group (IAWG).

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

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

In the beginning of 2018, Finnair made an adjustment of -4.7 million euros to its retained earnings related to these changes in 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 and retail revenue	-5,3
Travel services	-6,2
Revenue related effects total	-8,7
Expenses for tour operations	2,8
Income taxes	1,2
Total recognised in retained earnings	**-4,7**

IFRS 2 Share-based Payment

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

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

IFRS 16 Leases

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

Finnair has carried out an extensive implementation project and the new standard will have a significant impact on its financial statements and key ratios. The present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements will be recognised as right-of-use assets with corresponding interest-bearing lease liabilities on the balance sheet. Currently, future lease payments for operating leases are presented in th note as operating lease commitments at their nominal value. The currently reported lease commitments at the end of Q4 2018 amounted to 1,457 million euros (see note 14. Operating lease commitments for more detail).

Applying the full retrospective method and using the current interpretations of the relevant elements of the standard as set out below, Finnair estimates that its assets will increase by 1,0 billion euros due to the recognition of right-of-use assets, of which the majority (~80 %) are aircraft. Liabilities will increase in total by 1,1 billion euros due to the recognition of the present value of qualifying operating lease liabilities. The comparative information will be restated, and the cumulative effect of initially applying IFRS 16 is made as an adjustment to opening equity of 2018. The net impact to equity will be 0,1 billion euros. The changes in the amout of equity and liabilities are reflected in the equity ratio, which Finnair expects to decrease by more than 10 p.p. due to adopting the standard.

Impacts to financial statements of 31.12.2018

Interest-bearing net debt will increase by the amount of the present value of qualifying operating lease payments of 1,1 billion euros. This will be reflected in the key figure Gearing %, which will increase significantly (by more than 100 p.p.), to approximately 70 %. Finnair currently discloses a key ratio called ”Adjusted gearing”, which takes operating lease payments into account in the following way: aircraft operating lease costs for the last twelve months are multiplied by 7 and added to the interest-bearing net debt (see Balance sheet: “Additional information to Balance sheet: Interest-bearing net debt and adjusted gearing"). This key figure stood at 67 % at the end of reporting year 2018. When the new standard is in effect, aircraft operating lease payments are no longer recognised in aircraft lease costs. Instead, the net present value of future aircraft lease payments is recognised in interest-bearing debt, which is already included in the calculation of “Gearing”. KPI “Adjusted gearing” will therefore be replaced with “gearing”.

The leasing standard will also impact Finnair’s income statement. From 2019 onwards, operating lease expenses will be divided into the depreciation of the right-of-use asset (affecting the comparable operating result) and the interest costs associated with the liability (affecting finance net). The interest costs for the liability are at their highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortised. Currently, operating lease expenses are accrued over the lease term primarily on a straight-line basis and recognised in the operating result as lease payments for aircraft and other rents, according to the lease contract terms. In addition to the impact on operating result and EBITDA, cash flow from operating activities will also increase, as the amortisation of lease liabilities is transferred from operating activities to financing activities in cash flow.

Finnair estimates that its 2018 comparable operating result will improve by approximately 30 % due to adopting the new standard. Depreciation will increase due to depreciation of right of use assets, but the qualifying operating lease payments will no longer be included in operating result and will be instead included in lease liability repayments and financial expenses. Finnair’s net result in 2018 will, however, decrease by an estimated 30 per cent due to interest expenses and foreign exchange losses associated with USD denominated aircraft lease payments and liability. The majority of the decrease in Finnair’s net result is derived from unrealized foreign exchange losses caused by the translation of the USD denominated liability. The amount of the foreign currency exchange effect could be positive or negative, depending on the USD-rate at the closing date. As at January 2019, Finnair aims to mitigate the foreign exchange volatility introduced by this difference by adjusting its hedging policy. The annual effect in net result going forward is dependent on the size of the qualifying operating lease portfolio and the duration of the leases.

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

A more detailed description of the standard change is available in Finnair Financial Statements 2018.

18. CALCULATION OF KEY RATIOS

Alternative performance measures	Calculation	Reference to reason to use the measure	Reference to reconciliation
Items affecting comparability	Unrealized changes in foreign currencies of fleet overhaul provisions + Fair value changes of derivatives where hedge accounting is not applied + Sales gains and losses on aircraft and other transactions + Restructuring costs	Note 1. Basics of preparation, Note 4. Segment information, revenue and items affecting comparability	Note 4. Segment information, revenue and items affecting comparability
Comparable operating result	Operating result - Items affecting comparability	Note 1. Basics of preparation	Income statement, Note 4. Segment information, revenue and items affecting comparability
Comparable EBITDAR	Comparable operating result + Depreciation and impairment + Lease payments for aircraft	Note 1. Basics of preparation	Income statement
Adjusted interest-bearing liabilities	Interest-bearing liabilities + Cross currency interest rate swaps in derivative financial instruments	Component used in calculating gearing and adjusted gearing	Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing
Cash funds	Cash and cash equivalents + Other financial assets	Component used in calculating gearing and adjusted gearing. Liquid funds represent the total amount of financial assets that are available for use within short notice. Therefore, liquid funds provide the true and fair view of the Group's financial position.	Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing, Notes to consolidated cash flow statement
Interest-bearing net debt	Adjusted interest-bearing liabilities - Cash funds	Note 1. Basics of preparation	Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing
Adjusted interest-bearing net debt	Interest-bearing net debt + 7 x Lease payments for aircraft for the last twelve months	Note 1. Basics of preparation	Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing
Adjusted gearing, %	Adjusted interest-bearing net debt / Equity x 100	Note 1. Basics of preparation	Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing

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

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

Other key ratios - Growth and traffic	
Available seat kilometres (ASK)	Total number of seats available × kilometres flown
Revenue passenger kilometres (RPK)	Number of revenue passengers × kilometres flown
Passenger load factor (PLF)	Share of revenue passenger kilometres of available seat kilometres

The figures of the Financial Statements Bulletin are unaudited.