ANNUAL REPORT
2017

oneworld

FINNAIR

CONTENTS

About this report

This report's intended audience consists of shareholders, investors, analysts, media, customers, employees, other interested stakeholders and the general public. Finnair Group's core business consists of the airline business. The purpose of the Annual Report, including its sustainability section prepared under the GRI G4 reporting framework, is to account for the company's financial, economic, social and environmental impacts, and to explain their strategic business significance.

Finnair considers sustainability a critical and strategic aspect of business performance. Thus, sustainability reporting is an integral part of its annual reporting framework. The report describes Finnair's material activities in 2017 across all its units. Non-financial reporting required by The Finnish Accounting Act for the first time for the year 2017 is included in the Report of the Board of Directors in the Finance section of this Annual Report.

The Annual Report contains highlights in Finnair's business units in 2017, a statement by the CEO, a section on strategy and value creation, as well as a review of stakeholder engagement and megatrends. In addition, the Annual Report includes a tax footprint statement. The sustainability section describes Finnair's management principles and its materiality analysis process, and the resulting reporting aspects, indicators and data in more detail.

Finnair has made efforts to facilitate reading its financial statements and to clarify the overall picture that can be derived from them.

- The notes of Finnair's financial statements have been combined to business related sections. Each section sets out the accounting principles applied in producing these notes together with any critical accounting estimates and sources of uncertainty.
- Interesting figures have been highlighted by circling them, and these as well as other highlights are explained in a text box marked with a star.
- Illustrating charts have been inserted in various sections of the financial statements so as to facilitate understanding the figures.

CEO'S REVIEW

2017 was an excellent year for Finnair. We succeeded in accelerating growth while improving our result.

The turnaround we have achieved in our operations and financial performance is a shared accomplishment by everyone at Finnair. For this, I wish to thank our personnel who have made an excellent contribution during this period of growth and transformation - and also during the past hard times. There are one thousand more people working at Finnair now than at the beginning of 2017. I also wish to thank our customers for their continuing trust and support.

The overall favourable market environment in 2017 supported our growth. Also well-timed increases in capacity, the right decisions concerning routes and the growth in air travel demand all positively contributed to our passenger traffic. Measured by passenger numbers and increases in capacity, we were able to outgrow our competition in Asian traffic and increase our market share. Competition remained intense on routes to Europe and North America. We opened five new long-haul routes in 2017 and added flights to many Asian and European destinations. Finland is experiencing significant growth in tourism, which is why we strongly increased the number of flights to Lapland. Lapland will remain the number one destination for our Asian passengers in the winter of 2018, as it was in 2017.

Despite the growth in capacity, it was extremely pleasing that our aircraft were full throughout the year. Record passenger numbers, an increase in the passenger load factor and improvement in the Net Promoter Score, which indicates customer satisfaction, all tell us that we have succeeded in developing our products and services in the right way. Additional revenue, cargo and travel services all saw significant growth. I am especially delighted by how Aurinkomatkat Suntours was able to improve its operations during the past couple of years, transforming into the largest tour operator in Finland when measured by number of passengers. The recovery in demand for cargo services was also visible as load factors and cargo unit revenue both improved. Our COOL Nordic Cargo terminal, which is partly using own solar power, was opened at the end of the year, giving us the possibility to increase cargo volumes and the handling of special cargo.

In 2017, we focused on digitalisation. We have built a strong digitalisation team and we have made a good start in the transformation of our business. New technologies and digital transformation offer us wonderful new opportunities to develop our customer service, to make our operations more efficient and to transform the way we work for the better. However, we have just scratched the surface here. I strongly believe that in the future, digitalisation will provide us with completely new business opportunities.

We also continued the modernisation of our fleet and we now have eleven A350 aircraft. The A350 aircraft have proven to be reliable and have been very well received by customers. They have also contributed to an increase in fuel efficiency as expected: fuel consumption per available seat kilometre was reduced by 3.2 per cent

NEW TECHNOLOGIES OFFER US WONDERFUL NEW OPPORTUNITIES TO DEVELOP OUR CUSTOMER SERVICE, TO MAKE OUR OPERATIONS MORE EFFICIENT AND TO TRANSFORM THE WAY WE WORK.

THIS TRANSFORMATION HAS ALLOWED PROFITABLE GROWTH TO REALLY TAKE OFF AND WE PLAN TO CONTINUE IN THE SAME WAY. ABOVE ALL, GROWTH IS GENERATED FROM OUR CORE BUSINESS, BUT WE ARE ALSO LOOKING FOR NEW AVENUES FOR GROWTH.

last year, and consumption as well as CO_2 emissions per available tonne kilometre were reduced by as much as 6.7 per cent.

In addition to reducing emissions, we also work actively in other fields of sustainability. Finnair is deeply involved in the international work on sustainability in the aviation industry. Our industry has actively pursued the realisation of the goals for sustainable development set by the UN and made use of these goals in supporting work in sustainable development. The Air Transport Action Group (ATAG), which represents the whole field of commercial aviation, published the Flying in Formation report last year to clarify the importance of these sustainable development goals for our industry, and to highlight how our industry can make it possible to reach these goals. We were actively involved in the drafting of this report because we believe that further cooperation will help us reach our goals and support our commitment to the UN's Global Compact initiative.[1]

We have also been recognised for our work in sustainability. You can read more about this work in the review by our Director of Corporate Sustainability and in the Sustainability section of this annual report.

The excellent work done by everyone at Finnair was mirrored in the positive development of our finances last year. Our revenue grew by nearly 11 per cent to 2.6 billion euros. Our comparable result more than tripled, reaching 170 million euros, and our balance sheet remained strong despite major investments in our fleet. Our efforts could also be seen in the trust shown by the stock market in our performance: our share price increased 218 per cent during 2017, and we reached the large companies class on the Nasdaq Helsinki stock exchange at the beginning of 2018.

This transformation has allowed profitable growth to really take off and we plan to continue in the same way. Above all, growth is generated from our core business, but we are also looking for new avenues for growth. Last year, we introduced the Finnair Holidays product in Finland and Sweden, and we are continuing the determined development of new products. Interest in the Nordic Countries is a rising trend, which is why we are making a strong effort to market the unique Nordic experience. I believe in the strong growth of air traffic and in the new business opportunities made possible by the global travel ecosystem and digitalisation.

Our renewal and growth will continue, and at the beginning of 2018, at a faster pace than ever before.

Pekka Vauramo
President and CEO
@pekkavau

[1] https://gcnordic.net/about-the-nordic-network/countries/finland/

2017 HIGHLIGHTS

Growth continued

In line with Finnair's strategy of accelerated growth, 2017 was a period of intense growth for the company. Finnair completed the first phase of its long-haul fleet renewal, when four new Airbus 350 aircraft joined the Finnair fleet during the year, increasing the number of A350s in Finnair's fleet to eleven. Finnair also received seven new leased Airbus A321 aircraft.

New routes and frequencies

Finnair opened new routes to Goa, Havanna, Puerto Plata, Puerto Vallarta, San Francisco and Reykjavik during the year, and added new frequencies to popular destinations such as Hong Kong and Tokyo, and several European destinations. Finnair also announced it will open a route to Nanjing, its seventh destination in Greater China, in the spring of 2018, and it will also launch year-round routes to Lisbon and Stuttgart. Finnair's network now covers 19 destinations in Asia, seven in North America and over 100 destinations in Europe.

Record number of passengers

Finnair increased its passenger numbers by over one million, and flew almost 12 million passengers in 2017. In summer 2017, Finnair reached a new record, when the number of daily passengers increased to over 40,000. Finnair also reached new monthly passenger records several times during the year.

Over 1,000 new employees joined Finnair

Finnair's personnel increased by 1,080 employees during the year, when Finnair recruited new cabin crew members, pilots, digital professionals and other professionals to build the company's growth. In connection with the changes made in Finnair's catering, the staff of LSG Finland consisting of approximately 500 employees joined Finnair Kitchen.

In 2017, Finnair was rated as the most popular employer by business students in Finland in a ranking published by Universum, a company specialized in employee branding.

New digital services taken in use

Approximately one quarter of Finnair sales come through the company's digital platform – company internet pages, mobile application and in-flight entertainment system – and Finnair continued to develop these platform. Finnair also took into use new digital services. On Finnair's flights to and from China, Finnair took into use the popular Alipay mobile payment solution, and also started ticket sales in China through its WeChat account and enabled WePay payments. Finnair took into use a new SkyPay sales system for its inflight sales, which makes it easier to pay purchases and enables contactless payments. Finnair also took into use ApplePay in its mobile application and on its internet pages. Finnair made available mobile applications for its aircraft maintenance employees, and decided to provide all Finnair employees with iPhones for their work.

Increasing customer loyalty

Finnair continued to invest into its customer experience, with strong focus on excellent personal customer service, the best long-haul business class, a competitive ancillary offering and reliable operations. The net promoter score for Finnair peaked at 52 during the year, and the NPS for the whole year was 47.

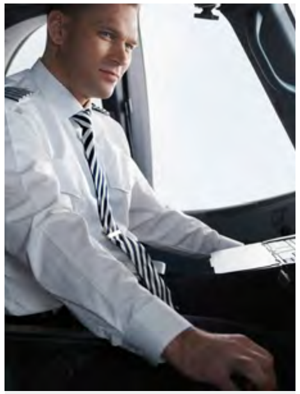
Finnair updated its selection of ancillary services that enable customers to tailor their journey, renewed its lounges at Helsinki Airport and chose Fazer as its lounge partner, and showcased Finnish cuisine on its long-haul flights.

Record year also in financial performance

Finnair's comparable operating result more than tripled and reached its all-time high at 170.4 million euros. Despite the investments in growth, Finnair's balance sheet remained strong and at year-end, the company had almost one billion euros in cash for future growth and investment. Good financial performance was reflected in the share price, that increased by 218 per cent during the year to 12.82 euros. Finnair was transferred to the Large Cap segment at the Nasdaq Helsinki stock exchange at the beginning of 2018.

Awards for excellence

Finnair received several awards during the year: Skytrax World Airline Awards named Finnair the Best Airline in Northern Europe for the eighth year in a row, and the company was named the best European airline in China for the second year in a row at the TTG China Travel Awards. Finnair received a rating of Four Star Global Airline in APEX (Airline Passenger Experience Association) airline evaluation, and received a Future Travel Experience Ancillary Gold Award recognition for its ancillary services.



Investing in people

Competent, committed and happy personnel build an excellent customer experience, and Finnair invested into resourcing, leadership development, and into developing ways of working and well-being.

The employee satisfaction index rose during the year. Finnair invested 10 million euro into training, and training hours amounted to 370,000. Investments in well-being were seen in lower sickness absences and lower injury rates. In December, Finnair announced that it will reward all its employees with an extra reward of up to 2,000 euros per employee for the company's turnaround.

Recognition for sustainability

Finnair was recognized for its sustainability efforts. Aurinkomatkat-Suntours was again named Finland's most sustainable travel service company in the Sustainable Brands Index, which is the largest brand study focused on sustainability and corporate responsibility in the Nordics. Finnair was also named "responsible company of the year" by the Association of Finnish Travel Agents.

The German ESG rating company oekom research AG confirmed its analysis of Finnair's responsibility, and the ESG rating was affirmed as C+, the highest rating in its peer group. In CDP reporting (Carbon Disclosure Project), that is closely followed by investors, Finnair scored B. Companies at level B are taking further steps to effectively reduce emissions and thus indicating more advanced environmental stewardship.

STRATEGY

Our roadmap towards
a Unique Nordic Experience

ABOUT FINNAIR

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

Finnair's vision is to offer its passengers a unique Nordic experience. Finnair's mission is to offer the smoothest, fastest connections in the northern hemisphere via Helsinki and the best network to the world from its home markets. Helsinki's geographical location gives Finnair a competitive advantage, since the fastest connections between many European destinations and Asian megacities fly over Finland.

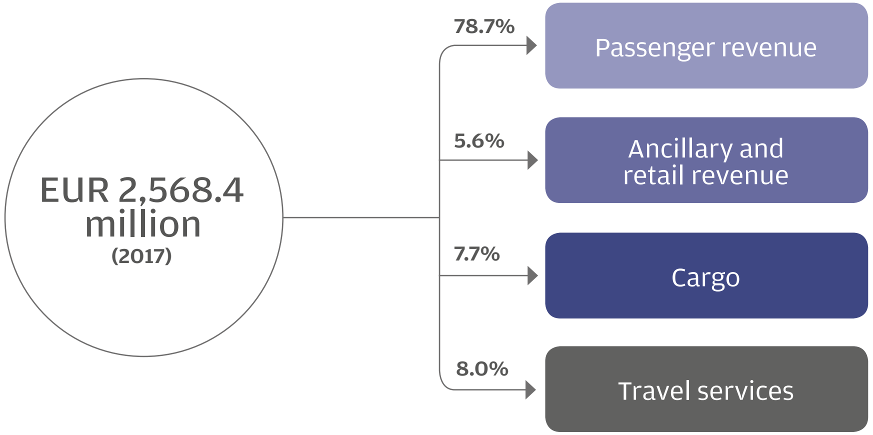
Finnair is the only Nordic network airline with a 4-star Skytrax ranking and a member of the **one**world alliance. In 2017, Finnair's revenues amounted to EUR 2,568.4 million and it had personnel of over 5,900 at the year-end. Finnair shares are quoted on the Nasdaq Helsinki Stock Exchange.

Finnair as an investment

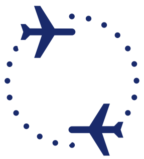
Finnair has a stable position in the domestic market and it is poised to benefit from expected growth in Asian markets. Finnair aims at delivering value to its shareholders by focusing on its core business and businesses close to it, and by investing in its competitiveness and growth. Its strategic focus areas are growth, customer experience, people experience and transformation.

Finnair has a clear strategy for reaching its goals. The foundation for the strategy is seen in the high quality of its operations, Helsinki's favourable geographic position, growing focus markets, clear goals to increase revenue, modern fuel-efficient fleet as well as a strong balance sheet.

Key revenue sources and split



VISION
UNIQUE NORDIC EXPERIENCE



MISSION
THE SMOOTHEST AND FASTEST CONNECTIONS IN THE NORTHERN HEMISPHERE

Finnair's strategic goals:

- To double its Asian traffic from the level of 2010 in 2018
- To nearly double its 2016 ancillary revenues by 2020
- 20 million passengers in 2030

Long-term financial goals:

- Comparable operating profit of at least 6% of the turnover and comparable EBITDAR of at least 17% of the turnover over the cycle
- Adjusted gearing rate of less than 175%
- Return on Capital Employed (ROCE) at least 7%

OPERATIONAL ENVIRONMENT

The airline business is cyclical by nature and heavily influenced by external factors. Typically, revenues are high during economic upswings and considerably lower during periods of economic downturn. For individual airlines, the yield also fluctuates on the basis of the holiday and business seasons.

Airlines must make decisions on significant fleet investments years before price-and-quality conscious travellers make their purchase decisions. Aircraft delivery times may take years, which means that airlines have to plan their business for the long term, often at least 10 years ahead, especially in long-haul traffic. This includes, among other things, a plan for future destinations and network, the type of aircraft required and the regulations they must comply with. It is often very difficult to foresee how the market will change between the order and delivery of an aircraft.

With the high competition, the low margins in the airline business, high fixed costs and the high capital expenditure needed to operate an airline, it is crucial to optimise all aspects of business operations to succeed. It is also crucial to build resilience and flexibility for unexpected changes in the market environment.

Competitive, growing industry

Based on ICAO statistics, revenue passenger kilometres have doubled every 15 years.[1] Air travel is expected to continue to grow faster than the economy, 4.4 per cent per year globally for the next 20 years. A growing middle class supports the growth particularly in Asia. China is expected to surpass the United States by passenger volume as the world's largest market during this period.[2]

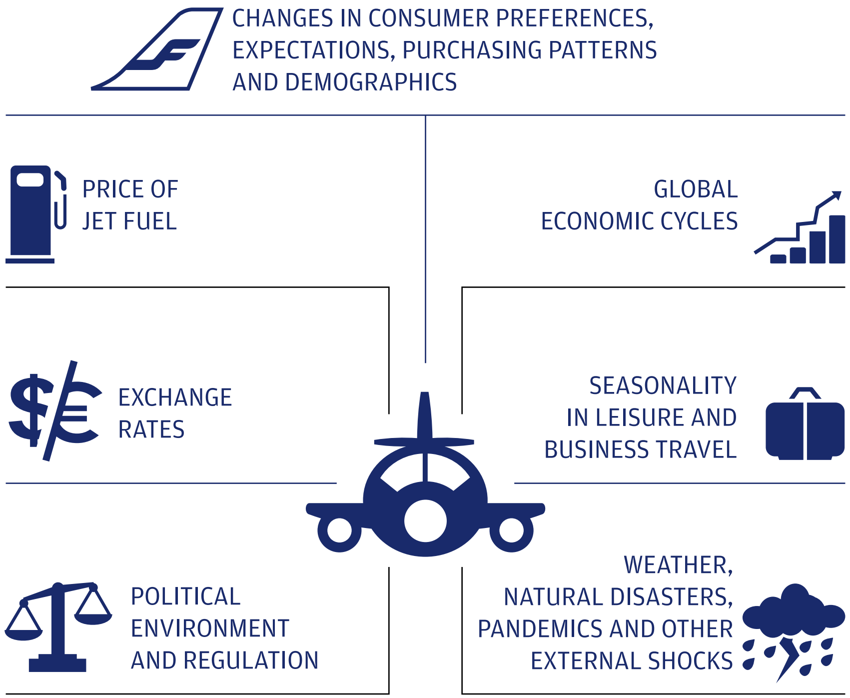
With the growth of the industry, competitors have not just changed, but also multiplied. Finnair's competitive landscape can be roughly divided into two parts; short haul point-to-point traffic in Europe and long haul transfer traffic between Asia and Europe. In short haul point-to-point traffic, airlines with the lowest cost structures typically have the strongest competitive positions, and competition is mainly driven by price. On the long haul transfer traffic scene, the significance of a comprehensive network, comfort of travel, customer service and smooth transfers is highlighted. Network and low-cost carriers have started revising their operating models with a convergence trend, which results in more competition.

Intense competition has led to more consolidation, alliances and joint ventures in the industry, with the aim of improving capacity discipline and profitability. Just as the role of alliances evolves, individual airlines also pursue cooperation opportunities outside their respective alliances to strengthen their positions.

For more information on industry development, please visit:
http://www.icao.int/
http://www.iata.org/
https:www.airbus.com

[1] https://www.icao.int/airnavigation/Documents/GANP-2016-interactive.pdf
[2] http://www.airbus.com/aircraft/market/global-market-forecast.html

EXTERNAL FACTORS INFLUENCING AIRLINES



MEGATRENDS IMPACTING FINNAIR

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

The gradual shift in economic and political focus from the United States and Europe to developing countries, and Asia in particular, is the strongest of the megatrends affecting the aviation industry. Asian corporations are becoming globalised and their significance on the world market is growing. The middle class is growing rapidly in many Asian countries.

Asian travel will increase, and competition will intensify, as Asian airlines expand their operations to intercontinental flights. At the same time, airlines and governments will also have to negotiate for more traffic rights. Asian customers determine the expected standard of quality for service and products, and non-Asian airlines must increase their understanding of Asian culture and customers.

Urbanisation

Migration flows from rural areas to cities continue to accelerate, particularly in China and other developing countries. In Asia in particular, the number of cities with more than five million inhabitants will grow, as will the number of connections between such cities. New markets will be created for airlines as traffic between these megacities grows. Competition will intensify as regional airlines begin to operate on these routes.

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

Technological progress is leading to changes in purchasing behaviour, the comparability of prices and services online, and immediate feedback. Digitalisation is a natural part of companies' operations, and it creates service development opportunities. Consumers want and expect network connections everywhere they go. Social media spread news rapidly and require businesses to react quickly.

Airlines must anticipate changes, adapt to them and provide opportunities for buying, using services and sending feedback online. Consumers want network access before, during and after their flights. They increasingly want digital entertainment services during flights. More advanced customer identification will also allow airlines to offer tailored services and a personalised customer experience. However, different groups of customers must be taken into account in the digital development, and the availability of services for everyone must be ensured.

Increasing significance of sustainability

Consumers, political decision-makers and other stakeholders require businesses to operate more responsibly and transparently. Regulation and reporting obligations will increase, and businesses are required to be more diligent in monitoring the ethical dimensions of their supply chains. Consumers monitor the responsibility of a company's operations and give feedback on social media.

The airline industry will face stricter regulations on emissions and noise, with increased regulation resulting in added costs such as tax-like payments. Airlines must increasingly cooperate on issues related to safety, emissions, noise, accessibility and other passenger rights as well as equality.

Megatrend	Impact on the industry and Finnair	Our response
The shift in economic and political power to Asia	• Traffic between Asia and Europe grows • Intense competition continues • Increased importance of understanding Asian markets	• Renewal of the new generation long-haul fleet from 2015 onwards • New Asian destinations, additional flights • Increasing Finnair's understanding of Asian markets • Good stakeholder relations • Fastest route between Asia and Europe
Urbanisation	• New markets are created • Intensifying competition	
Technological development	• Increasing significance of online services and network connections • New opportunities for serving customers	• Developing online services • Developing inflight entertainment systems • Developing the service experience • Unique Nordic customer experience
Sustainability	• Increase in regulation and reporting requirements • Increasing significance of open communication	• Sustainability is an integral part of the company's strategy. • More environmentally friendly and efficient fleet and operations • Monitoring the supply chain and collaboration in sustainability issues • Ensuring equality, accessibility and human rights in processes and product development • Participating in joint sustainability projects in the industry • Developing our reporting and stakeholder communications related to responsibility

VALUE CREATION AND STRATEGY

The cornerstone of Finnair's growth strategy is Finnair's competitive geographical advantage, which enables the fastest connections in the growing market of air traffic between Asia and Europe.

Finnair creates value for its shareholders and other stakeholders by offering air travel and cargo services and by operating and growing its route network resource efficiently and profitably. Additionally, value is created by the way Finnair engages and cares for its customers, employees and other stakeholders, and by Finnair's ability to take environmental and other external impacts of its operations into consideration. The ultimate factors in the value creation are the effectiveness of the processes used at Finnair, and the ability of Finnair's management to develop the company and manage the risks associated with its operations.

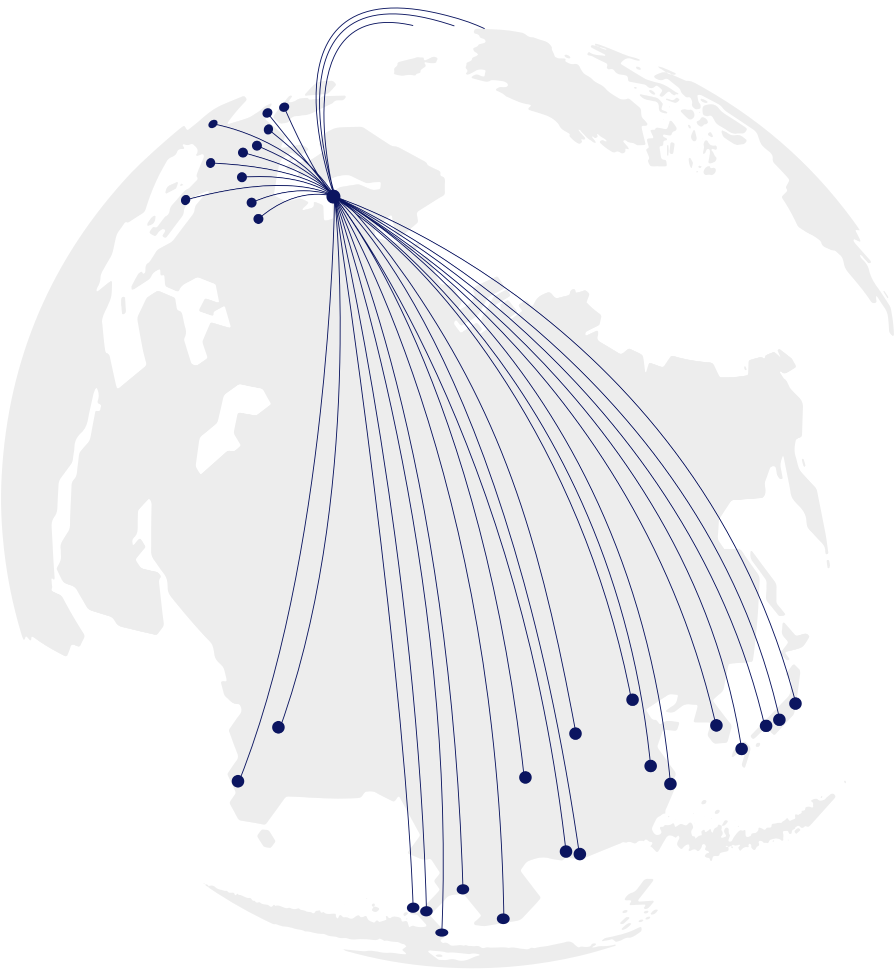
Helsinki's geographical location provides Finnair with a structural competitive advantage, which allows the shortest and most direct connections to the growing Asian markets. Finnair is the only European airline that can operate flights to most Asian destinations on a 24-hour aircraft rotation, which means that the routes can be operated as round trips within 24 hours at regular times using a single aircraft. This enables a record-high utilisation rate in long-haul traffic, reduces the need for additional crews in compliance with flight time restrictions, and decreases fuel consumption and emissions due to shorter flight times.

Helsinki's location on the flight path from Central Europe to North-eastern Asia means that travel times via Helsinki are more than two hours shorter on average compared to one-stop flights via European hubs, and more than four hours shorter compared to flights via hubs located in the Middle East. Helsinki Airport also supports the growth of traffic between Asia and Europe: its three runways, connection times as short as 40 minutes, and uncongested airspace make the airport ideal for connecting flights.

Finnair's objective for the accelerated growth strategy is to double its Asian traffic by 2018 compared to 2010 base. In 2017, the growth in passenger numbers, available seat kilometres and revenue passenger kilometres, was the fastest in Finnair's history. Finnair operated flights to 18 Asian destinations, seven destinations in the Americas and more than 100 destinations in Europe. Finnair's destinations include business travel and leisure travel destinations. The growth will continue in 2018, and Finnair's network will further expand to include flights to Nanjing, Stuttgart and Lyon. Similarly to 2017, the network will grow strongly with added flight frequencies for currently served destinations and with Reykjavik and Lisbon becoming Finnair year-round destinations.

Finnair's ability to operate its network safely and punctually from one of the world's northernmost air traffic hubs is integral to value creation. The transfer of passengers, baggage and cargo to connecting flights is ensured through efficient processes and cooperation with airport authorities.

Our membership in the **one**world alliance increases the size of our global network to more than one thousand destinations in more than 160 countries.



Close cooperation with alliance partners particularly in North American and Japanese traffic is a priority for Finnair. Membership in the **one**world alliance and joint businesses strengthen Finnair's market position and reduce the risks related to growth. For customers, they provide an even broader choice of destinations as well as more flexible routing and pricing options. For airlines, joint businesses are a way to gain benefits typically associated with consolidation in a highly competitive industry without actual mergers, acquisitions or equity transfers between partners. Alliance partnerships and joint businesses have a significant contribution to Finnair's revenue.

More information about Finnair's destinations:
https://www.finnair.com/fi/fi/destinations

More information about **one**world:
https://www.finnair.com/FI/FI/destinations/**one**world

A stable position in the domestic market and in Asian traffic

Finnair holds a strong position in Finnish air traffic, but due to the small size of its domestic market, the focus of the company's growth has, for several decades, been on Asian traffic. Asia has been one of the fastest-growing air traffic markets in recent years, and its importance is expected to increase further in the short and medium terms. The share of Asian traffic is higher at Finnair than at its competitors, which puts the company in an ideal position to benefit from these growing markets. Asian traffic accounts for a little over 50 per cent of Finnair's traffic.

Responsibility in all areas

Responsibility is an integral part of all Finnair's operations. Finnair is committed to acting towards a cleaner, more caring and more collaborative future. Responsible business is the foundation of future growth. As a responsible world citizen, Finnair aims at minimising the negative environmental impacts of its operations and at maximising the social and economic value that it creates for the stakeholders and society at large.

More information on Finnair's corporate responsibility:
https://company.finnair.com/en

A more detailed overview of Finnair's corporate responsibility is included in the Sustainability section of this report.

Our vision is to offer a Unique Nordic Experience

To follow its vision, Finnair aims at offering its customers a unique Nordic experience. This vision gives direction to all Finnair's employees and partners in customer service and flight operations as well as in developing operations and services.

Finnair's route network connects Asia, North America and the northern regions of Europe through its hub at Helsinki Airport. The operations are based on quality, reliability, safety and design inspired by Nordic pure nature. The vision is expressed for example in easy-to-use digital services and in the enhancement of services. The goal is to provide outstanding service at the airport, in lounges and onboard to enable customers to arrive at their destinations relaxed and with peace of mind.

Finnair's strategic focus areas

In summer 2017, Finnair's Board of Directors confirmed the strategic focus areas for 2016–2018 that it had adopted earlier, namely profitable growth, customer experience, people experience, and transformation.

Growth

The backbone of Finnair's growth strategy is the renewal of its wide-body fleet. In 2017, the first stage of the fleet renewal was accomplished: now Finnair has 11 Airbus A350 aircraft. In 2018-2023, Finnair will receive a further eight A350s, and thus the entire wide-body fleet will grow from 19 to 27 aircraft by 2022.

The accelerated growth strategy in 2016–2018 has given Finnair the ability to rebound and grow even faster than the market after years of no or low growth. The fastest growth takes place in the winter season 2017/2018 and the capacity compound annual growth rate (CAGR) is forecast to be 8–10% in 2016–2018. Accelerated growth will also improve Finnair's cost position by decreasing its unit costs.

Finnair will leverage its competitive advantage in selected global markets by focusing on 30 cities and their catchment areas. Asia will be the focus area in network development and growth. China continues to provide the highest long-term potential, but also other countries in Northeast Asia and Southeast Asia offer new growth opportunities. Finnair will also develop its business in North America and aims to maintain the current relative ratios of its Asian and North American markets.

As the long-haul network grows, capacity in short haul feeder traffic must equally grow. In 2017, Finnair's narrow-body fleet increased by six new aircraft. Increasing the average narrow-body aircraft size and adding more seats to current narrow-body fleet support capacity growth, unit cost improvement and higher productivity.

The direct sales channels will be the most important sales channels in enabling sales of various ancillary services in the future. Ancillary services enable the custom-tailored service according to customers' needs. Ancillary and retail business is the fastest growing revenue line and the growth is expected to continue. Finnair aims to almost double ancillary sales by 2020

THE DIRECT SALES CHANNELS WILL BE THE MOST IMPORTANT SALES CHANNELS IN ENABLING SALES OF VARIOUS ANCILLARY SERVICES IN THE FUTURE.

as compared to 2016 and increase ancillary sales per passenger by 46% (from 10.2 euro to 14.9 euro) by 2018.

Air Cargo is also a significant factor in Finnair's success. The shift away from bulk to speciality cargo is the key margin driver in a highly competitive market. In 2017, Finnair opened a new Finnair COOL Nordic Cargo Terminal that enables the state of-the-art hub logistics for speciality cargo like pharmaceuticals and perishables, and reduces cargo unit costs.

Finnair aims at growth also in selling travel products. In 2017, the tour operator Aurinkomatkat-Suntours, a part of Finnair Group, became the biggest tour operator in Finland based on the number of travellers. Finnair also launched a new product called Finnair Holidays in the Finnish and Swedish markets. Finnair Holidays brings together the best sides of both independent travel and package tours.

Customer Experience

The focus on customer experience is central to Finnair's strategy to grow successfully. The introduction of new A350s that started in 2015 and our focus and investment into customised personal service and digital solutions have already improved customer experience in both business and economy classes. This is seen in the improved Net Promoter Score (47 in 2017 versus 43 in 2016). More improvements and enhancements are being implemented to further uplift customer experience and differentiate from competitors. Finnair has set itself the target to deliver the best long-haul business class experience among all European airlines. The economy class product is also continuously enhanced, for example by providing customers new opportunities to further personalise their experience at various stages.

An integral part of the customer journey is the airport experience. Helsinki Airport will go through major expansion during the coming years, supporting the long-term growth of Finnair. We strive to ensure that future customer needs are met in the design of the airport.

Improving customer service is a key priority for us. We develop customer service at the airport, inflight and on the phone as well as in social media channels. New digital services and automation will further smoothen the customer journey. Customer analytics will be more widely used to provide increasingly personalised services. Finnair pays special attention to developing its processes to strengthen the trust and customer satisfaction also during service disruptions.

People Experience

Well-motivated employees are behind the execution of a unique Nordic experience and value creation at Finnair. Excellent employee experience is a prerequisite for customer experience. To strengthen and support people experience, Finnair focuses on resourcing, leadership, competence development and strengthening of the change capacity. Wellbeing of people is in turn a key element in ensuring engaged and inspired personnel. In this respect, Finnair renewed its wellbeing services to reduce the number of sick leaves and to strengthen employee resilience.

Leadership has a major impact on engagement and motivation, and Finnair focuses on leadership development by training, coaching and facilitating internal rotation. Finnair develops key competencies in service management and digitalization that are central in strategy implementation.

Finnair employees are well educated, skilled and experienced. Finnair needs to further focus on attracting, developing and retaining the right people to ensure that the right skills are available for its strategy implementation. Strategic personnel planning ensures the implementation of accelerated growth.

Finnair's personnel, wellbeing at work and key projects affecting personnel are described in the Sustainability section of this report.

Transformation

The world and the airline industry are increasingly digital, with clients spending more and more time buying tickets and ancillaries online and consuming an increasing number of digital services and products as they travel. At the same time, Finnair employees require modern tools and ways of working. Finnair's partners and the stakeholders in the ecosystem increasingly look for business opportunities as new technologies mature. We are facing a new paradigm with technologies like AI (Artificial Intelligence), IoT (Internet of Things), VR (Virtual Reality) and wearable devices.

Finnair is progressing well in its transformation journey – in 2015/2016 the company invested in its Digital Finnair program which designed and implemented customer facing digital services such as Finnair.com, Mobile App and Nordic Sky. Finnair also started the digitalisation programs for its operations and customer experience units. In 2017, Finnair built its own digital team comprising 70 employees and continued to develop digital products and services. Customers see clear improvements in the usability of Finnair's mobile solutions. A new SkyPay solution was introduced for the cabin crew and a new mobile maintenance solution was made available for line maintenance, and these solutions clearly improved efficiency. The digitalisation skills of the entire personnel have also been continuously developed.

Finnair has a vision of creating the Best Intelligent Travel Ecosystem. The aim is to take an active role in the travel ecosystem as it evolves. With this vision statement, Finnair continues its digital journey towards 2020.

Creating value for society

Finnair's current route network and its future expansion ensure that Finland will have more direct flight connections to other parts of the world than domestic demand alone could support. This has a significant impact on the travel opportunities of Finns and on the Finnish business sector. In addition, aviation sector is a major job creator in the Finnish society. According to a research conducted in the autumn 2017 by ETLA, the Research Institute of the Finnish Economy, Finnair is the 16th most significant company for the Finnish economy in terms of Gross Domestic Product, with a contribution of 587.6 million euros.

EXCELLENT EMPLOYEE EXPERIENCE IS A PREREQUISITE FOR CUSTOMER EXPERIENCE

Value creation at Finnair

Inputs / Key capitals

Human capital
5,526 personnel, training hours 57/employee, expertise

Financial
Adjusted interest-bearing debt EUR 737.1 million
Equity capital EUR 1,015.7 million

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

Natural
921,520 tonnes of jet fuel

Social and partnerships
Suppliers and partners, AJB/SJB joint business distribution network, alliance cooperation, public affairs

Fleet and infra
Nearly 80 aircraft

Business Model

Our vision, mission, strategy

Our governance

Our values

Business processes:

- Production process (network, fleet and traffic planning, resource allocation, ground services, flying, procurement)
- Customer process
- Commercial process

Products/outputs

- Passenger transportation (11.9 million passengers)
- Cargo transportation (157 million tonnes)
- Travel packages
- Customer experience and service
- Other

Support processes
Digital transformation, Strategy and Business Development, Finance, People & Culture, Legal, Communications and Sustainability

Value created and impacts

Fastest connections between Europe and Asia

Customer value
Customer satisfaction NPS 47

Financial
Operating result EUR 224.8 million, taxes, traffic charges, return on equity and debt investments

Natural
Flight emissions 2,902,787 tonnes CO_2, noise, waste

Social
Traffic connections, direct and indirect employment, employee experience 3.78/5, added value to partners, brand value, innovative and sustainable products

STAKEHOLDER ENGAGEMENT

How Finnair communicates and cooperates with its stakeholders

	Subjects	Channels
Customers	Travel experience, customer service issues, product quality, on-time performance, emissions and noise reduction, safety, recycling, responsible sourcing, responsible tourism, corporate responsibility projects via Finnair Plus.	Surveys, research, written feedback, Finnair website, social media, customer events, customer service encounters at every stage of the journey, messages to Finnair Plus customers, Finnair mobile app, Blue Wings inflight magazine.
Personnel	Occupational health and wellbeing at work, target setting, Code of Conduct and ethical issues, safety and security, changes to improve profitability, values and business practises, increasing trust, reducing environmental impact on the job, corporate responsibility in partnerships, changes affecting personnel.	Intranet, internal blogs, theme weeks, Yammer, personnel events, We Together @Finnair- Wellbeing At Work survey, occupational health services, performance evaluation and development planning, discussions with labour organisations, Leadership forum, Career Gate
Shareholders and investors	Market environment and competitive landscape, the company's operations, corporate responsibility, goals, reporting, strategy and financial position.	Stock exchange bulletins under periodic and on-going disclosure obligation; interim reports, financial statements, report of the Board of Directors, Corporate Governance Statement. Annual General Meeting; investor, analyst and media meetings and events; corporate website; Carbon Disclosure Project.
Aviation sector	Safety, emissions and noise, reduction, emissions reduction schemes, air traffic management, biofuel and supply chain development, sustainable tourism, economic impacts of the sector.	Membership in IATA and A4E; cooperation forum for sustainable tourism; membership in **one**world alliance; Joint Businesses; cooperation with Finavia and other airport operators; sector seminars and working groups; manufacturers.
Authorities and government	Competitiveness, market access, safety, emissions trading and reduction schemes, air traffic management, supply chain responsibility, reporting, economic contribution of aviation, impact of operations on environment and noise, disruptions and irregularities, biofuels, employee relations, the Transport Code.	Dialogue with local, national, EU-level authorities and governments; dialogue with governments and authorities in destination and overflight countries, events and other cooperation with Finnish Consumer Agency, Flight Safety Authority (TraFi), embassies and other relevant Finnish and foreign actors.
NGOs	Greenhouse gas emissions and environmental impact reduction, public health measures, human rights, disaster relief, wildlife protection, common interest projects for sustainability and development cooperation, supply chain responsibility.	Cooperation with Finnish Association for Nature Conservation, UNICEF, Finnish Red Cross, Cancer Society of Finland and other NGOs. Membership in the Carbon Disclosure Project and in Climate Leadership coaltion, Commitment 2050 -cooperation.
Suppliers	Cooperation efforts to reduce emissions and other environmental impacts, monitoring of responsibility and business ethics everywhere in the value chain.	Contractual cooperation, Finnair procurement guidelines and Supplier Code of Conduct.
Media	Company strategy and business, Finnair products and network, daily operations, irregularities, investments, emissions reduction, personnel relations, financial sustainability, economic contribution of aviation, ethics, cooperation projects with NGOs, trends in travel and traffic, biofuels, emissions trading and reduction schemes, noise, impact of aviation on local economy and mobility.	Press releases, press conferences, visits by reporters, press trips, interviews, Finnair media desk calls and emails, websites, social media, Blue Wings magazine.
General public	Customer service, product quality, labour relations, economic contribution of aviation, ethics, emissions reduction, presence in local economies, cooperation projects with NGOs, corporate citizenship.	Communications via media, websites, e-mail and lectures; social media including blogs, Facebook, Twitter and Sina Weibo.

"IF SOMEONE HAPPENS TO ENTER YOUR HOME, BE POLITE AND WELCOME THEM"

The Moomins, who are the world-famous fairy tale characters, make a brilliant example of a Nordic family. These Nordic characters believe in equality and responsibility, in caring for each other and for the surrounding world. The Moomins also remember to live joyfully.

These very Finnish and, at the same time, Nordic values capture well the work on responsibility in Finnair. We do our best to minimise our environmental impacts and to maximise all positive aspects of our social and economic contribution. In our work at Finnair, Nordic values also show in how we combine our care for the world and the joy of travel to make everybody's experience unique.

The Finnish Government supports strongly such work with its Society's Commitment to Sustainable Development for 2050, which is a long-term initiative for businesses, communities, and individuals to ensure the future of Finland. The idea is simple: concrete actions and measurable results. Such commitment across the entire society is a true testimonial to the Nordic way of thinking – we all share responsibility for our future.

Last year, Finnair added to this global initiative by publishing its commitment to "Equality and Non-Discrimination Both in the Air and on the Ground". This commitment also implements UN's Agenda 2030 and its 17 goals of Global Sustainable Development.

All female crew from Helsinki to New York in August 2017

We are committed to building a cleaner, more caring and more collaborative future. We are also strongly committed to implementing, reporting, and promoting further equality and diversity in our operations, customer relations, and occupational groups across the entire organisation.

All of us at Finnair believe that investing in employee well-being and equality improves profitability and competitiveness, employer branding, employee retention and advocacy. Our care for customers results in many positive customer experiences, which are important for customer well-being, trust in Finnair, loyalty, and ultimately profitability.

Finnair staff are a notable example of diversity: there are people from different educational backgrounds, age-groups and nationalities. A slight majority of our staff are women. Yet of course there are several occupational groups with a much less balanced gender ratio. Our aim is to bring more diversity into each occupational group – for example by encouraging more male employees to customer service tasks and attracting more female applicants to become pilots or technicians. Such support for diversity is present in all sectors of our organisations, enabled by active communication and career coaching. A recent example of this is our commitment to the Diversity Charter of the Finnish Business & Society association.

We develop customer service continuously and in cooperation with a wide range of stakeholders to get a reliable understanding of the needs and expectations of all passenger groups. Our digital experts use a design-for-all approach in delivering reliable solutions that work. Last year, we introduced inflight videos in sign language as well as updated our booking process to collect information about types of assistance that our passengers may require. It is our genuine desire to implement non-discrimination principles at all stages of a passenger's journey.

Continuing such work together is crucial. The commitment of Finnish society to Sustainable Development 2050 makes sustainable goals part of everyday life. Every business, every community and every individual, we can all commit and strive towards a better and more sustainable future. Organisations can be very important in advancing such commitments, as their employees can adopt the goals of sustainable development as personal goals too. Such is easier in organisations with a strong culture of employee empowerment, letting every member see how important their contribution for global sustainable development is.

As the Moomins would say: "Life has plenty of miracles for those who are ready to take a step forward."

Kati Ihamäki
Director, Corporate Sustainability, Finnair

"WE CAN ALL COMMIT AND STRIVE TOWARDS A BETTER AND MORE SUSTAINABLE FUTURE."

KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI)		Actions taken in 2017	Performance in 2017
Financial targets			
Profitability, return on investment and indebtedness	Comparable operating result at least 6% of revenue	Business and revenue growth, continuing the long-haul fleet renewal/ A350 aircraft with new technology, development of digital sales channels, 20-million euro cost savings program, aircraft financing arrangements. Read more from the Report of the Board of Directors, p. 24.	√ Comparable operating result 6.6% of revenue
	Comparable EBITDAR at least 17% of revenue		√ Comparable EBITDAR 17.0% of revenue
	Return on capital employed (ROCE) at least 7%		√ ROCE 13.6%
	Adjusted gearing no more than 175%		√ Adjusted gearing 69.9%
Dividend	To pay, on average, at least one-third of the earnings per share as a dividend during an economic cycle taking into account company's earnings outlook, financial situation and capital needs for any given period		Earnings per share EUR 1.23.The Board of Directors proposes that a dividend of EUR 0.30 share be paid for 2017.
Business and sustainability targets			
Growth	Capacity growth (ASK), of 8-10% on average, revenue growth, increase of ancillary and retail revenue per passenger	Introduction of 4 Airbus A350 aircraft and 7 A321 aircraft, route network expansion with new destinations and added frequencies to old destinations, development of digital sales channels, introduction of new ancillary services and products.	√ Capacity (ASK) +8.9% √ Revenue +10.9% √ Ancillary and retail revenue per passenger +5,2%
Customer Experience	Customer satisfaction, NPS* increase on the previous year, punctuality at least 89%	Improving customer service in all encounters, the improvement of business-class experience, the development of ancillary services	√ Customer satisfaction, NPS 47, (43 in 2016) x Punctuality 83.2%
People Experience	Personnel Experience overall grade of at least 3.75, absences due to illness decrease from the previous year, less than 14.8 work related accidents (LTIF).**	Wellness programs, conditions of employment, education and training, OSH, gender equality policy and plan, the development of managers' skills in occupational safety, implementation of the safety monitoring process, updating the reporting tool.	√ Personnel Experience overall grade 3.78 √ Absences due to illness 4.6% (-0.5%-points from 2016) x LTIF 15,6***
Transformation	Growth of sales through digital touch-points >15%, productivity improvement in selected areas of at least 10%	Commercial digitalisation project, spearhead projects in digitalization of core processes, Finnair Technical Services in particular, Digital Vision 2020 and strategy work, Digital Maturity Index survey.	√ Ticket sales through digital touch-points +18% √ Ancillary sales through digital touch-points +19%.
Environment	17% carbon dioxide emission reduction per RTK 2013-2020, 1.5% efficiency improvement annually, carbon neutral growth in 2020 and beyond.	Efficient route planning, Weight Watchers program, a single engine taxiing, APU engines, CDA landings	√ CO_2 emissions, tonnes / RTK -9.4% from 2013, √ CO_2 emissions, tonnes / RTK -6.7% from 2016, √ CO_2 emissions, tonnes / ASK -3.2% from 2016

* NPS = Net Promoter Score
** LTIF = Lost Time Injury Frequence. Refers to the number of workplace accidents per million working hours.
*** Includes Finnair Kitchen from May 2017 onward. LTIF excluding Finnair Kitchen 13.6

FINANCE

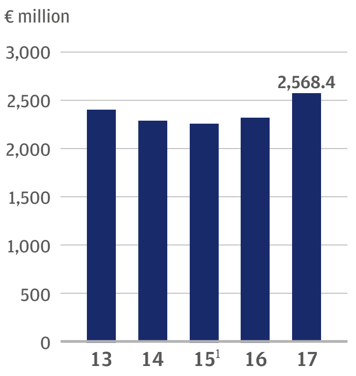
Comparable operating result over tripled to 170.4 million euros.

KEY FIGURES

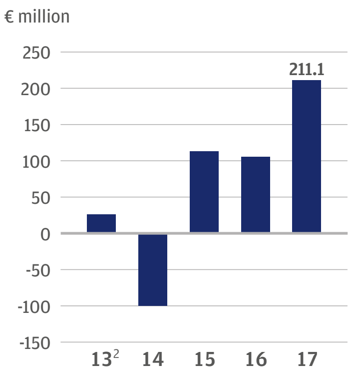
[1] Revenue from non-core businesses is reclassified from revenue to other operating income. Comparative periods have been restated accordingly from the beginning of 2015 onwards.

[2] Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls.

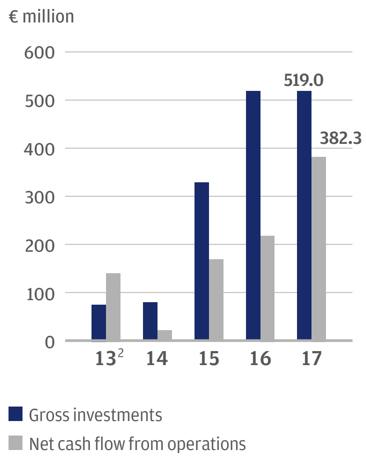
Revenue



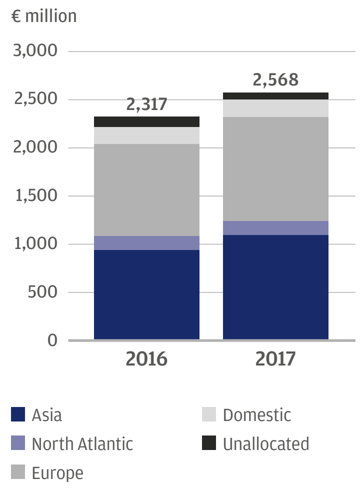
Result before taxes



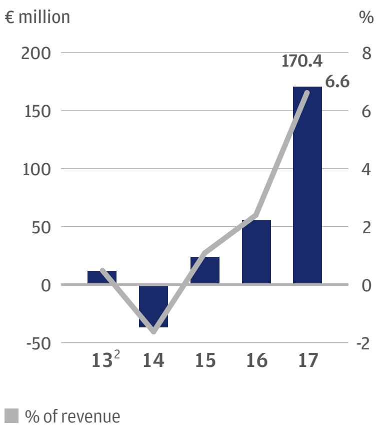
Capital expenditure and net cash flow from operations



Revenue by traffic area

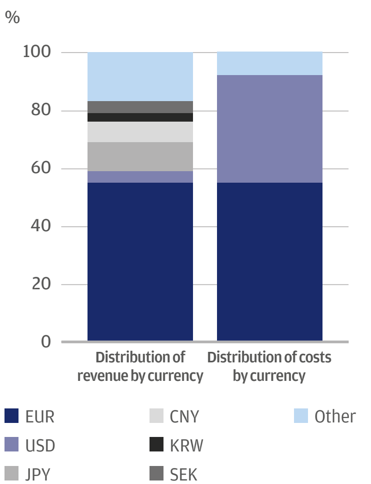


Comparable operating result*

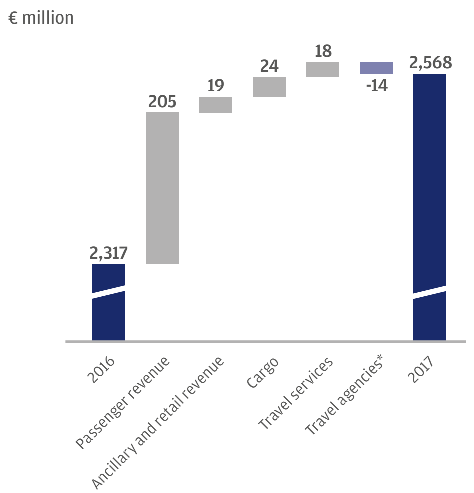


* Comparable operating result excluding changes in the fair values of derivates and in the value of foreign currency denominated fleet maintenance reserves and items affecting comparability.

Distribution of revenue and costs by currency in 2017

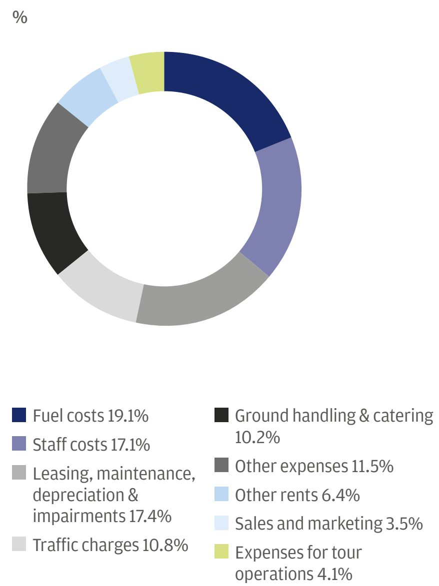


Revenue by product



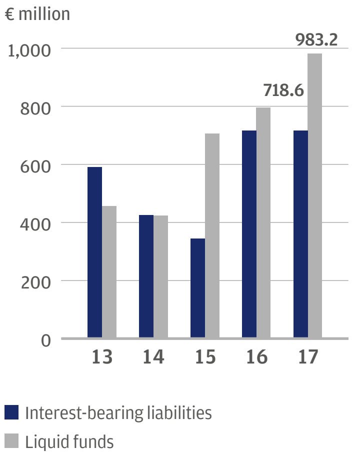
* Revenue of travel agencies has decreased due to sale of subsidiaries in 2015 and 2016. After October 2016 Finnair does not have any travel agency operations after these disposals.

Distribution of operating expenses € 2,475.0 million

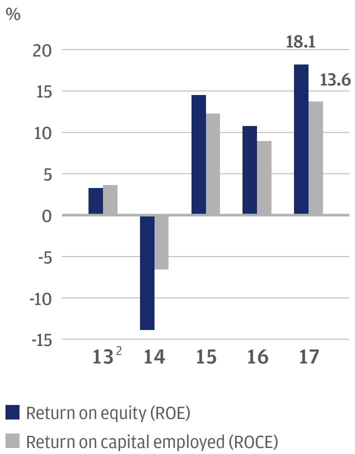


[2] Comparative figures for 2013 have been restated due to a change in accounting principles related to treatment of overhauls.

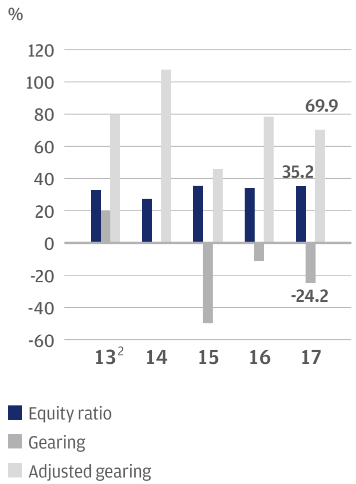
Interest-bearing liabilities and liquid funds



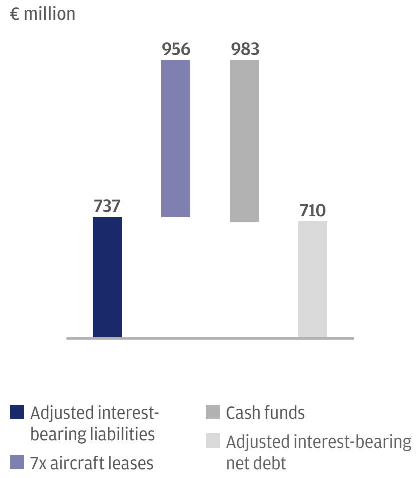
Return on equity (ROE) and return on capital employed (ROCE)



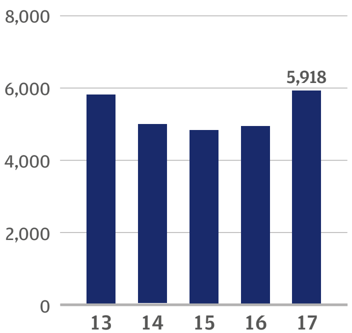
Equity ratio, gearing and adjusted gearing



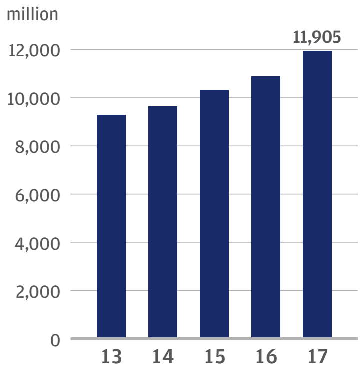
Composition of adjusted interest-bearing net debt



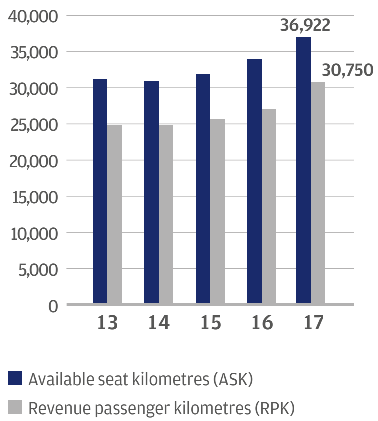
Number of persons employed by Finnair at year-end



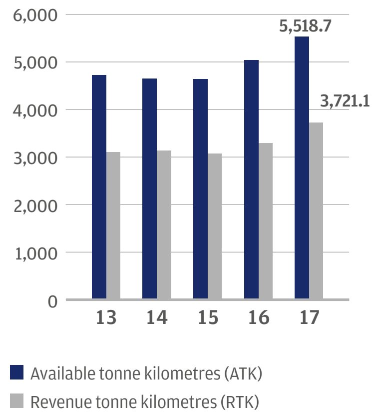
Number of passengers



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



Available tonne kilometres (ATK) and revenue tonne kilometres (RTK)



THE REPORT OF THE BOARD OF DIRECTORS 2017

Business environment

The overall business environment was favourable in 2017 and traffic continued to grow in Finnair's main markets. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations increased by 5.3 per cent in 2017, and Finnair's market share decreased slightly in European traffic.

The direct market capacity between Finnair's Asian and European destinations grew by 4.7 per cent. Competition in Asian traffic developed in two different directions, with capacity growth being primarily focused on routes between China and Europe. On routes between Japan and Europe, Finnair was the only airline to significantly increase its capacity, while many competitors scaled back their capacity compared to the previous year. Finnair's market share in traffic between Europe and Asia increased to 5.9 per cent (5.6).[1]

Demand developed favorably in 2017. Traffic from Asia to Europe began to return to normal early in the year, after the safety concerns that emerged in 2016 began to dissipate. Demand grew across the network and throughout the year, for almost all destinations. Travel from Japan and China to Europe increased in particular. Traffic to Nordic destinations also continued to grow. In the first quarter, both Helsinki and Lapland saw better-than-average growth. Improved connections also resulted in increased travel from North America to Europe and Russia. Overall, both corporate sales and the materialisation rate of group travel were clearly stronger in 2017 than in the previous year.

Finnair's operations were affected by labour actions by third parties at Helsinki Airport in March and a ban on overtime by the Finnish Aviation Union in December. Finnair's operations also suffered from very difficult winter and wind conditions in December.

Boosted by Finnair's capacity growth and strong passenger demand, the Siberian Joint Business focused on flights between Europe and Japan increased its market share in 2017. High demand from North America to Europe benefited the Atlantic Joint Business which, like in the previous years, nevertheless suffered from the overcapacity and tight competition in transatlantic traffic.

The demand for package tours remained strong in 2017. The supply of package tours by tour operators active in Finland exceeded demand early in the year, particularly for long haul destinations. However, the balance between demand and supply was restored towards the summer as the overall supply for the summer season was reduced by a decrease in tours to Turkey. Due to poor weather and the improved economic situation in Finland, package tour demand and load factors were very high in the third quarter. The supply of package tours will increase by approximately 5 per cent from the previous year in the 2017/2018 winter season. In 2017, tour operators aimed at shifting from a quota-based operating model towards a more dynamic production model.

The air cargo market continued its strong growth during the year and globally all regions made a positive contribution to the annual growth. Market capacity growth levelled out and, as a result, together with favorable demand, cargo load factors and yields developed positively in 2017.

The US dollar, the most significant expense currency for Finnair after the euro, depreciated by 2.0 per cent against the euro. With regard to key income currencies, the Japanese yen was 5.1 per cent weaker against the euro than in 2016. The Chinese yuan depreciated by 8.7 per cent against the euro. The market price of jet fuel was 24.1 per cent higher in 2017 than in 2016. Finnair hedges its fuel purchases and key foreign currency items; hence market fluctuations are not reflected directly in its result.

Strategy implementation and significant events in 2017

Finnair continued during 2017 to implement its strategy in the four focus areas which were confirmed in the spring of 2016, namely growth, customer experience, people experience and transformation. In conjunction with its annual strategy review, Finnair's Board of Directors specified the company's strategic targets in June 2017 as follows: Finnair aims to double its 2010 level of Asian traffic in 2018, two years earlier than the previous target of 2020. Additionally, Finnair will continue to focus on the customer experience and aims to nearly double its 2016 ancillary revenues by 2020. As a new goal, Finnair aims to increase the number of passengers it carries annually to 20 million by 2030, with a focus on Asian traffic.

During the year, Finnair made several monthly records of numbers of passengers, passenger load factor and capacity growth. In its entirety, this year saw the achievement of a new record for the number of passengers as it increased by over one million passengers – all in all Finnair carried 11.9 million passengers in 2017.

The investments, recruitments and trainings necessitated by the strategy implementation continued during the year. At the same time, corporate responsibility perspectives were embedded even deeper in the group strategy and the Finnair brand, as outlined in Finnair's sustainable development strategy, that was revised in 2016. Finnair's capital expenditure was mainly directed to fleet renewal, adding additional seating capacity in most of its Airbus narrow-body fleet, the WiFi instalments on its A330 fleet, the development of digital tools and services to customers and personnel, the new COOL Nordic Cargo Terminal, and the development of Finnair's people experience.

The customer experience development was focused on four factors: excellent personal customer service, best long haul business class journey, competitive ancillary offering and reliability of operations. Finnair's NPS was 47 in 2017.[2]

In transformation, the goal of 2017 was to create a foundation for a mobile and digital Finnair organization. The focus was on improving the user experience in Finnair's services, on modernizing technical infrastructure and on improving cyber security.

Recruitments focused heavily on flight crew and building a new digital team for Finnair. Finnair personnel also increased by some 500 employees in connection with the migration of the catering services back to Finnair under the Finnair Kitchen name in April. In people experience, the development was focused on resourcing, leadership, learning, ways of working and well-being at work.

To support growth, in the autumn of 2016, a 20-million euro program to improve cost-effectiveness was started and that program was finalised successfully in the first half of 2017. After the conclusion of that program, Finnair will improve efficiency through continuous development.

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

[2] NPS = Net Promoter Score

Other events

In April, Finnair announced the signing of an agreement with LSG Sky Chefs based on which the catering company operating at Helsinki Airport, LSG Sky Chefs Finland Oy, returned to Finnair's control. The arrangement became effective as of 21 April, when the preparation and development of inflight meals became part of Finnair's operations once again. The current Finnair Kitchen Oy is a part of Finnair's Customer Experience unit and employs approximately 500 people. The change did not have significant effect on Finnair's financial position or results.

Finnair announced in October that it will acquire 60 per cent of Nordic Regional Airlines AB (Norra) from Staffpoint Holding Oy and Kilco Oy. Finnair owned 40 per cent of the company prior the transaction, that was closed in November. Norra transferred to the full ownership of Finnair on an interim basis, and Finnair aims to find a new, industrial partner to develop Norra's business further with Finnair. The transaction had no impact on Norra's operations or personnel. It also did not have a significant effect on Finnair's financial position or results.

Financial performance in 2017

Revenue

Finnair revenue grew by 10.9 per cent to 2,568.4 million euros (2,316.8). All continuing business categories grew in 2017. Unit revenue (RASK) increased by 1.8 per cent and amounted to 6.96 euro cents (6.83).

Passenger traffic capacity measured in Available Seat Kilometres (ASK) grew by 8.9 per cent overall during 2017 – the growth rate was 0.1 per cent in Q1, 6.8 per cent in Q2, 11.1 per cent in Q3 and 17.2 per cent in Q4. Traffic measured in Revenue Passenger Kilometres (RPK) grew by 13.6 per cent; the passenger load factor (PLF) improved clearly in all traffic areas except Domestic, which saw a decline. The number of passengers carried increased by 9.6 per cent to 11.9 million.

Revenue by product

EUR million	2017	2016	Change, %
Passenger revenue	2,020.8	1,816.1	11.3
Ancillary and retail revenue	144.6	125.5	15.2
Cargo	197.4	173.8	13.5
Travel services	205.6	187.5	9.7
Travel agencies		13.8	n/a
Total	**2,568.4**	**2,316.8**	**10.9**

Passenger revenue and traffic data by area, 1–12/2017

	Ticket revenue		ASK		RPK		PLF	
Traffic area	EUR mill.	Change, %	Mill. km	Change, %	Mill. km	Change, %	%	Change, %-point
Asia	881.7	19.2	18,355.0	11.7	15,911.3	18.3	86.7	4.9
North Atlantic	118.8	2.7	2,776.1	3.1	2,311.5	8.0	83.3	3.8
Europe	839.0	10.2	14,152.0	6.8	11,421.6	9.7	80.7	2.1
Finland	174.1	5.5	1,638.9	6.5	1,105.2	3.9	67.4	-1.7
Unallocated	7.2	-79.3						
Total	**2,020.8**	**11.3**	**36,922.0**	**8.9**	**30,749.7**	**13.6**	**83.3**	**3.5**

In Asian traffic, ASKs grew 11.7 per cent in 2017. This reflected the introduction of A350 aircraft in Asian traffic and additional frequencies especially on the Tokyo and Hong Kong routes during the summer and especially on the routes to Bangkok, Hong Kong and Singapore during the winter. In 2017, RPKs increased by 18.3 per cent, and the PLF in Asian traffic rose by 4.9 percentage points to 86.7 per cent.

The capacity in North Atlantic traffic increased by 3.1 per cent. RPKs in North Atlantic traffic increased by 8.0 per cent and the PLF rose by 3.8 percentage points to 83.3 per cent.

In European traffic, ASKs increased by 6.8 and RPKs increased by 9.7 per cent as the PLF rose by 2.1 percentage points to 80.7 per cent. Capacity grew thanks to the addition of new A321 aircraft, the introduction of new destinations, and added frequencies particularly on the Northern European routes.

Domestic capacity increased by 6.5 per cent and traffic by 3.9 per cent. Traffic growth was heavily concentrated on the beginning and end of the year (winter seasons), when capacity was added to Lapland to meet the growing tourist demand for Northern Finland. In the summer, the largest domestic destination, Oulu, was closed throughout July due to runway renovations, and traffic restrictions at the airport continued in August, which was reflected in the PLF. During 2017, the PLF declined by 1.7 percentage points to 67.4.

Customers spent more money on ancillary services in 2017. Ancillary and retail revenue increased by 15.2 per cent and amounted to 144.6 million euros (125.5), or 12.1 euros per passenger (11.5 euros). There was growth particularly in advance seat reservations, travel class upgrades and retail sales.

Available cargo tonne kilometres increased by 6.5 per cent, and revenue cargo tonne kilometres increased by 11.0 per cent. The volume of cargo carried increased by 8.6 per cent to 157,028 tonnes (144,596). Average cargo yields increased by 2.3 per cent. Cargo revenue increased by 13.5 per cent to 197.4 million euros (173.8).

Revenue from the tour operating business (Aurinkomatkat Suntours and Finnair Holidays) increased by 9.7 per cent to 205.6 million euro (187.5). The number of Aurinkomatkat Suntours travellers increased by 5.8 per cent to 214,411 customers and Aurinkomatkat became the largest tour operator in Finland measured by the number of customers. The load factor in Suntours' fixed seat allotment was 96.6 per cent. Finnair Holidays, a new leisure travel concept targeted towards the growing, non-traditional, leisure travel segment, was launched in Finland (end of Q2/2017) and Sweden (Q4/2017). The decrease in travel agencies' revenue is attributable to the divestment of SMT, which was completed in November 2016.

Cost development and result

Finnair's operating expenses in 2017 increased by 5.9 per cent to 2,475.0 million euros (2,337.1). Unit cost (CASK) decreased by 2.6 per cent and totalled 6.49 euro cents (6.67). CASK ex fuel at constant currency increased by 0.3 per cent.

Operating expenses excluding fuel increased by 8.5 per cent to 2,002.9 million euros (1,845.6). Fuel costs, including hedging results and emissions trading costs, decreased by 3.9 per cent to 472.2 million euros (491.5). Fuel efficiency as measured by fuel consumption per ASK improved by 3.2 per cent primarily reflecting the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for improvements in the passenger and cargo load factors, improved even more, by 6.7 per cent, as a result of the A350s and improved load factors.

Staff costs increased to 423.3 million euros (362.5). The growth is explained by an increase in the number of personnel, the acquisition of Finnair Kitchen, extensive training of flight crew and provisions made for incentive schemes and a 6.7 million, profit-based contribution to the personnel fund. Personnel costs also include a 13-million euro extra reward to personnel. Fleet growth and renewal increased depreciations, aircraft lease payments and maintenance costs. Other expenses increased to 285.1 million euros (266.6). Due to the implementation of IFRS 9, which was effective 1 January 2017, the impacts of currency hedging are now allocated, to the relevant expense rows (fuel costs, lease payments for aircraft, maintenance and traffic charges).

The 20-million euro cost-efficiency program announced in the autumn of 2016 was successfully completed in full and on schedule during 2017. After the conclusion of that program, Finnair will improve efficiency through continuous development, without separate programs.

Finnair's comparable EBITDAR increased to 436.2 million euros (270.4). The comparable operating result, or operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, improved to its all-time high at 170.4 million euros (55.2).

The change in the fair value of derivatives and in the value of foreign-currency-denominated fleet maintenance reserves amounted to 11.1 million euros (32.0). The items affecting comparability amounted to 43.3 million euros (29.0) including a gain on the sale of an A350 aircraft and one-time expenses related to an A340 aircraft sold to Airbus. The operating result was 224.8 million euros (116.2), the result before taxes was 211.1 million euros (105.8) and the result after taxes was 169.4 million euros (85.1).

Balance sheet on 31 December 2017

The Group's balance sheet totalled 2,887.1 million euros at year-end (2,528.7). Non-current assets increased by 257,1 million euros primarily due to aircraft investments. Assets held for sale decreased by 122.6 million euros, as four A340 aircraft were sold to Airbus in accordance with a previous agreement. The remaining payment from this transaction, approximately 100 million euros, will be received in 2018 and is shown as an increase in trade and other receivables totaling 319.8 million euros. Shareholders' equity was 1,015.7 million euros (857.0), or 7.95 euros per share (6.73).

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 2017 was 63.0 million euros (33.9) after deferred taxes. In 2017, it was reduced by changes in the fair value of the hedging instruments mentioned above, but this impact was offset by a change in accounting principles and actuarial gains.

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In 2017, net cash flow from operating activities amounted to 382.3 million euros (219.7). The increase in cash flow was primarily attributable to the growth of the comparable operating result. Net cash flow from investments amounted to -157.5 million euros (-499.6) and was particularly attributable to aircraft investments and divestments as well as the maturity of money market investments with maturities exceeding three months used as part of the Group's liquidity management.

The equity ratio on 31 December 2017 stood at 35.2 per cent (33.9) and gearing was negative at -24.2 per cent (-11.2). Adjusted gearing was 69.9 per cent (78.3). At year-end, adjusted interest-bearing debt amounted to 737.1 million euros (701.5) and interest-bearing net debt was negative at -246.0 million euros (-95.8).

The company's liquidity was strong during the year. The Group's cash funds at period-end amounted to 983.2 million euros (797.3). Finnair has an entirely unused 175-million-euro unsecured syndicated credit facility, intended for use as reserve funding. The arrangement has a maturity of three years from June 2016 with an optional two-year extension. In March, Finnair issued a 200-million-euro senior unsecured bond and redeemed 85 million euros of its existing senior unsecured bond.

Finnair has a 200-million-euro short-term commercial paper program, which was unused at the end of the review period. Net cash flow from financing in 2017 amounted to 40.8 million euros (200.5). Financial income was -0.3 million euros (1.0) due to negative interest rates, while financial expenses were -13.4 million euros (-11.5).

Capital expenditure

During 2017, capital expenditure excluding advance payments totalled 519.0 million euros (518.9) and was primarily related to fleet investments.

Cash flow from investments totalled -397.4 million euros, including advance payments. Divestments of fixed assets amounted to 156.9 million euros, and related mainly to the sale and leaseback agreement for the A350 aircraft delivered in April 2017. Net change in financial assets maturing after more than three months totalled 82.9 million. Net Cash flow from investments amounted to -157.5 million euros.

During 2017–2018, Finnair is adding additional seating capacity to the majority of its fleet of Airbus narrow-body aircraft by modifying galley areas in the front and rear of the aircraft. Finnair will also introduce WiFi connectivity to the majority of its current narrow-body fleet during 2017–2018. All of Finnair's wide-body aircraft already has WiFi connectivity.

In addition to fleet investments, Finnair has constructed a modern cargo terminal, which was phased into use in Q4 2017 and which will carry out all cargo activities from January 2018 onward. It is the most modern cargo terminal in Europe at the time of its commissioning.

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 36 unencumbered aircraft, which account for approximately 65 per cent of the balance sheet value of the entire fleet of 1,155 million euros[3].

Fleet

Fleet operated by Finnair

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair. At the end of 2017, Finnair itself operated 55 aircraft, of which 19 were wide-body and 36 narrow-body aircraft. Of the aircraft, 25 were owned by Finnair Aircraft Finance Oy, 23 were on operating leases and seven on finance leases.

At year-end, the average age of the fleet operated by Finnair was 8.9 years.

[3] €42.6 million of the balance sheet value of the fleet relates to long-term lease contracts, which are reported on the balance sheet.

Fleet operated by Finnair on 31 December 2017*

	Seats	#	Change from 31.12.2016	Own**	Leased (Operating lease)	Leased (Finance lease)	Average age 31.12.2017	Ordered
Narrow-body fleet								
Airbus A319	138	8	-1	7	1		16.6	
Airbus A320	165/174	10		7	1	2	15.4	
Airbus A321	209/196	18	7	4	12	2	6.9	
Wide-body fleet								
Airbus A330	289/263	8			5	3	8.2	
Airbus A340	263/257	0	-4					
Airbus A350	297/336	11	4	7	4		1.3	8
Total		**55**	**6**	**25**	**23**	**7**	**8.9**	**8**

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

Fleet renewal

By the end of September 2017, Finnair had taken delivery of all four Airbus A350 XWB aircraft scheduled for delivery in 2017 and thus completed the first phase of its long-haul fleet renewal. Of the original 11 aircraft orders, three were delivered in 2015 and four in 2016. Following the successful delivery of the A350s, Finnair's Airbus A340 aircraft left the fleet and were sold back to Airbus as agreed in the trade agreement signed in 2014.

According to the current delivery schedule, Finnair will receive eight A350 aircraft during 2018–2022. Finnair's investment commitments for property, plant and equipment, totalling 1.013 million euros[4] , include the upcoming investments in the wide-body fleet.

Finnair added seven new Airbus A321 narrow-body aircraft to its fleet in 2017, all on operating lease agreements. In 2017, one Airbus A319 aircraft left the fleet when its lease contract expired.

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

Fleet operated by Norra (purchased traffic)

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

[4] The seats and inflight entertainment systems for aircraft numbers 15-19 are under estimation and thus not reported as committed investments.

Fleet operated by Norra on 31 December 2017*

	Seats	#	Change from 31.12.2016	Aircraft owned by Finnair	Leased** (Operating lease)	Average age 31.12.2017	Ordered
ATR 72	68-72	12		6	6	8.4	
Embraer 190	100	12		9	3	9.5	
Total		**24**	**0**	**15**	**9**	**9.0**	

* Nordic Regional Airlines Oy's Air Operator Certificate (AOC).
** Aircraft owned by Finnair Aircraft Finance include one JOLCO-financed E190 aircraft.

Air traffic services and products

Route network and alliances

The number of Finnair flights to Asia increased in 2017. The maximum weekly number of flights to Asia will be 89 in the winter season 2017/2018 (78 in the winter season 2016/2017) and it totalled 87 in the summer season 2017 (97 in the summer season 2018, 80 in summer season 2016). In Finnair's route network, new summer destinations in 2017 were San Francisco, Alicante, Ibiza, Korfu, Menorca and Reykjavik. Finnair also added capacity to Tokyo, Hong Kong, Copenhagen, Berlin and St. Petersburg. For winter 2017/2018, Finnair announced several new leisure-focused destinations, including Havana, Puerto Vallarta, Puerto Plata and Goa.

As an answer to growing demand for international travel to Finland and especially Lapland, Finnair increased capacity for winter season 2017/2018 from Helsinki to Finnish Lapland by more than 20 per cent. It also started direct flights to Finnish Lapland from London, Paris and Zurich in Q4 2017.

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

Other renewals and services

In 2017, Finnair placed particular development focus on services related to booking and buying flight tickets and paying for tickets and ancillary services.

In January, Finnair was the first airline in the world to pilot Alipay on board as a payment method, which is widely used by Chinese customers. The Alipay system was rolled out on all China routes during 2017. In June, the sales system used on all Finnair flights was also replaced by a new user-friendly SkyPay system, which speeds up inflight purchasing and enables the use of contactless payment by customers.

In October, Finnair started a collaboration with JD.com, also known as Jingdong, one of the leading e-commerce companies in China. Finnair will be the first non-Chinese airline to open a flagship store for online flight bookings on the JD Travel platform, in the beginning of 2018. Finnair also was the first European airline to launch flight ticket sales directly via its official WeChat account in China. Finnair customers can search for Finnair flight tickets, book their flights and complete their purchase with WeChat Pay, all directly through Finnair's official WeChat account.

In December, Finnair enabled customers to pay via Apple Pay. Finnair customers can use Apple Pay for ticket and ancillary purchases on Finnair's mobile website and using the Finnair mobile application. Apple Pay is available for Finnair customers using iOS mobile devices globally in those markets where Apple has implemented the payment method.

Customers have been able to book Finnair flights and ancillary services through the Skyscanner website since March 2017. Finnair has also streamlined and smoothened the distribution and sales of its flights and flight related services both in its own and in partners' distribution channels in partnership with Amadeus, the IT service provider specialised in solutions for the global travel industry. In June, Finnair introduced a completely new mobile flight booking experience for its customers.

The WiFi installation for Finnair's A330 fleet was completed in Q2 ensuring that the entire Finnair wide-body fleet now has WiFi connectivity. New A350 aircraft are delivered WiFi-capable. Installations on the Airbus narrow-body fleet began in 2017 and will continue in 2018.

The investments made in digital tools and channels were reflected in the number of passengers using these services and the sales created through these channels. During 2017, Finnair had on average 1.8 million visitors/month on its internet site (finnair.com), which is 17 per cent more than the prior year. In June, Finnair.com had a record number of visitors/month, 2.5 million. At year-end, the number of active Finnair mobile app users totalled 210,000, representing an 87 per cent increase year-on-year. Also during 2017, sales through digital channels increased by 18 per cent and represented 24 per cent of total ticket sales. Of ancillary sales, 30 per cent was created through digital channels.

Finnair also made other improvements to its products and services during 2017. The expansion of Finnair's hub, Helsinki Airport, is proceeding and the new south wing of Terminal 2 has been inaugurated. In addition, the Finnair lounge in the Schengen area was refurbished and Fazer was introduced as the new service provider in mid-summer. In the fourth quarter, Finnair announced several product renewals, which include new inflight meal concepts as well as a new business class service concept and a new family concept with Moomins, both to be launched during 2018. The inflight meal offering has been developed in-house since April 2017, when catering services, now Finnair Kitchen, returned under Finnair's control.

In the travel services business, Finnair launched a new product called Finnair Holidays, in June. Finnair Holidays combines the best of independent travelling and package holidays. Customers can tailor their holiday by choosing suitable Finnair and **one**world flights, a hotel and experiences selected by travel professionals. Finnair Holidays can be designed and purchased on Finnair's website (https://holidays.finnair.com).

Awards

Finnair performed well in several quality and customer satisfaction surveys conducted within the industry or among passengers during 2017.

In March, Finnair was named the best European airline operating in China at the TTG China Travel Awards for the second consecutive year. The award was based on votes cast by the readers of TTG's publications. In June, the Skytrax World Airline Awards chose Finnair as the best airline in Northern Europe for the eighth consecutive year. The award was based on an independent Skytrax survey conducted between August 2016 and May 2017 in 105 countries. Also in June, Finnair was awarded with the Future Travel Experience Ancillary Gold Award for its ancillary offering and makings its ancillary offering available for customers across its digital channels. Finnair ancillary services can be bought through its booking engine at Finnair.com, through the Finnair mobile app, as well as through the Nordic Sky Wi-Fi portal available on Finnair's long haul flights. In November, Finnair's mobile app won the German Design Award for Excellent Communications Design. The jury stated that the app provides Finnair passengers with invaluable support and information.

In September, Finnair was awarded a Four Star Global Airline rating by the Airline Passenger Experience Association (APEX). The APEX 2018 assessment covered 470 airlines worldwide, and its rating was also based on verified feedback given by customers.

In January 2018, OAG's Punctuality League publication ranked Finnair's arrival punctuality in 2017 as the fifteenth-highest among mainline airlines in the world. In January, FlightStats recognised the **one**world alliance as the most punctual airline alliance in 2017.

Finnair was also recognised for its sustainability efforts. In March, Aurinkomatkat-Suntours was again named Finland's most sustainable travel service company in the Sustainable Brands Index, which is the largest brand study focused on sustainability and corporate responsibility in the Nordics. The study is made annually by interviewing consumers in four Nordic countries and the Netherlands. The survey is based on the 10 principles of the UN Global Compact initiative. In September, Finnair was named "responsible company of the year" by the Association of Finnish Travel Agents in acknowledgement of Finnair's longstanding and comprehensive work in sustainable development.

Also, in spring the German ESG rating company oekom research AG confirmed its analysis of Finnair's responsibility, and the ESG rating was affirmed as C+, the highest rating in the category, comprising 69 companies in the transport and logistics sector. Finnair kept its Prime status indicating the suitability of Finnair's securities for responsible investors. In CDP reporting (Carbon Disclosure Project), that is closely followed by investors, Finnair scored B, which is a Management level score. The average score for the aviation industry is C. Companies at Management level (B) are taking further steps to effectively reduce emissions and thus indicating more advanced environmental stewardship. This achievement signals that Finnair is measuring and managing its environmental impact and has developed a policy and strategic framework within which to take action and reduce negative climate change impacts.

Changes in senior management

There were no changes in senior management during 2017.

Personnel

Finnair employed an average of 5,526 (4,908)[5] people during 2017, which is 12.6 per cent more than during the comparison period. The number of personnel in continuing operations grew by 5.2 per cent.

The number of employees on 31 December 2017 was 5,918 (4,838). During 2017, the number of personnel increased by 1,080. The change was due to the migration of LSG Finland personnel (approximately 500) to Finnair Kitchen Ltd, and growth in the number of cabin crew and pilots, in particular. In 2017, over 600 cabin crew members and pilots were recruited.

Terms of employment agreed between Finnair as represented by Service Sector Employers PALTA and office personnel, customer service personnel and technical personnel, represented by the trade union FINTO, the trade union PRO and the Finnish Aviation Union IAU respectively, on terms of employment in line with the national competitiveness pact, took effect in spring 2017. The collective labour agreement with IAU repre-

[5] 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.

senting ground customer service, ground handling, cargo, technical services and Finnair Kitchen employees was renewed in the end of 2017 and it is effective until mid-January 2020. Negotiation results for the extension of collective labour agreements of white collar workers and technical white-collar workers until the end of January 2020 were reached with PRO. These require still the approval of respective unions. It is possible to extend all aforementioned agreements by one year by separately agreeing on the salaries on the third agreement year. Collective bargaining for upper white-collar workers is under way with FINTO; the current collective agreement expires at the end of February 2018. Collective labour agreement with the pilots' union SLL was renewed in February 2017 and it is effective until the end of March 2020. Collective labour agreement with the cabin crew union SLSY was renewed in autumn 2016 and it is effective until the end of January 2019. The collective agreement between PALTA and Transport Workers' Union AKT concerning travel agencies and applicable to Aurinkomatkat – Suntours is in force until the end of January 2020 and it is possible to extend its validity between the unions.

The company invested in people development more than ever. Finnair sees that excellent customer experience is generated by competent, committed and healthy personnel. Thus, the employee experience development is focused on the resourcing, leadership, learning, ways of working and well-being at work.

In 2017, the employee experience index increased compared to the previous year. Finnair spent 10 million euros on personnel development and employees spent 370,000 hours in learning altogether. Investments in well-being were seen in lower sickness absences and lower injury rates measured by LTIF (Lost Time Injury Frequency).

Employee experience in Finnair is about working together. The SkyPay application and line management application was developed and implemented together with employees with the help of change agents. In addition, 750 employees were able to influence the development of their own work space and ways of working.

Shares and shareholders

Shares and share capital

On 31 December 2017, the number of Finnair shares entered in the Trade Register was 128,136,115 and the registered share capital was 75,442,904.30 euros. The company's shares are quoted on Nasdaq Helsinki. Each share has one vote at the General Meeting.

Government ownership

At the end of 2017, the Finnish Government owned 55.8 per cent of Finnair's shares and votes. According to the decision made by the Finnish Parliament on 20 June 1994, the Government must own more than half of Finnair Plc's shares. Decreasing the ownership below this level would require revision of the Parliament's decision.

Share ownership by management

On 31 December 2017, members of the company's Board of Directors did not own any Finnair shares, while the CEO owned 122,562 shares. Members of the Executive Board, including the CEO, owned a total of 340,654 shares, representing 0.27 per cent of all shares and votes.

Own shares

In 2017, Finnair did not exercise the authorisation granted by the AGM to acquire its own shares.

During the year Finnair transferred, using the authorisation granted by the AGM, a total of 355,597 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 2014–2016.

On 31 December 2017, Finnair held a total of 433,367 of its own shares (788,964), representing 0.34 per cent of the total share capital.

Acquisition and delivery of own shares and returns of shares

Period	Number of shares	Acquisition value, EUR	Average price, EUR
01/01/2013	410,187	3,179,335.94	7.75
2013	600,000	1,684,650.10	2.81
2013	-731,019	-4,055,744.86	5.55
2014	33,864	85,801.22	2.53
2014	-940	-2,334.40	2.48
2015	14,893	37,734.40	2.53
2015	-1,780	-6,764.00	3.80
2016	800,000	4,327,860.54	5.41
2016	-336,241	-975,326.55	2.90
2017	-355,597	-1,962,443.86	5.52
31/12/2017	**433,367**	**2,312,768.53**	**5.34**

Flagging notifications

No flagging notices were issued in 2017.

Shareholder agreements

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

Change of control provisions in material agreements

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

Share-based incentive schemes

Employee share savings plan FlyShare

In December, Finnair's Board of Directors decided to launch a new 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan, which was established in 2013 is to encourage 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 20 December 2017, in the Remuneration Statement 2017 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 2018–2020. 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 2021. The plan applies to some 70 people, and it is described in a stock exchange release issued on 20 December 2017, in the Remuneration Statement 2017 and on the company's website.

Finnair Plc largest shareholders as at 31 December 2017

		Number of shares	%	Changes 2017
1	State of Finland; Office Counsil Of State	71,515,426	55.8	0
2	KEVA	6,200,875	4.8	0
3	Kyöstilä Heikki	3,070,000	2.4	120,000
4	Tiiviste-Group Oy	2,200,000	1.7	0
5	State Pension Fund	2,100,000	1.6	0
6	Ilmarinen Mutual Pension Insurance Company	1,967,271	1.5	-734,119
7	Varma Mutual Pension Insurance Company	1,111,053	0.9	-2,242,949
8	Etra Invest Oy	1,000,000	0.8	0
9	Veritas Pension Insurance Company	731,048	0.6	-319,103
10	Laakkonen Mikko	640,000	0.5	140,000
	Nominee registered	24,391,027	19.0	13,364,168
	Others	13,209,415	10.3	
	Total	**128,136,115**	**100.0**	

Breakdown of shares at 31 December 2017

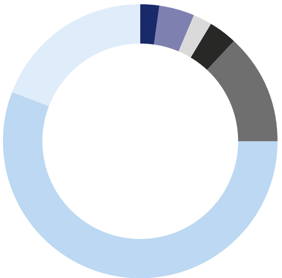
	Number of shares	%	Number of shareholders	%
1-200	721,111	0.6	9,373	57.7
201-1,000	2,459,641	1.9	4,844	29.8
1,001-10,000	5,026,656	3.9	1,879	11.6
10,001-100,000	2,841,101	2.2	111	0.7
100,001-1,000,000	4,515,098	3.5	15	0.1
1,000,001-10,000,000	16,649,199	13.0	6	0.0
10,000,001-	71,515,426	55.8	1	0.0
Registered in the name of nominee	24,391,027	19.0	10	0.1
Not converted into the book entry system	16,856	0.0	-	-
Total	**128,136,115**	**100.0**	**16,239**	**100.0**

Shareholders by type at 31 December 2017

	Number of shares	%	Number of shareholders	%
Public bodies	83,873,372	65.5	11	0.1
Households	13,406,075	10.5	15,762	97.1
Private companies	4,898,415	3.8	358	2.2
Financial institutions	893,528	0.7	16	0.1
Associations	463,759	0.4	33	0.2
Finnish shareholders, total	103,535,149	80.8	16,180	99.6
Registered in the name of a nominee	24,391,027	19.0	10	0.1
Outside Finland	193,083	0.2	49	0.3
Nominee registered and foreign shareholders, total	24,584,110	19.2	59	0.4
Not converted into the book entry system	16,856	0.0	-	-
Total	**128,136,115**	**100.0**	**16,239**	**100.0**

Shareholding by number of shares owned

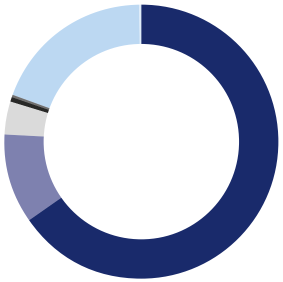
%



- 1-1 000 2.5%
- 1 001-10 000 3.9%
- 10 001-100 000 2.2%
- 100 001-1 000 000 3.5%
- 1 000 001-10 000 000 13.0%
- 10 000 001- 55.8%
- Registered in the name of a nominee 19.0%

Shareholding by type

%



- Public bodies 65.5%
- Households 10.5%
- Private companies 3.8%
- Financial institutions 0.7%
- Associations 0.4%
- Registered in the name of a nominee 19.0%
- Outside Finland 0.2%

Number of shares and share prices

EUR mill.		2017	2016	2015	2014	2013
Number of shares, end of the financial year	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Trading price highest	EUR	13.52	5.92	5.50	3.01	3.25
Trading price lowest	EUR	3.98	3.80	2.49	2.30	2.40
Market value of share capital Dec. 31	EUR mill.	1,643	516	695	318	355
No. of shares traded	pcs	44,333,288	28,099,932	25,456,779	10,750,318	26,024,070
No. of shares traded as % of average no. of shares	%	34.60%	21.93%	19.87%	8.39%	20.31

Share price development and trading

Finnair's market capitalisation increased by 218 per cent in 2017 to 1,642.7 million euros at year-end (516.4). The closing price of the share on 31 December 2017 was 12.82 euros (4.03). In 2017, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 13.52 euros, the lowest price 3.98 euros and the average price 8.79 euros. Some 44.3 million company shares, with a total value of 389.4 million euros, were traded.

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

The aim of Finnair's dividend policy is to pay, on average, at least one-third of the earnings per share as a dividend during 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 2017, earnings per share was 1.23 euros (0.55).

Finnair Plc's distributable equity amounted to 424,036,052.14 euros on 31 December 2017. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.30 euros per share be distributed for 2017.

Responsible Finnair - Reporting of Non-Financial Information

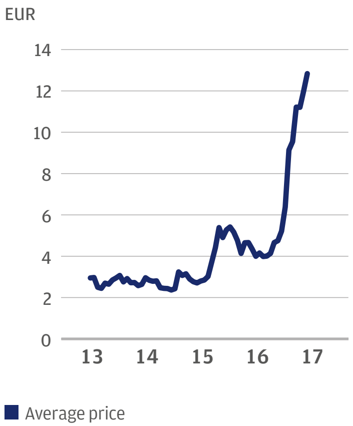
Finnair is a network airline specializing in passenger and cargo traffic between Asia and Europe. Finnair's vision is to offer its passengers a unique Nordic experience, and its mission is to offer the smoothest, fastest connections in the northern hemisphere via Helsinki and the best network to the world from its home markets.

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

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

Corporate responsibility is integral to all of Finnair's operations. Finnair's responsibility strategy is outlined in its Corporate Responsibility Policy and its aim is to reduce Finnair's environmental impacts and generate financial and social utility for society. The key areas of corporate responsibility and sustainability strategy fall under the following themes: cleaner, caring and collaborative, and its measures are geared to contribute to cost containment and risk mitigation, as well as value creation. Finnair's most significant environmental aspects are the combustion of fuel, energy usage in corporate facilities and aircraft noise. The most important social responsibility areas concern safety, personnel and customers as well as ethical business conduct and responsible sourcing.

Finnair share 2013–2017



Comparison European Airlines

Comparison Nasdaq Helsinki

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

Key non-financial performance indicators

	Performance 2017	Performance 2016
17% reduction in CO_2 emissions/RTK 2013-2020, cumulative compared to year 2013	-9,4%	-3.0%
Reduction of CO_2 emissions/ASK, change compared to previous year	-3.2%	-1.7%
Arrival punctuality at least 89.5%	83.2%	85.3%
Customer satisfaction/NPS* 60 by the year 2020	47	43
We Together @Finnair Personnel Experience overall grade of at least 3.75 (scale 1-5)	3.78	3.69
Absences due to illness decrease from the previous year, %	4.1%	4.6%
LTIF (Lost-time injury frequency) of less than 14.8**	15.6	16.6
Code of Conduct awareness grade in We Together @Finnair survey at least 4 (scale 1-5)***	4.22	n/a

* NPS = Net Promoter Score

** 2017 LTIF includes Finnair Kitchen, that was acquired in spring 2017. In 2016 figures Finnair Kitchen is excluded. 2017 LTIF without Finnair Kitchen was 13.8.

*** Code of Conduct awareness was first measured in 2017 and 2016 data is therefore not available.

Environmental matters

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

Finnair's environmental and energy efficiency policy lays out the targets for environmental management. Finnair's environmental responsibility is managed with the company's environmental management system, IATA Environmental Assessment (IEnvA) program, which complies with ISO 14001:2005. In this management system, Finnair has identified the most significant environmental factors and risks relevant to its operations. Finnair's IEnvA program observes two perspectives: emissions from flight operations and energy usage in corporate facilities. It is assessed by third-party auditors authorized by IATA who are qualified to perform audits of environmental management systems.

Finnair's most significant environmental action has been investing in a modern fleet that is more energy efficient and quieter than previous-generation aircraft. Finnair now has 11 new Airbus A350 aircraft, and in 2017 seven new Airbus A321 joined the fleet. To further improve its fuel efficiency, in 2017 Finnair adopted new software that provides flight and aircraft specific fuel consumption information. Finnair is committed to the aviation sector's common goals of carbon-neutral growth from 2020 onwards, and cutting emissions from the 2005 level in half by 2050. On top of that Finnair has set an its own target to cut 17% of carbon dioxide emissions by year 2020 from year 2013 level.

Aircraft noise has an impact on the areas surrounding airports and under takeoff and approach flight paths. Advances in aerodynamics and engine technology help mitigate aircraft noise. The noise level of the Finnair fleet has been significantly reduced thanks to the on-going fleet modernization and operational measures, such as CDA (Continuous Descent Approach) landings.

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

Social and employee matters

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

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

Employee Safety and well-being

During 2017, Finnair has continued the development of a holistic management system for strategic workability, occupational safety and general wellbeing of its employees. The management system is expected to be fully in use by the end of 2018. The We Together @Finnair Personnel Experience overall grade includes measures for the overall wellbeing of Finnair's personnel.

In occupational safety, Finnair's long-term target is zero accidents both in its own operations as well as its partners and contractors' operations. The Finnair Group level Lost Time Injury Frequency (LTIF) rate for 2017 was 15.6, with steady improvement compared to previous years. Without Finnair Kitchen LTIF in 2017 was 13.8.

To enhance Finnair's strategic workability management, we have built processes to support workability and offer the best possible means to rehabilitate employees back to their prior work, to find a new profession within Finnair or to provide training and a new career outside of Finnair. Finnair's focus is on prevention and, to support that focus, Finnair decided to take the Sports ePassi into use for all employees in Finland from the beginning of year 2018.

Finnair has zero tolerance for bullying and any kind of harassment. In 2017 operating methods and procedures agreed upon together with the personnel to control harassment and inappropriate treatment were highlighted and efforts were made to enhance communication about these issues.

Diversity, equality and non-discrimination

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

In 2017 Finnair signed the Finnish Government's Society's Commitment to Sustainable Development. Finnair committed to emphasize equality and diversity in its own activities, to promote equality and non-discrimination in customer processes and to promote diversity in different occupational groups. Finnair's Working Group for Equality reviewed and further defined the scope of the Equality Plan published in 2016 and more detailed questions related to non-discrimination and equality were added to the We Together @Finnair -survey in order to better detect possible issues.

Finnair also took measures to better accommodate different needs of passengers by changing its booking process and developing the Inflight Entertainment system to make services more accessible.

Customer experience

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

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

A strong safety culture, objective monitoring of the company's own operations, continuous improvement and implementing corrective measures, as well as open dialogue with the authorities, guarantee safe and high-quality airline operations. In 2017, new high-level objectives were set to improve even further Finnair's flight safety, operational risk management and safety culture. In 2017, Finnair conducted an extensive internal safety promotion campaign "Their safety. Our Priority."

Finnair collects customer satisfaction feedback continuously. Survey results and other customer feedback are reported to the unit concerned at least once per month. In 2017, Finnair's Net Promoter Score was 47. In 2017, customer feedback was utilized e.g., in defining the customer experience strategic targets and roadmaps for development.

Finnair's long-term goal for flight punctuality is 89 per cent. In 2017, Finnair's flight punctuality was 83.2 per cent. The OAG Punctuality League publication released in January 2018 ranked Finnair's arrival punctuality in 2017 as the 15th highest in the world among mainline airlines.

Human Rights and Responsible Sourcing

Finnair's own operations involve no significant direct human rights risks or impacts. However, indirect risks and implications may exist in relation to the supply chain and outsourced operations. In line with Finnair's endorsement of the Global Compact, Finnair aims to prevent any violations of human rights and the use of forced or child labor both within its own operations and its supply chain. Finnair has its own ethical guidelines for suppliers. All partners and subcontractors, moreover, are obliged to comply with the principles of the UN Universal Declaration of Human Rights as well as local legislation. Finnair's Supplier Code of Conduct was renewed during 2017, including its human rights aspects. Finnair's Responsible Sourcing Manual complements the Supplier Code of Conduct as internal instructions for implementation.

Finnair cooperates with several partners in order to improve assessment of risks and the realization of social responsibility and human rights in Finnair's operations and in the supply chain. Finnair has implemented the SEDEX supplier auditing tool, chosen together with the **one**world alliance, into its purchasing processes in order to improve risk management, the evaluation of social impacts and traceability in the supply chain. Finnair is actively involved with work of IOM (International Organisation for Migration) and IATA in order to combat and prevent human trafficking and advance human rights in the aviation sector. In 2017, Finnair launched a campaign to raise its flight crews' awareness of trafficking.

In 2017, Finnair continued the implementation of the SEDEX system by taking into use Maplecroft risk assessment instruments. Finnair also chose an external auditing partner for further, risk-based supplier audits from the responsible sourcing perspective. Finnair aims to bring its new suppliers to the SEDEX system already during the purchasing process and will continue to work with the **one**world alliance to expand the coverage of the SEDEX certification in the supply chain.

Anti-Corruption and Bribery

Anti-corruption policies are outlined in Finnair's Code of Conduct and Supplier Code of Conduct as well as in the Group Guidelines for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials. Finnair's Code of Conduct includes an anti-corruption section, and the receiving and giving of bribes is strictly prohibited.

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's Responsible Sourcing Manual complements the Code as internal instructions for implementation. Finnair's Supplier Code of Conduct was renewed during 2017, and Finnair aims to include the renewed Supplier Code of Conduct in all new supply and subcontracting agreements, as well as to existing contracts as these are renewed.

Finnair does not support any political parties or persons.

The identification and assessment of risks related to corruption are part of the general risk assessment of the company and its business units, and Finnair's business units conduct an analysis of risks related to corruption as part of the company's general risk survey.

Although, based on these assessments, Finnair's own operations and services are not viewed as high risk from the perspective of corruption, Finnair aims to include responsible business practices in all elements of its operations. Preventing corruption is the responsibility of everyone at Finnair, including the heads of business operations, compliance and the internal audit.

During 2017, 4,360 Finnair employees participated in online training on Finnair's Code of Conduct. In addition, members of Finnair leadership teams and Finnair managers were educated on Finnair's Code of Conduct in interactive workshops. In the 2017 personnel survey (We Together @Finnair), the score for knowing and following the Finnair's Code of Conduct was on a good level at 4.22/5.

During 2017, no incidents of corruption were notified through Finnair Ethics Helpline nor were there any investigations on-going in the company.

Significant near-term risks and uncertainties

Aviation is an industry that is sensitive to global economic cycles and reacts quickly to external disruptions, seasonal variation and economic trends. In the implementation of its strategy, Finnair is faced with various risks and opportunities. Finnair has a comprehensive risk management process to ensure that risks are identified and mitigated as much as possible, although many risks are not within the company's full control. To exploit value creation opportunities, Finnair is also prepared to take and manage risks within the limits of its risk-bearing capacity.

The risks and uncertainties described below are considered 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 fuel price and how these are passed on to customers via ticket prices, or affect capacity growth in Finnair's main markets, pose a risk to Finnair's revenue development, as do sudden adverse changes in foreign exchange rates and slowing growth in demand.

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

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

The aviation industry is affected by a number of regulatory projects at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory projects include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy protection and the decision made by the Court of Justice of the European Union in October 2012 regarding flight passengers' rights. Interpretation of these decisions involves risks, for example relating to the injunction sought by the Finnish Consumer Ombudsman in September regarding Finnair's compensation practices. In addition, regulations on the reporting of non-financial information (corporate responsibility) and other stakeholder requirements have increased substantially.

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

The construction work associated with the extension of Helsinki Airport, which will continue until 2020, may cause traffic disruptions. Finnair is engaged in close cooperation with Finavia to minimize the negative impacts of the expansion project on Finnair's operations. The expansion will facilitate the increase of the airport's annual passenger volume 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 24 million
Average yield of passenger traffic	EUR 23 million
Unit cost (CASK ex. fuel)	EUR 22 million

Fuel sensitivities (rolling 12 months from date of financial statements)

	10% change without hedging	10% change, taking hedging into account	Hedging ratio H1/2018	Hedging ratio H2/2018
Fuel	EUR 54 million	EUR 21 million	74%	53%

Currency distribution %

	2017	2016	Currency sensitivities USD and JPY (rolling 12 months from date of financial statements for operational cash flows)		Hedging ratio for operational cash flows (rolling 12 months from date of financial statements)
Sales currencies			10% change without hedging	10% change, taking hedging into account	
EUR	55	56	-	-	
USD*	4	4	see below	see below	see below
JPY	10	9	EUR 19 mill.	EUR 8 mill.	66%
CNY	7	7	-	-	
KRW	3	3	-	-	
SEK	4	5	-	-	
Other	17	16	-	-	
Purchase currencies					
EUR	57	54	-	-	
USD*	35	38	EUR 57 mill.	EUR 21 mill.	67%
Other	7	8			

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

Events after the review period

Finnair has decided to reschedule the delivery of one A350 aircraft from 2023 to 2019, which means that the remaining eight A350s will be delivered to Finnair between 2018–2022.

Outlook

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

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

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

Finnair Plc
Board of Directors

Key figures 2013–2017

REVENUE AND RESULT		2017	2016	2015	2014	2013
Revenue*	EUR mill.	2,568	2,317	2,255	2,284	2,400
change from previous year	%	10.9	2.8	-1.3	-4.8	-2.0
Comparable operating result	EUR mill.	170	55	24	-36	12
in relation to revenue	%	6.6	2.4	1.1	-1.6	0.5
Operating result	EUR mill.	225	116	122	-72	8
Comparable EBITDAR	EUR mill.	436	270	231	177	210
Net result	EUR mill.	169	85	90	-83	23

BALANCE SHEET AND CASH FLOW		2017	2016	2015	2014	2013
Gross capital expenditure	EUR mill.	519	519	330	82	77
in relation to revenue	%	20.2	22.4	14.6	3.6	3.2
Average capital employed	EUR mill.	1,654	1,324	1,008	1,106	1,295
Dividend for the financial year**	EUR mill.	38	13	0	0	0
Interest-bearing liabilities	EUR mill.	719	718	346	428	593
Liquid funds	EUR mill.	983	797	708	426	459
Interest-bearing net debt	EUR mill.	-246	-96	-362	1	134
Adjusted interest-bearing net debt	EUR mill.	710	671	333	553	537
Net cash flow from operating activities	EUR mill.	382	220	171	24	142

KEY FIGURES		2017	2016	2015	2014	2013
Basic and diluted earnings per share	EUR	1.23	0.55	0.57	-0.71	0.11
Equity/share	EUR	7.95	6.73	5.69	4.02	5.30
Dividend/share**	EUR	0.30	0.10	0.00	0.00	0.00
Dividend/earnings**	%	24.4	18.2	0.0	0.0	0.0
Dividend yield**	%	2.3	2.5	0.0	0.0	0.0
Cash flow from operating activities/share	EUR	3.00	1.73	1.34	0.19	1.12
P/E ratio		10.43	7.32	9.46	-3.47	25.02
Adjusted net debt / Comparable EBITDAR		1.6	2.5	1.4	3.1	2.6
Equity ratio	%	35.2	33.9	35.5	27.3	32.0
Net debt-to-equity (Gearing)	%	-24.2	-11.2	-49.8	0.3	19.9
Adjusted gearing	%	69.9	78.3	45.8	107.5	79.2
Return on equity (ROE)	%	18.1	10.7	14.4	-13.8	3.2
Return on capital employed (ROCE)	%	13.6	8.9	12.2	-6.5	3.6

PERSONNEL		2017	2016	2015	2014	2013
Average number of employees		5,526	4,908	4,906	5,172	5,859

NON-FINANCIAL PERFORMANCE INDICATORS	2017	2016	2015	2014	2013
17% reduction in CO² emissions/RTK 2013-2020, cumulative compared to year 2013, %	-9.4	-3.0	-0.8	-1.0	-
Reduction of CO² emissions/ASK, change compared to previous year, %	-3.2	-1.7	-0.6	+0.4	-
Arrival punctuality at least 89.5%	83.2	85.3	89.5	88.3	89.0
Customer satisfaction/NPS*** 60 by the year 2020	47	43	39	-	-
We Together @Finnair Personnel Experience overall grade of at least 3.75 (scale 1-5)***	3.78	3.69	3.65	-	-
Absences due to illness decrease from the previous year, %	4.1	4.6	4.8	4.6	4.6
LTIF (Lost-time injury frequency) of less than 14.8****	15.6	16.6	18	13	10
Code of Conduct awareness grade in We Together @ Finnair survey at least 4 (scale 1-5)*****	4.22	-	-	-	-

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

** The dividend for year 2017 is a proposal of the Board of Directors to the Annual General Meeting.

*** NPS = Net Promoter Score. NPS and Personnel Experience were first measured in 2015, another measurement before that.

**** 2017 LTIF includes Finnair Kitchen, that was acquired in spring 2017. Finnair Kitchen is excluded in 2013-2016 figures. 2017 LTIF without Finnair Kitchen was 13.8.

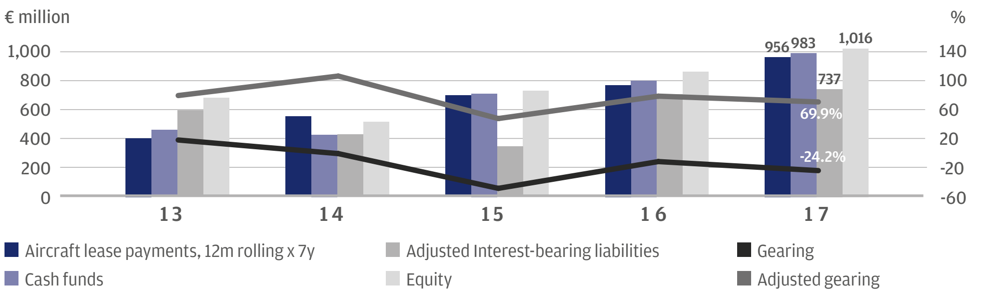
***** Comparison figures are not available. Code of Conduct awareness was first measured in 2017.

Finnair's long-term financial targets were met

Year 2017 was a success. Finnair's comparable operating result reached its long-term target level of 6% and EBITDAR its long-term target level of 17%. Financial position is strong and adjusted gearing remained at a low level 69.9%, clearly below the maximum 175% set by the Board of Directors. Return on capital employed 13.6% exceeded clearly the set target level of 7%.

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.30 euros per share be distributed on the profit for the period.

Gearing



= Highlights

FINANCIAL STATEMENTS 1 JANUARY–31 DECEMBER 2017

How to read Finnair Financial Statements?

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

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

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

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

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

Interesting figures have been highlighed with circle and explained in the highlights text box as described above.

Contents

Consolidated income statement

EUR mill.	Note	2017	2016
Revenue	1.1, 1.2	**2,568.4**	**2.316.8**
Other operating income		77.0	75.5
Operating expenses			
Staff costs	1.3.7	-423.3	-362.5
Fuel costs		-472.2	-491.5
Other rents	1.3.2	-157.9	-167.4
Aircraft materials and overhaul		-165.7	-147.3
Traffic charges		-266.5	-262.8
Ground handling and catering expenses		-252.2	-258.9
Expenses for tour operations		-100.5	-87.8
Sales and marketing expenses		-85.8	-76.9
Other expenses	1.3.3	-285.1	-266.6
Comparable EBITDAR		**436.2**	**270.4**
Lease payments for aircraft	1.3.2	-136.6	-109.5
Depreciation and impairment	2.1, 2.3	-129.2	-105.8
Comparable operating result		**170.4**	**55.2**
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	1.3.6	11.1	32.0
Items affecting comparability	1.3.6	43.3	29.0
Operating result		**224.8**	**116.2**
Financial income	3.1	-0.3	1.0
Financial expenses	3.1	-13.4	-11.5
Result before taxes		**211.1**	**105.8**
Income taxes	5.1	-41.7	-20.6
Result for the financial year		**169.4**	**85.1**
Attributable to			
Owners of the parent company		169.4	85.1
Earnings per share attributable to shareholders of the parent company. EUR (basic and diluted)		1.23	0.55

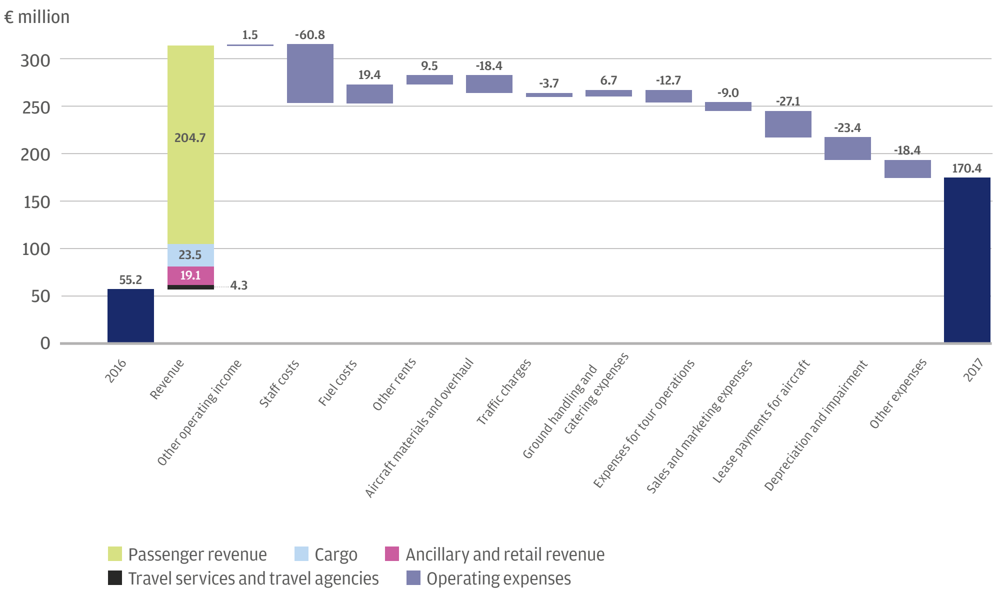
★ Excellent year with a record-high result 170.4 (55.2)

2017 was a year of profitable growth. Revenue grew by almost 11% to 2.6 billion euros, exceeding the 9% capacity growth. Unit costs declined thanks to fuel hedges and the weakening of the USD, and Finnair made a record-high comparable operating result, 170 million euros, for 2017.

Consolidated statement of comprehensive income

EUR mill.	Note	2017	2016
Result for the financial year		**169.4**	**85.1**
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		-18.5	145.2
Tax effect		3.7	-29.0
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.7.2	35.9	-18.1
Tax effect		-7.2	3.6
Other comprehensive income items total		**14.0**	**101.7**
Comprehensive income for the financial year		**183.4**	**186.9**
Attributable to			
Owners of the parent company		183.4	186.9

Change in comparable operating result 2017



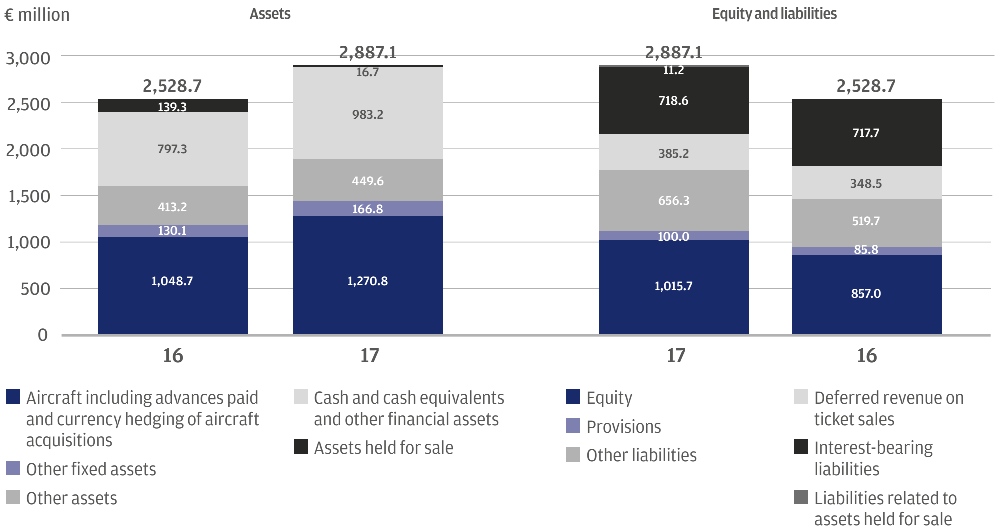
★ = Highlights

Consolidated balance sheet

EUR mill.		Note	31 Dec 2017	31 Dec 2016
ASSETS				
Intangible assets	O	2.3	15.5	12.4
Tangible assets	O	2.1	1,422.1	1,166.5
Investments in associates and joint ventures	O	4.4	2.5	2.5
Loan and other receivables	O		5.6	7.4
Non-current assets total			**1,445.7**	**1,188.7**
Inventories	O		17.2	14.9
Trade and other receivables	O	1.2.3	319.8	211.9
Derivative financial instruments	O/IA*	3.8	104.5	176.6
Other financial assets	IA	3.2.1	833.0	727.9
Cash and cash equivalents	IA	3.2.2	150.2	69.4
Current assets total			**1,424.6**	**1,200.7**
Assets held for sale	O	4.5	16.7	139.3
Assets total			**2,887.1**	**2,528.7**

Fleet renewal advances – four new A350s, three on own balance sheet

In 2017, Finnair completed the first phase of its long-haul fleet renewal, when the last four A350 XWB aircraft of the original 11 aircraft order were delivered. Three were purchased onto own balance sheet and one was sold and leased back. A350s replaced the Airbus A340 wide-body aircraft, that had lower seat capacity. A340s were sold back to Airbus as agreed in the trade agreement signed in 2014.



★ = Highlights

EUR mill.		Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES				
Share capital	E		75.4	75.4
Other equity	E		940.3	781.6
Equity total			**1,015.7**	**857.0**
Deferred tax liabilities	O	5.1	73.9	32.7
Interest-bearing liabilities	IL	3.3	586.2	617.3
Pension obligations	O	1.3.7.2	6.4	31.9
Provisions	O	1.3.5	79.0	63.6
Other liabilities	O	3.3	1.1	4.9
Non-current liabilities total			**746.7**	**750.4**
Provisions	O	1.3.5	21.1	22.2
Interest-bearing liabilities	IL	3.3	132.4	100.4
Trade payables	O		90.7	94.4
Derivative financial instruments	O/IL*	3.8	81.3	25.2
Deferred income and advances received	O	1.2.4	475.3	424.6
Liabilities related to employee benefits	O	1.3.7.1	139.2	93.4
Other liabilities	O	1.3.4	173.4	161.1
Current liabilities total			**1,113.4**	**921.3**
Liabilities related to assets held for sale	O	4.5	11.2	0.0
Liabilities total			**1,871.4**	**1,671.7**
Equity and liabilities total			**2,887.1**	**2,528.7**

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 2017	31 Dec 2016
Interest-bearing liabilities	718.6	717.7
Cross currency Interest rate swaps*	18.5	-16.1
Adjusted interest-bearing liabilities	**737.1**	**701.5**
Other financial assets	-833.0	-727.9
Cash and cash equivalents	-150.2	-69.4
Interest-bearing net debt	**-246.0**	**-95.8**
Lease payments for aircraft for the last twelve months (LTM) * 7	956.4	766.4
Adjusted interest-bearing net debt	**710.3**	**670.6**
Equity total	1,015.7	857.0
Adjusted gearing, %	**69.9 %**	**78.3%**

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

Consolidated cash flow statement

EUR mill.	2017	2016
Cash flow from operating activities		
Result for the financial year	169.4	85.1
Depreciation and impairment	129.2	102.9
Other adjustments to result for the financial year		
Financial income and expenses	13.6	10.5
Income taxes	41.7	20.6
EBITDA	**353.9**	**219.2**
Gains and losses on aircraft and other transactions	-44.1	-30.4
Non-cash transactions *	33.4	-19.6
Changes in working capital	56.8	55.5
Financial expenses paid, net	-17.1	-5.0
Income taxes paid	-0.7	0.0
Net cash flow from operating activities	**382.3**	**219.7**
Cash flow from investing activities		
Investments in intangible assets	-11.3	-10.3
Investments in tangible assets	-393.6	-475.7
Investments in group shares	7.5	0.0
Divestments of fixed assets and group shares	156.9	153.2
Net change in financial assets maturing after more than three months	82.9	-168.4
Change in non-current receivables	0.0	1.6
Net cash flow from investing activities	**-157.5**	**-499,6**
Cash flow from financing activities		
Proceeds from loans	199.3	377.4
Loan repayments and changes	-130.0	-115.1
Hybrid bond repayments	0.0	-38.3
Hybrid bond interests and expenses	-15.8	-19.1
Purchase of own shares	0.0	-4.3
Dividends paid	-12.8	0.0
Net cash flow from financing activities	**40.8**	**200.5**
Change in cash flows	**265.5**	**-79,3**
Liquid funds, at beginning	**378.4**	**457.7**
Change in cash flows	265.5	-79.3
Liquid funds, at end **	**643.9**	**378.4**

★ = Highlights

Notes to consolidated cash flow statement

*** Non-cash transactions**

EUR mill.	2017	2016
Employee benefits	14.5	15.1
Fair value changes in derivatives	-0.3	-34.0
Other adjustments	19.1	-0.6
Total	**33.4**	**-19.6**

Other adjustments mainly include changes in maintenance and other provisions.

**** Liquid funds**

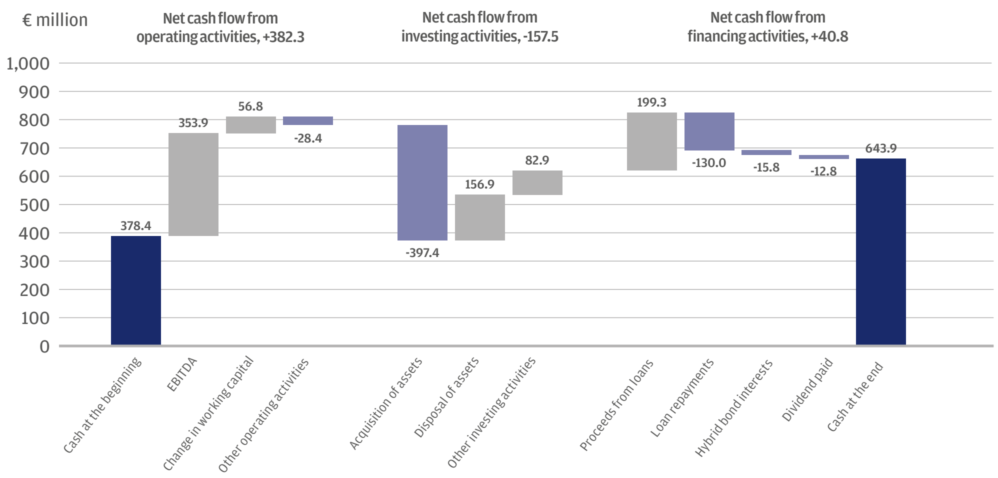
EUR mill.	2017	2016
Other financial assets	833.0	727.9
Cash and cash equivalents	150.2	69.4
Liquid funds in balance sheet	**983.2**	**797.3**
Maturing after more than three months	-339.2	-418.9
Total	**643.9**	**378.4**

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

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

Finnair's liquidity improved despite heavy investments and the cash funds at year-end amounted to 983.2 million euros (797.3). Strong cash position was boosted by strengthened operating cash flow driven by profit improvement, one sale-and-leaseback of A350 and issuance of a new 200-million euro senior unsecured bond. Finnair redeemed 85 million euros of its existing bond and purchased three new A350 aircraft to its own balance sheet.

Cash Flow change 2017, 265.5 € million



Consolidated statement of changes in equity

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

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 1 Jan 2016	**75.4**	**168.1**	**-67.9**	**248.1**	**67.6**	**236.2**	**727.5**
Result for the financial year					85.1		85.1
Change in fair value of hedging instruments			116.2				116.2
Actuarial gains and losses from defined benefit plans			-14.4				-14.4
Comprehensive income for the financial year	**0.0**	**0.0**	**101.7**	**0.0**	**85.1**	**0.0**	**186.9**
Hybrid bond repayments						-38.3	-38.3
Hybrid bond interests and expenses					-15.7	0.3	-15.3
Purchase of own shares					-4.3		-4.3
Share-based payments				0.6			0.6
Equity 31 Dec 2016	**75.4**	**168.1**	**33.9**	**248.6**	**132.8**	**198.2**	**857.0**

During 2016, Finnair repaid the old hybrid bond of 38.3 million euros issued in 2012.

Positive result strengthened equity. Equity ratio at 35.2% (33.9%).

Finnair's equity strengthened during the period from 857 million euro to 1,016 million euro primarily due to the profit for the period (169.4).

Retained earnings was adjusted due to implementation of IFRS 9 Financial instruments -standard. Under IFRS 9, Finnair can apply hedge accounting more widely. Due to the change, fair value changes of derivatives previously excluded from hedge accounting were reclassified from retained earnings to hedging reserve.

= Highlights

Notes to the consolidated financial statements

Accounting principles

How should the Finnair's accounting principles be read?

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

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

Description of the company

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 9, Vantaa. The parent company is listed on the NASDAQ OMX Helsinki Stock Exchange. The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 15 February 2018. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, change or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc's consolidated financial statements for 2017 have been prepared according to the International Financial Reporting Standards (IFRS) and IFRIC interpretations in effect on 31 December 2017 and as adopted by the European Union. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law. New and amended standards applied in 2017 and future periods are described in the Note 4.7 Application of new and amended IFRS standards and IFRIC interpretations.

The 2017 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euro. This means that the sum of the individual figures may differ from the total shown.

Presentation of Consolidated Income Statement and Balance Sheet

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

Consolidated income statement includes, in addition to operating result, comparable operating result and EBITDAR which are presented to better reflect the Group's business performance when comparing results to previous periods. 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. Comparable EBITDAR is a common measure in airline business which aims to reflect comparable operating result excluding capital cost, independent of whether aircraft are owned or leased. Therefore, comparable EBITDAR is calculated by excluding depreciations and operating lease payments for aircraft from comparable operating result.

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

Presentation of alternative performance measures

Finnair uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. Finnair's main alternative performance measures are comparable operating result and EBITDAR (defined above) and adjusted net debt and gearing. Comparable operating result is reconciled in the note 1.3.6 Items excluded from comparable operating result. 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.

Use of estimates

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

Critical accounting estimates and sources of uncertainty

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

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

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

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

1 Operating result

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

1.1 Segment information

A Segment reporting

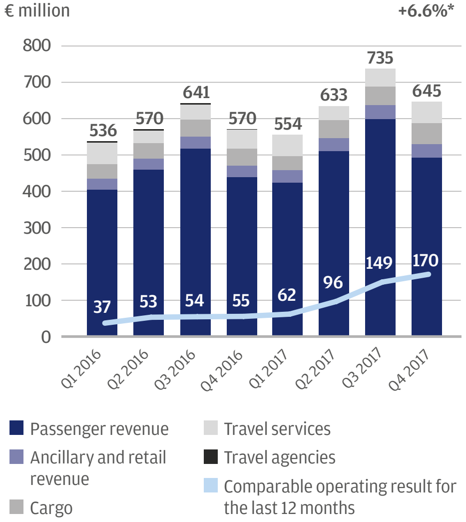
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Executive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

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

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

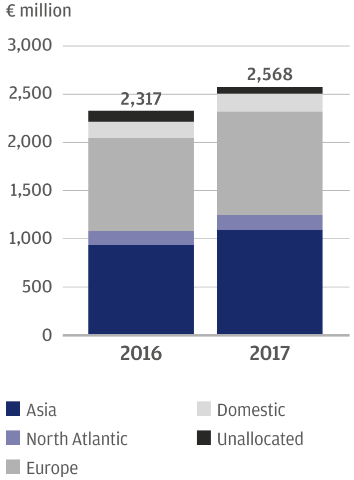
Finnair transported 11.9 million passengers in 2017. Due to the large number of customers and nature of business, sales to any individual customer is not material compared to Finnair's total revenue.

Revenue and comparable operating result (unaudited)



* Comparable operating result -%

Revenue by traffic area



1.2 Operating income

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

A Revenue recognition

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

Passenger revenue includes sale of flight tickets, and is recognised as revenue when the flight is flown in accordance with the flight traffic program. Unused tickets are recognised as revenue when the ticket expires and Finnair has no obligation to return the consideration to customer.

Passenger revenue is deducted with the costs resulting from Finnair Plus' Customer Loyalty Program. Finnair loyalty customers can earn Finnair Plus Points from tickets or services purchased, and use the earned points to buy services and products offered by Finnair or its cooperation partners. The points earned are fair valued according to IFRIC 13, and recognised as a decrease of revenue and debt at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the points and the customer selection between different awards based on historical customer behaviour. In addition, the fair valuation takes into account the expiring of the points. The debt is derecognised when the points are used to buy a service or a good (awards).

Ancillary revenue includes sale of ticket related services, like advance seat reservations, additional baggage fees as well as different service fees, and sale of goods in the aircraft. The service revenue is recognised when the service has been performed and the sale of goods when the goods are delivered to the customer.

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

Tour operations revenue includes sale of travel packages and is recognised as revenue at the date of the departure.

Trade receivables

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

! Finnair Plus Customer Loyalty Program

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

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

1.2.1 Revenue by product and traffic area

2017

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

The division of revenue by traffic area is based on the destination of the Finnair flight. At the end of 2016 Finnair sold a travel agency and a subsidiary, SMT Oy, after which Finnair does not have any travel agency operations.

2016

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

1.2.2 Revenue by currency

EUR mill.	2017	2016
EUR	1,404.8	1,308.0
JPY	245.5	202.0
CNY	181.9	158.5
USD	105.3	101.6
SEK	104.8	123.4
KRW	80.7	63.5
Other currencies	445.4	359.6
Total	**2,568.4**	**2,316.8**

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

1.2.3 Trade and other receivables

EUR mill.	2017	2016
Trade receivables	225.0	98.6
Prepaid expenses, accrued income and other receivables total	94.8	113.4
Accrued income	43.6	55.8
Employee benefit related receivables	7.5	5.0
Prepaid aircraft operating leases	5.8	6.6
VAT receivables	3.2	4.2
Interest and other financial items	1.0	5.7
Other items	33.7	36.1
Total	**319.8**	**211.9**

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

	2017			2016
Aging analysis of trade receivables	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.	EUR mill.
Not overdue	215.1	0.4 %	0.8	91.3
Overdue less than 60 days	5.5	1.4 %	0.1	5.6
Overdue more than 60 days	4.5	2.5 %	0.1	1.7
Total	**225.0**	**0.4 %**	**1.0**	**98.6**

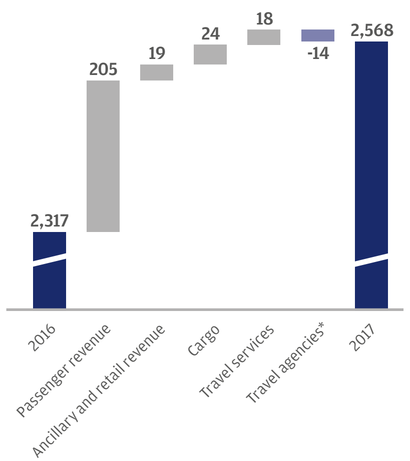
The Group has recognised total 1.2 million euros (1.3) of credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2017	2016
EUR	74.1	60.5
USD	107.7	5.5
JPY	6.2	5.1
CNY	5.3	4.3
SEK	4.2	3,3
KRW	2.8	2,0
Other currencies	24.6	17,8
Total	**225.0**	**98.6**

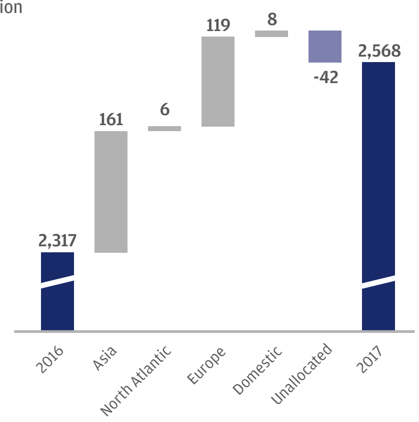
Revenue by product

€ million



Revenue by traffic area

€ million



* Revenue of travel agencies have decreased due to sale of subsidiaries. Finnair does not have any travel agency operations after these disposals.

1.2.4 Deferred income and advances received

EUR mill.	2017	2016
Deferred revenue on ticket sales	385.2	348.5
Loyalty program Finnair Plus	40.6	33.4
Advances received for tour operations	36.0	30.4
Other items	13.5	12.4
Total	**475.3**	**424.6**

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

1.3 Operating expenses

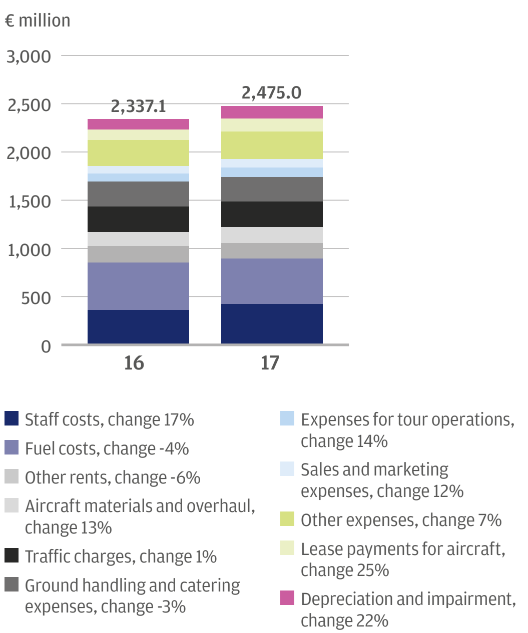
Operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this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

1.3.1 Operational expenses by currency

EUR mill.	2017	2016
EUR	1 414.0	1 270.4
USD	878.1	892.7
Other currencies	183.0	173.9
Total	**2 475.0**	**2 337.1**

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

Operational expenses



Operational expenses by currency

1.3.2 Leasing expenses

EUR mill.	2017	2016
Leasing payments for cargo capacity	9.9	10.3
Payments for purchase traffic and wet leases	113.0	123.2
Office and other rents	35.0	34.0
Other rents total (included in operational EBITDAR)	**157.9**	**167.4**
Lease payments for aircraft (dry leases)	136.6	109.5
Total	**294.6**	**276.9**

1.3.3 Other expenses

EUR mill.	2017	2016
IT expenses and booking fees	112.7	107.5
Realised currency hedging	0.0	-13.8
Other items	172.4	172.9
Total	**285.1**	**266.6**

Currency hedging of operating cash flow, which was previously excluded from hedge accounting, is qualified for hedge accounting according to IFRS 9 adopted in the Group at the beginning of 2017. Therefore realised fair value changes are recognised in revenue and different cost categories from 2017 onwards.

Audit fees in other expenses

EUR mill.	2017	2016
PricewaterhouseCoopers Oy		
Auditor's fees	0.3	0.2
Tax advising	0.1	0.1
Other fees	0.3	0.2
Total	**0.7**	**0.5**

PricewaterhouseCoopers Oy has provided non-audit services to entities of Finnair Group in total 380 000 euros during the financial year 2017. These services included auditors's statements (62 000 euros) and other services (318 000 euros).

1.3.4 Other liabilities

EUR mill.	2017	2016
Jet fuels and traffic charges	74.7	67.8
Liabilities for tour operations	13.2	11.2
Aircraft materials and overhaul	8.2	15.3
Interest and other financial items	8.2	5.4
Other items	69.2	61.5
Total	**173.4**	**161.1**

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

1.3.5 Provisions

A Provisions

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

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

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

! Aircraft maintenance provision

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

EUR mill.	Aircraft maintenance provision	Other provisions	2017	Aircraft maintenance provision	Other provisions	2016
Provision at the beginning of period	81.6	4.2	**85.8**	86.8	7.1	**94.0**
Provision for the period	45.8	0.8	**46.6**	42.5	1.0	**43.5**
Provision used	-20.8	-2.3	**-23.2**	-50.4	-3.9	**-54.3**
Unwinding of discount	1.7		**1.7**	0.7		**0.7**
Exchange rate differences	-10.9		**-10.9**	2.0		**2.0**
Total	**97.3**	**2.7**	**100.0**	**81.6**	**4.2**	**85.8**
Of which non-current	78.0	1.0	**79.0**	61.5	2.1	**63.6**
Of which current	19.4	1.7	**21.1**	20.1	2.1	**22.2**
Total	**97.3**	**2.7**	**100.0**	**81.6**	**4.2**	**85.8**

Non-current aircraft maintenance provisions are expected to be used by 2029. Other provisions include items related to group's restructurings.

A = Accounting principles
! = Critical accounting estimates

1.3.6 Items excluded from comparable operating result

Comparable operating result aims to provide a comparable view on business development between periods. Therefore, unrealised exchange rate differences of foreign currency denominated aircraft maintenance provisions are not included in the comparable operating result. The maintenance provisions realise during a long period of time in the future, at the time of maintenance event or redelivery of the aircraft. Aircraft overhaul costs are mainly denominated in US dollars. The maintenance provision changes due to fluctuation of US dollar, but the changes are not included in the comparable operating result until the maintenance event or redelivery occurs and the exchange rate differences realise.

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. After implementing IFRS 9 Financial Instruments -standard in 2017 hedge accounting can be applied more widely and therefore the amount in 2017 is minor.

In addition to above, items affecting comparability are not included in the comparable operating result. These items affecting comparability are divided into three categories: gains and losses on aircraft transactions, gains and losses on other transactions, and restructuring costs. Gains and losses on transactions include sales gains and losses 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.

EUR mill.	2017	2016
Unrealised changes in foreign currencies of fleet overhaul provisions	10.9	-2.0
Fair value changes of derivatives where hedge accounting is not applied	0.3	34.0
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	**11.1**	**32.0**
Gains and losses on aircraft transactions	41.0	26.6
Gains and losses on other transactions	3.1	3.8
Restructuring costs	-0.9	-1.4
Items affecting comparability	**43.3**	**29.0**

1.3.7 Employee benefits

1.3.7.1 Employee benefit expenses and share-based payments

A Share-based payments

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

The total expense for share-based payments is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The portion of the earned reward that the participants receive in shares is accounted for as an equity settled transaction, and the portion of the earned reward settled in cash covering the tax and other charges, is accounted for as cash settled transaction. The equity-settled share awards are valued based on the market price of the Finnair share as of the grant date, and recognised as an employee benefit expense over the vesting period with corresponding entry in the equity. The liability resulting from the cash-settled transactions is measured based on the market price of the Finnair share at the balance sheet date and accrued as an employee benefit expense for service period with corresponding entry in the liabilities until the settlement date.

Termination benefits

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

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

Staff costs

EUR mill.	2017	2016
Wages and salaries	331.0	281.2
Pension expenses	70.1	61.0
Defined contribution schemes	59.2	50.6
Defined-benefit schemes	10.9	10.4
Other social expenses	22.2	20.3
Total	**423.3**	**362.5**
Staff costs included in items affecting comparability	0.8	1.7
Total staff costs in income statement	**424.2**	**364.2**

In Finnair, the total salary of personnel consists of fixed pay, allowances, short-and long-term incentives, fringe benefits and other personnel benefits. The total amount of short-term incentives excluding social security costs recognised for 2017 were 12.1 million euro (7.1). In addition, salaries include a special reward of 9.9 million euros (13 million euros including social security costs), related to Finnair's recent turnaround that is to be paid for the personnel.

Items affecting comparability include personnel related restructuring costs of 0.8 million euros (1.7) as agreed in the Group's statutory employer-employee negotiations. Including items affecting comparability, total staff costs amounted to 424.2 million euros (364.2).

A = Accounting principles

Transfer to Personnel Fund

Finnair has a Personnel Fund that is owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined based on the targets set by the Board of Directors. The participants of the performance share plan (LTI) are not members of the Personnel Fund. Personnel Fund is obliged to invest part of the bonus in Finnair Plc's shares. In 2017, the comparable operating result exceeded the limit set by the board of directors. Therefore Finnair has recognised 6.7 million euro to the staff costs and liability, to be transferred to the personnel fund. In 2016 0.5 million euros were allocated to the fund.

Liabilities related to employee benefits

EUR mill.	2017	2016
Holiday payments	70.0	62.0
Other employee related accrued expenses	69.2	31.4
Liabilities related to employee benefits	**139.2**	**93.4**

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs and remunerations. The increase mainly relates to remunerations, such as transfer to personnel fund and extra reward to be paid to personnel. In addition, restructuring provisions related to termination benefits (see note 1.3.5 Provisions) amounted to 2.0 million euros (3.5).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	President and CEO Pekka Vauramo	Executive Board	Total 2017	President and CEO Pekka Vauramo	Executive Board	Total 2016
Fixed pay	649	1,677	**2,326**	649	1,687	**2,336**
Short-term incentives	294	809	**1,103**	196	552	**748**
Fringe benefits	3	73	**76**	2	79	**82**
Termination benefits	0	0	**0**		360	**360**
Share-based payments	358	988	**1,347**	172	222	**394**
Pensions (statutory)**	160	444	**604**	159	410	**570**
Pensions (voluntary, defined contribution)	124	57	**180**	124	93	**217**
Total	**1,588**	**4,048**	**5,636**	**1,303**	**3,404**	**4,707**

* Short-term incentives for the financial year 2017 are estimates as at the balance sheet date the final review of targes has not been done. Short-term incentives for 2016 realised as presented in 2016 financial statements.

** Statutory pensions include Finnair's share of the payment to Finnish statutory "Tyel"-pension plan.

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

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

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

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2017	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2016
Board of Directors	**375,497**	249,600	106,200	19,697	**422,895**
Barrington Colm, from 16 March 2017 onwards	40,234	22,800	15,600	1,834	
Du Mengmeng, from 16 March 2017 onwards	44,839	22,500	19,200	3,139	
Friman Maija-Liisa	52,260	33,750	9,600	8,910	
Itävuori Jussi	47,412	33,750	13,200	462	
Karvinen Jouko	72,756	54,000	15,600	3,156	
Mårtensson Jonas, from 16 March 2017 onwards	33,900	22,500	11,400	0	
Tuominen Jaana	39,608	30,000	7,800	1,808	
Heinemann Klaus, until 16th of March 2017	20,100	15,300	4,800	0	
Kronman Gunvor, until 16th of March 2017	9,689	7,500	1,800	389	
Turner Nigel, until 16th of March 2017	14,700	7,500	7,200	0	

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

Share-based payments

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

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

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

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

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

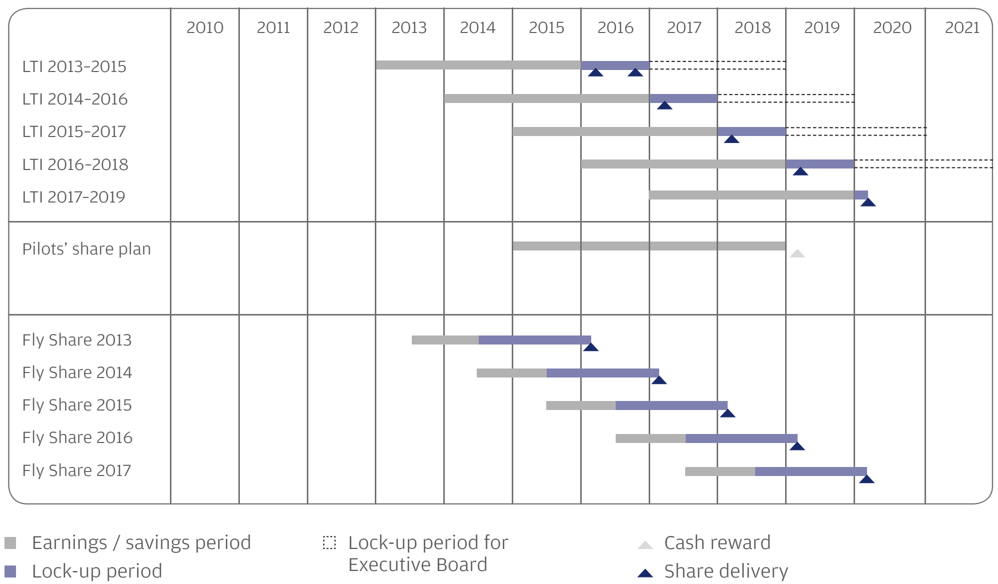
The potential reward will be delivered in Finnair shares. The shares are delivered to the participants during the year following the performance period. The payout opportunity is defined in the beginning of each plan in relation to the participants annual base salary. For the plans commencing during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

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

The performance criteria applied to the plans 2014–2016, 2015–2017 and 2016–2018 are Return on Capital Employed (ROCE, 50% weight) and Total Shareholder Return (TSR, 50 % weight). The performance criteria applied to the plan 2017–2019 are earnings per share (EPS, 50% weight) and revenue growth (50% weight). The target levels and maximum levels set for the criteria are based on the long-term strategic objectives set by the company's Board of Directors. Criteria are monitored against the performance on a quarterly basis. The performance criteria of the plan for 2014–2016 were met at 118% level while the target was at 100% and the maximum earning level at 200%. In the comparison period, the performance criteria applied to the 2013–2015 plan was met at 54% level.

The total expense for the share-based payments is recognised over the vesting period, which is 4–6 years in the plans commencing 2013–2016 and 3 years in the plan commencing 2017. For the plans commencing 2013–2016, the compensation is

Finnair share-based payment plans



measured during performance period in cash, and only after performance period at grant date translated into shares. Therefore the whole cost effect is recognised as debt until the end of performance period (grant date), and the debt is divided into equity settled and cash settled part only at grant date. At the same time, the equity settled part is recognised in equity. In the 2017–2019 plan the grant date is at the beginning of performance period and the compensation is measured in shares. The expense recognised for 2017 amounted to 3.1 million euros (1.2).

	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019	Total
Maximum earning, million euros	3.4	2.5	2.8	3.3	7.9*	19.8
Maximum earning, million shares	0.3	0.2	0.2	0.3	0.6*	1.5
Target earning, million euros	1.7	1.2	1.4	1.6	3.2	9.1
Target earning, million shares	0.1	0.1	0.1	0.1	0.2	0.7
Expenses recognised for the financial year, LTI's otal (million euros)	0.1	-0.1	0.7	0.7	1.7	3.1
of which share-settled (recognised as debt until grant date for plans beginning between 2013-2016)			0.3	0.3	0.4	1.0
of which cash-settled		-0.1	0.5	0.4	1.3	2.1
Liability related to LTI's at closing the date		0.0	0.7	0.5	1.3	2.5
Shares granted, million shares**		0.3			0.6	0.9

* Maximum earnings for 2017-2019 plan are capped at 120% of participants' annual base salary.

**At the end of the performance period of 2014-2016 plan, the vested euros were translated into shares, and granted and delivered. In 2017-2019 program shares are earned during vesting period, from the beginning of the program.

FlyShare employee share savings plan 2013 onwards

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

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

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

Effect of FlyShare share savings plan on Group's results and financial position, million euros	2017	2016
Total Income statement effect of share-based payments	1.6	0.9
of which, share-settled	0.5	0.7
of which, cash-settled	1.1	0.1
Liabiltity related to share-based payments at the closing date	1.3	1.0

A = Accounting principles
! = Critical accounting estimates

Long-term incentive plan for pilots

The Finnair Board of Directors approved in 2014 a long-term incentive plan for Finnair pilots as part of the savings agreement between Finnair and the Finnish Air Line Pilots' Association (SLL). The plan period is 2015–2018 and the prerequisite for rewarding pilots based on this plan is the materialisation of the agreed cost savings over this time period. In addition, the company share price must at least be 4 euros at the end of the incentive plan. If these conditions are met, the pilots are entitled to a cash payment based on the Finnair share price. The total reward to pilots amounts to 12 million euros if the share price is 4 euros or a maximum of 24 million euros, if the share price reaches at least 8 euros. Finnair has hedged against the additional cost effects above the 4 euro share price with a market-based call option.

The plan is considered as cash-settled share-based arrangement. The cost effects are accrued over the vesting period from grant date onwards (2014–2018), and the corresponding liability is fair valued at each reporting date. The 2017 closing rate of Finnair's share (12.82 euro) was above the minimum required level (4 euro). The liability accrued by the end of 2017 amounted to 17.5 million euro (6.1). Finnair has hedged against the cost effects above 4 euro share price. The cost recognised in comparable operating result for 2017, net of hedging effects, amounted to 2.9 million euro (2.9).

1.3.7.2 Pensions

A Defined benefit and defined contribution plans

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

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

Description of pension plans in Finnair

The statutory pension cover of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The statutory pension cover is a defined-contribution plan. The Group's foreign sales offices and subsidiaries have various defined contribution plans that comply with local rules and practices. The voluntary pension plans of CEO and two members of the Executive Board are arranged in a pension insurance company. The retirement age of the CEO is the earliest possible statutory retirement age, and for the two members it is 63 years. These pension schemes are defined-contribution schemes. Other (voluntary) pension cover of the Group's domestic companies has been arranged mainly through Finnair Plc's Pension Fund, in which the pension schemes are defined-benefit plans. These pension plans cover old age pensions, occupational disability and survivors' pensions. The pension fund is fully funded in accordance with the provisions of Finnish law. 700 Finnair pilots have, in addition to voluntary pension arranged in Finnair Pension Fund, special defined-benefit pension scheme. This scheme applies only to pilots who work older than 58 years of age. Voluntary pensions of pilots recruited in 2015 or later are defined contribution schemes arranged through Finnish insurance company, except for the occupational disability benefit, which is a defined benefit plan arranged through the Finnair Pension Fund.

Exposure to most significant risks

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

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

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

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

Defined benefit pension plans

EUR mill.	2017	2016
Items recognised in the income statement		
Current service costs	9.9	9.7
Past service cost	1.0	0.7
Service cost total, recognised in staff costs	**10.9**	**10.4**
The defined benefits related to acquisitions or disposals, net*	0.2	-0.6
Net interest expenses	0.5	0.1
Total included in the income statement	**11.6**	**9.8**
Amounts recognised though other comprehensive income		
Experience adjustment on plan obligation	-2.9	1.6
Changes is financial actuarial assumptions	6.8	19.1
Net return on plan assets	-39.8	-2.7
Amounts recognised trhough other comprehensive income total	**-35.9**	**18.1**
Number of persons involved, pension fund	4,689	4,732
Other defined benefit plans, persons involved	34	21

Items recognised in the balance sheet

EUR mill.	2017	2016
Present value of funded obligations	442.0	438.9
Fair value of plan assets	-435.6	-407.0
Net defined benefit liability	**6.4**	**31.9**

* Recognised in Items affecting comparability as gain or loss on sales or acquisition.

The net defined benefit liability in 2017 includes 4.1 million euro (29.7) related to defined benefit plans insured through the pension fund and 2.3 million euro (2.2) related to other defined benefit plans. In 2017, the pension obligation decreased mainly due to gains on plan assets. These positive returns on investment are included in the amount recognised through other comprehensive income as actuarial gains and losses. The amendment to the Finnish employee pension legislation, passed by Finnish Parliament in November 2015 and effective from 2017 onwards, did not have an effect to Finnair defined benefit plans and supplementary pensions.

Changes in pension obligations

EUR mill.	2017	2016
Fair value of pension obligations at 1 January	438.9	426.3
Current service costs	9.9	9.7
Past service cost	1.0	0.7
Interest expense	6.5	8.3
Acquisitions and disposals*	0.8	-7.2
Expense recognised in income statement	**18.2**	**11.4**
Changes in actuarial assumptions	6.8	19.1
Experience adjustment on plan obligation	-2.9	1.6
Remeasurements recognised through OCI	**3.9**	**20.7**
Benefits paid	-18.9	-19.7
Net present value of pension obligations	**442.0**	**438.9**

Changes in plan assets

EUR mill.	2017	2016
Fair value of plan assets at 1 January	407.0	422.0
Interest income	6.0	8.2
Acquisitions and disposals*	0.6	-6.6
Items recognised through profit and loss	**6.6**	**1.6**
Acturial gain (loss) on plan assets	39.8	2.7
Items recognised through OCI	**39.8**	**2.7**
Contributions paid	1.0	0.4
Benefits paid	-18.9	-19.7
Fair value of plan assets at 31 December	**435.6**	**407.0**

*In 2017 Finnair acquired a new subsidiary, Finnair Kitchen Oy. The net liability related to defined pension plan was recognised as part of the gain related to items affecting comparability. In 2016 Finnair sold its subsidiary SMT Oy. The difference between amount of assets and liabilities transferred, 0.6 million euro, was recognised as adjustment of the sales gain and was included in the items affecting comparability.

Plan assets are comprised as follows

%	2017	2016
Listed shares	22.2	21.0
Debt instruments	53.3	53.0
Property	17.8	18.4
Other	6.7	7.6
Total	**100.0**	**100.0**

Plan assets of the pension fund include Finnair Plc shares with a fair value of 1.8 million euros (0.6) and buildings used by the Group with a fair value of 19.7 million euros (2.0).

Defined benefit plans: principal actuarial assumptions

	2017	2016
Discount rate %	1.53%	1.52%
Inflation %	1.32%	1.12%
Annual rate of future salary increases %	1.47%	1.70%
Future pension increases %	1.62%	1.36%
Estimated remaining years of service	10	11

Sensitivity analysis

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

Sensitivity analysis on principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate %	0.25%	-15.7	-3.6%	16.7	3.8%
Annual rate of future salary increases %	0.25%	5.1	3.8%	-4.0	-0.9%
Future pension increases %	0.25%	11.4	2.6%	-10.8	-2.5%
Life expectancy at birth	1 year	13.7	3.1%	-14.5	3.3%

According to Finnish legislation, pension fund needs to be fully funded. Expected contribution payments for the future five years are approximately 48 million euros. The amount of payments depends on future returns on plan assets.

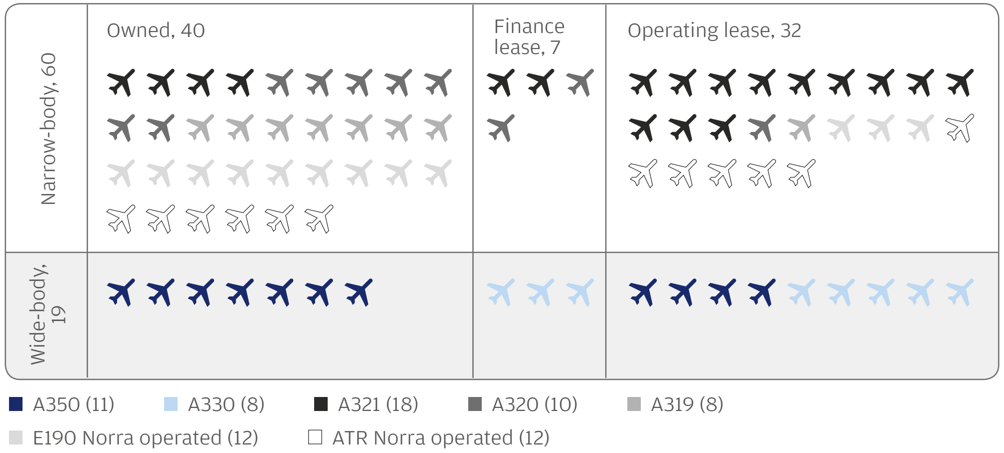
The duration of defined benefit obligation is 15 years. The duration is calculated by using discount rate of 1.53 %.

2 Aircraft and other intangible and tangible assets and leasing arrangements

i Aircraft and other intangible and tangible assets, and leasing arrangements include particularly notes related to aircraft fleet. Notes related to the aircraft operated by the Group, both owned and leased aircraft under different kind of lease arrangements as well as aircraft classified as held for sale, are combined in this section so that the general view of the fleet would be easier to perceive. i

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

Fleet



Fleet

Fleet in Finnair balance sheet

EUR mill.	2017	2016	Change
Advances paid for aircraft	96.0	99.4	-3.4
Owned aircraft in use	1,002.5	764.1	238.4
Aircraft finance lease	152.9	168.4	-15.5
Aircraft held for sale	0.0	139.1	-139.1
Book value total	**1,251.4**	**1,171.0**	**80.4**
Depreciation for the period	**110.2**	**87.1**	**23.1**
Operating leases of aircraft			
Operating lease commitments (nominal value)	1,163.6	1,069.9	93.7
Leasing expenses for the period (Lease payments for aircraft)	136.6	109.5	27.1

2.1 Tangible assets

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

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

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

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

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

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

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

Impairment

On every closing date the Group reviews individual tangible asset items for any indication of impairment losses. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than the recoverable amount.

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

! Impairment testing

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

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

Tangible assets 2017

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

The carrying value of rotable parts included in aircraft is 19.0 million euros (16.4). In addition, inventories include non-rotable aircraft parts 13.3 million euros (12.9). Currency hedging of aircraft acquisitions are described in Notes 3.5 Management of financial risks and 3.8 Derivatives.

Tangible assets 2016

EUR mill.	Aircraft	Buildings and land	Other equipment	Advances	Total
Acquisition cost 1 Jan 2016	1,350.3	25.9	50.4	80.6	1,507.1
Additions	395.9	3.6	5.7	187.2	592.4
Disposals	-119.2		-8.0	-0.5	-127.7
Currency hedging of aircraft acquisitions				6.4	6.4
Reclassifications	94.8	-0.1	0.8	-106.4	-10.9
Transfer to assets held for sale	-73.0				-73.0
Acquisition cost 31 Dec 2016	**1,648.8**	**29.4**	**48.9**	**167.3**	**1,894.4**
Accumulated depreciation and impairment 1 Jan 2016	-667.5	-3.3	-21.7	-3.1	-695.6
Disposals	29.2	-0.4	5.6		34.4
Depreciation for the financial year	-94.6	-0.6	-4.9		-100.0
Depreciation in items affecting comparability	-2.3		0.1		-2.2
Reclassifications	-4.6	0.0	0.0		-4.6
Transfer to assets held for sale	40.1				40.1
Accumulated depreciation and impairment 31 Dec 2016	**-699.8**	**-4.2**	**-20.8**	**-3.1**	**-728.0**
Book value 31 Dec 2016	**949.0**	**25.1**	**28.0**	**164.2**	**1,166.5**

Capitalised borrowing costs

	Aircraft		Advances		Total	
EUR mill.	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Book value 1 Jan	5.4	1.0	7.3	6.1	12.7	7.1
Additions			9.5	7.5	9.5	7.5
Disposals		-1.8	-3.0		-3.0	-1.8
Reclassifications	9.7	6.3	-9.7	-6.3		
Depreciation	-0.4	-0.2			-0.4	-0.2
Book value 31 Dec	**14.6**	**5.4**	**4.0**	**7.3**	**18.7**	**12.7**

In 2017, borrowing costs of 9.5 million euros (7.5) were capitalised in tangible assets related to the Airbus A350 investment program. Disposal is related to the sale and leaseback of one A350 aircraft. Finnair uses quarterly effective interest rate to calculate the capitalised borrowing costs, that represents the costs of the loan used to finance the investment. Average yearly interest rate in 2017 was 9.63 % (5.0 %). The higher interest rate was mainly related to additional borrowing costs incurred from refinancing of the senior bond.

Pledged assets and other restrictions on tangible assets

Finnair does not have tangible assets pledged as a security for bank loans. Finnair has three A350 aircraft financed with JOLCO-loans (see 3.3 Financial liabilities) and three finance leased A330 aircraft where the legal title is transferred to Finnair after loans are repaid. On top of that, Finnair has four finance leased aircraft in the balance sheet where the legal title will not transfer to Finnair at the end of the lease term (see 2.2 Leasing arrangements). The value of these aircraft at the end of 2017 amounted to 377.1 million euro (402.8).

Impairment test

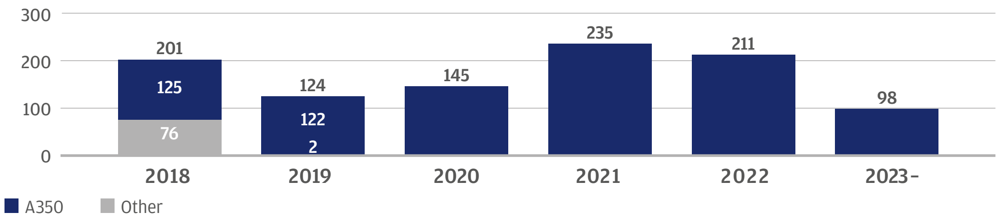
The impairment test of the aircraft based on the fair value has been done on the closing date. It did not cause any need for impairment. The test is sensitive to the exchange rate EUR/USD. The weakening of USD decreases the fair value of the aircraft. The fair value of the aircraft would still be higher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

Investment commitments

At the end of financial year investment commitments totalled 1,013 million euros (1,601) and it includes firm aircraft orders. The total commitment fluctuates between the order and the delivery of the aircraft mainly due to exchange rate EUR/USD and the escalation clauses included in airline purchase agreements. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery.

Investment commitments

€ million



2.2 Leasing arrangements

A The Group as lessee

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

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

The Group as lessor

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

Sale and leaseback transactions

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

! Critical accounting estimates and sources of uncertainty

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

Finance lease arrangements

EUR mill.	Buildings	Aircraft	Other equipment	Total
Acquisition cost		247.8	4.5	252.3
Additions	13.5		1.1	14.6
Disposals			-2.0	-2.0
Accumulated depreciation	-0.7	-94.9	-1.6	-97.2
Book value 31 Dec 2017	**12.8**	**152.9**	**2.0**	**167.6**
Acquisition cost		197.2	8.5	205.7
Additions		50.6	0.5	51.2
Disposals			-4.5	-4.5
Accumulated depreciation		-79.5	-2.1	-81.6
Book value 31 Dec 2016		**168.4**	**2.3**	**170.7**

Addition in the value of finance lease arrangements of buildings and other equipment is caused by finance lease contracts recognised in the business acquisition of Finnair Kitchen.

Finance lease liabilities

	Minimum lease payments		Future financial expenses		Present value of minimum lease payments	
EUR mill.	2017	2016	2017	2016	2017	2016
less than one year	25.8	26.6	3.4	2.6	22.4	24.0
1-5 years	92.0	97.2	9.1	6.3	82.9	90.9
more than 5 years	24.7	25.9	4.4	1.1	20.4	24.8
Total	**142.4**	**149.7**	**16.8**	**10.1**	**125.6**	**139.6**

Finance lease liabilities mainly include two Airbus A320, two Airbus A321 and three Airbus A330 aircraft, whose minimum lease payments are 117.7 million euros (147.3), future financial expenses 6.8 million euros (10.0) and present value of minimum lease payments 110.9 million euros (137.3). In addition, liability includes finance lease agreements of buildings and ground transportation equipment.

Other lease arrangements

Minimum lease payments for irrevocable lease agreements, Group as lessee

	Aircraft		Premises and land		Other equipment	
EUR mill.	2017	2016	2017	2016	2017	2016
less than one year	146.6	125.6	23.0	22.4	6.8	5.7
1-5 years	551.2	465.3	78.3	83.4	8.4	9.6
more than 5 years	465.9	478.9	149.4	168.9		
Total	**1,163.6**	**1,069.9**	**250.7**	**274.7**	**15.1**	**15.3**

The Group has leased premises as well as aircraft and other fixed assets with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. The Group has leased 32 aircraft on leases of different tenors.

Minimum lease payments for irrevocable lease agreements, Group as lessor

	Aircraft		Premises	
EUR mill.	2017	2016	2017	2016
less than one year		43.1	3.0	5.2
1-5 years		166.5	11.4	20.3
more than 5 years		28.6	15.6	35.3
Total		**238.2**	**30.1**	**60.8**

The Group has leased premises with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. Lease agreements of 24 aircraft operated by Norra became internal leases when Norra transferred to the full ownership of Finnair in November 2017.

A = Accounting principles
! = Critical accounting estimates

2.3 Intangible assets

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

Intangible assets in Finnair's balance sheet at the end of 2017 amounted to 15.5 million euros (12.4) and the depreciation and impairments recognised in 2017 amounted to 7.1 million euros (3.8). Intangible assets mainly include computer software amounting to 12.5 million euros (9.4), and they are depreciated with straight-line method over a useful life of 3-8 years. Other intangible assets mainly include connection fees, which are not depreciated. The goodwill included in intangible assets amounted to 1.3 million euros (1.3) and based on impairment testing there was no indication of impairment at the end of 2017.

3 Capital structure and financing costs

3.1 Financial income and expenses

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

A Interest income and expenses

Interest income and expenses are recognised on a time-proportion basis using the effective interest method. Interest expenses related to the financing of significant investments are capitalised as part of the asset acquisition cost and depreciated over the useful life of the asset.

More detailed information about financial assets can be found in Note 3.2 and about interest bearing liabilities in Note 3.3. A

EUR mill.	2017	2016
Net gains on investment instruments held at FVPL*	-0.7	0.7
Other interest income	0.3	-0.1
Other financial income	0.1	0.4
Financial income total	**-0.3**	**1.0**
Interest expenses for financial liabilities measured at amortised cost	-6.6	-4.8
Interest on finance leases	-3.3	-1.6
Foreign exchange gains and losses	0.1	-2.0
Other financial expenses	-3.5	-3.1
Interest rate swaps, fair value hedges	-3.0	3.6
Fair value adjustment to bond book value attributable to interest rate risk	3.0	-3.6
Financial expenses total	**-13.4**	**-11.5**
Financial expenses, net	**-13.6**	**-10.5**

*Fair value through profit and loss

In the effectiveness testing of the Group's hedge accounting, both cash flow and fair value hedging were found to be effective. Thus, as in the comparison year 2016, no inefficiency is included in the financial items for 2017. Financial income and expenses includes an identical amount of profit and loss for fair value hedging instruments and for hedged items resulting from the hedged risk. In 2017, financial expenses include the recovered loan to Nordic Regional Airlines in the amount of 1.8 million euros that was written down in 2014.

In 2017, foreign exchange gains and losses recognised in financial expenses consist of net realised exchange losses of 12 million euro and net unrealised exchange gains of 12.1 million euro. During the year 2017, 9.5 million euros of interest expense was capitalised in connection with the A350 investment program (7.5). More information about the capitalised interest can be found in note 2.1 Tangible assets.

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

A = Accounting principles
i = Critical accounting estimates

3.2 Financial assets

A Financial assets

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

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

Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value.

Derecognition of financial assets takes place when the Group has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the Group.

Impairment of financial assets

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

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

Cash and cash equivalents

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

3.2.1 Other current financial assets

EUR mill.	2017	2016
Commercial paper, certificates and bonds	98.0	261.2
Money market funds	735.0	466.6
Total	**833.0**	**727.9**
Ratings of counterparties		
Better than A	0.0	22.6
A	23.0	79.9
BBB	24.5	83.5
BB	0.0	2.0
B	2.0	0.0
Unrated	783.5	539.9
Total	**833.0**	**727.9**

As of 31 December 2017, investments in instruments issued by unrated counterparties mostly included investments in money market funds (EUR 735 mill).

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

3.2.2 Cash and cash equivalents

EUR mill.	2017	2016
Cash and bank deposits	150.2	60.0
Deposits, maturing in less than 3 months	0.0	9.4
Total	**150.2**	**69.4**

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

3.3 Financial liabilities

A Financial liabilities

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

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Derecognition of financial liabilities takes place when the Group has fulfilled the contractual obligations. A

Non-current liabilities

EUR mill.	2017	2016
JOLCO loans	283.6	346.2
Bonds	199.3	153.4
Finance lease liabilities	103.3	117.6
Interest-bearing liabilities total	**586.2**	**617.3**
Non-interest-bearing liabilities	1.1	4.9
Total	**587.3**	**622.2**

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

Current interest-bearing liabilities

EUR mill.	2017	2016
JOLCO loans	36.4	70.8
Bonds	65.6	0.0
Finance lease liabilities	22.4	22.0
Other loans	8.0	7.7
Total	**132.4**	**100.4**

JOLCO loans include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft, as well as an interest-bearing loan for the E190 aircraft, whose call option has been exercised. The transactions are treated as loans and owned aircraft in Finnair's accounting.

	Short-term borrowings	Long-term borrowings	Short-term finance lease liabilities	Long-term finance lease liabilities	Total
Total liabilities from financing activities, 1 Jan 2017	**78.5**	**499.6**	**22.0**	**117.6**	**717.7**
Cash flows	0.3	90.6	-0.5	-21.2	69.3
Acquisitions	15.9	0.0	1.6	13.0	30.4
Disposals	-44.0	0.0	-0.9	0.0	-44.9
Foreign exchange adjustments	-4.1	-41.5	0.0	-5.6	-51.3
Reclassification between short-term and long-term liabilities	62.8	-62.8	0.2	-0.2	0.0
Other non-cash movements	0.7	-3.0	0.0	-0.3	-2.7
Total liabilities from financing activities, 31 Dec 2017	**110.0**	**482.9**	**22.4**	**103.3**	**718.6**

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

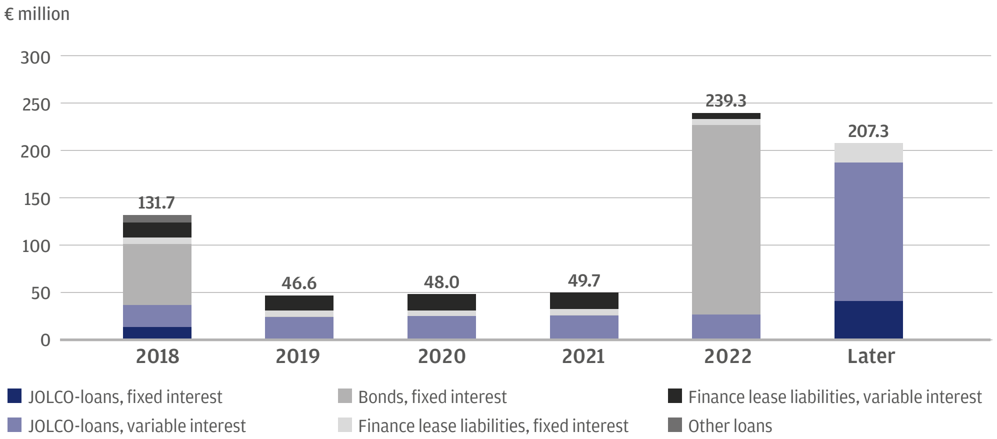
A = Accounting principles

Maturity dates of interest-bearing financial liabilities 31 Dec 2016 EUR mill.	2017	2018	2019	2020	2021	Later	Total
JOLCO loans, fixed interest	29.7	0.0	0.0	0.0	0.0	44.5	74.2
JOLCO loans, variable interest	41.1	26.2	27.0	27.9	28.9	191.8	342.9
Bonds	0.0	150.0	0.0	0.0	0.0	0.0	150.0
Finance lease liabilities, fixed interest	7.1	7.9	6.2	6.1	6.2	18.8	52.1
Finance lease liabilities, variable interest	14.9	15.5	16.2	16.9	17.7	6.1	87.4
Other loans	7.7	0.0	0.0	0.0	0.0	0.0	7.7
Interest-bearing financial liabilities total	**100.4**	**199.6**	**49.4**	**51.0**	**52.7**	**261.2**	**714.3**
Payments from currency derivatives	867.5	285.7	0.0	0.0	0.0	0.0	1,153.2
Income from currency derivatives	-966.2	-295.9	0.0	0.0	0.0	0.0	-1,262.2
Commodity derivatives	-16.7	-11.6	-0.1	0.0	0.0	0.0	-28.4
Interest rate derivatives	0.0	-3.6	-3.4	0.0	-12.8	0.0	-19.8
Equity derivatives	0.0	0.0	-1.6	0.0	0.0	0.0	-1.6
Trade payables and other liabilities	773.5	0.0	0.0	0.0	0.0	0.0	773.5
Interest payments	17.6	16.0	9.2	7.6	6.6	25.9	82.8
Total	**776.1**	**190.1**	**53.5**	**58.5**	**46.6**	**287.0**	**1,411.9**

The interest rate re-fixing period is three months for variable interest loans and six months for variable interest finance leases. The fixed interest rate bond maturing in 2018 does not include the 0.7 million euro fair value of the interest rate swap. Additionally, the bonds maturing in 2018 and 2022 do not include the amortised cost of 0.4 million euro and 0.7 million euro paid in 2013 and 2017, respectively. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the fair value of the interest rate swap and the amortised cost.

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

Maturity dates of interest-bearing financial liabilities



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

EUR mill.	2017	2016
EUR	356.7	249.5
USD	290.5	383.7
JPY	71.4	84.5
	718.6	**717.7**

The weighted average effective interest rate on interest-bearing long-term liabilities was 2.0% (2.7%).

Interest rate re-fixing period of interest-bearing liabilities

	2017	2016
Up to 6 months	50.0%	93.7%
6-12 months	9.0%	2.2%
1-5 years	28.0%	0.0%
More than 5 years	13.0%	4.1%
Total	**100.0%**	**100.0%**

The increase in the share of interest-bearing liabilities with longer interest rate re-fixing periods can mainly be attributed to the bond issued in 2017 and maturing in 2022 that has a fixed coupon.

3.4 Contingent liabilities

EUR mill.	2017	2016
Guarantees on behalf of group companies	71.0	69.0
Total	**71.0**	**69.0**

3.5 Management of financial risks

Principles of financial risk management

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

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

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

Fuel price risk in flight operations

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

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

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

The hedges of jet fuel consumption are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. During 2017, Finnair has hedged the jet fuel price risk in its entirety, without separating it into underlying risk components, such as crude oil price risk. However, Finnair has used proxy hedging for certain layer components of its jet fuel consumption, as described below.

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

Timing of the notional and hedged price 31.12.2017	Hedged price $/tonne	Notional amount (tonnes)	Maturity Under 1 year	1 to 2 years
Jet fuel consumption priced with NWE index	535.9	962,407	736,407	226,000
Jet fuel consumption priced with SING index	535.8	64,593	64,593	

The average hedged price of the instruments hedging highly probable jet fuel purchases is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 528.8 US dollars per tonne for NWE consumption, and 519.2 US dollars for SING consumption. Options excluded from hedge accounting are excluded in both cases.

At the end of the financial year, Finnair had hedged 74 per cent of its fuel purchases for the first six months of 2018 and 53 per cent of the purchases for the second half of the year. In the financial year 2017, fuel used in flight operations accounted for approximately one fifth of Group's turnover. At the end of the financial year, the forecast for 2018 is approximately one fifth of the Group's turnover. On the closing date, a 10 per cent rise in the market price of jet fuel – excluding hedging activity – increases annual fuel costs by an estimated 54 million euro. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers operating profit by around 21 million euro. The situation as of 31 December 2017 is a reasonable representation of conditions throughout the year given the current market environment.

Foreign exchange risk

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

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

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

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

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

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

At the end of the financial year, Finnair had a hedge level for net operating cash flows of 67 per cent in the USD-basket and 66 per cent in JPY for the coming 12 months, and hedge levels of 23 per cent and 18 per cent for 2019, respectively. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 24-month result of around 125 million euro and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on 24-month of around 39 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 75 million euro and a 10 per cent weakening of the Japanese yen weakens the result by around 24 million euro. In the above numbers, the USD-basket risk also includes the Chinese yuan and the Hong Kong dollar, whose historical correlation with the US dollar is high. The situation as of 31 December 2017 is a reasonable representation of conditions throughout the year given the current market environment.

Timing of the notional EUR mill. 31.12.2017	Notional amount (gross)	Maturity Less than 1 year	1 to 2 years	2 to 4 years
USD	1,320.9	694.8	491.2	134.9
JPY	349.4	285.0	64.4	

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

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

The average exchange rate of the instruments hedging highly probable forecasted sales and purchases denominated in foreign currencies is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 1.16 for USD contracts and 119.9 for JPY instruments.

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

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

Foreign exchange P&L exposure EUR mill.	JPY	USD-basket
31 December 2016		
Net forecasted operating cash flows, next 24M	391.5	-1,201.5
Net operating cash flow hedges, next 24M	-182.7	603.1
Foreign exchange exposure from operating cash flows after hedging, next 24M	**208.8**	**-598.4**

Foreign exchange balance sheet exposure EUR mill.	JPY	USD
31 December 2016		
Net balance sheet items	-80.9	-359.4
Net hedges of balance sheet items	83.9	193.4
Foreign exchange exposure from balance sheet items after hedging	**3.0**	**-166.0**

Foreign exchange investment exposure EUR mill.	USD
31 December 2016	
Net investment position	-662.2
Net hedges of investment position	377.1
Foreign exchange exposure from investment position after hedging	**-285.1**

Interest rate risk

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

In Finnair Group, the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the risk management policy, the mandate for the investment portfolio's interest rate re-fixing period is 0–12 months and for interest-bearing liabilities 0–24 months. On the closing date, the investment portfolio's interest rate re-fixing period was approximately 3 months and approximately 24 months for interest-bearing liabilities. On the closing date, a one percentage point rise in interest rates increases the annual interest income of the investment portfolio by approximately 7.3 million euros and the interest expenses of the loan portfolio by approximately 3.1 million euros. The situation as of December 31 2017 is a reasonable representation of conditions throughout the year given the current market environment.

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

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

Timing of the notional and hedged price range EUR mill. 31 Dec 2017	Notional amount (gross)	Maturity Less than 1 year	1 to 2 years	2 to 4 years
Interest rate derivatives	304.5	82.4	87.2	134.9

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

Credit risk

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

Liquidity risk

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

The Group's liquid assets were 983.2 million euro at the end of financial year 2017. Finnair Plc has a domestic commercial paper program of 200 million euro, which was not in use as of the closing date. In addition, Finnair has an unused 175 million euro committed revolving credit facility. The credit facility includes a financial covenant based on adjusted gearing. The covenant level of adjusted gearing is 175 per cent, while at the closing date the figure was 69.9 per cent. The maximum level set by the Board of Directors is 175 per cent.

Capital management

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

The development of the Group's capital structure is continuously monitored using the adjusted gearing. When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders' equity. The Group's adjusted gearing at the end of 2017 was 69.9 per cent (78.3).

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the reserve would have been 45.9 million euro (33.9) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 45.0 million euro (33.9). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 51.1 million euro (47.9) and a 10 per cent stronger dollar would have had a positive impact of 49.3 million euro (47.9). In terms of the Japanese yen, a 10 per cent stronger yen would have had a negative impact of 10.0 million euro (0.0), and a 10 per cent weaker level would have increased the balance of the fair value reserve by 15.1 million euro (0.0). The effect of change in interests to the fair value reserve in own equity is not essential. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets).

3.6 Classification of financial assets and liabilities

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2017				
Financial assets				
Receivables			5.6	5.6
Other financial assets		833.0		833.0
Trade receivables and other receivables			319.8	319.8
Derivatives	100.8	3.7		104.5
Cash and cash equivalents			150.2	150.2
Book value total	**100.8**	**836.7**	**475.6**	**1,413.0**
Fair value total	**100.8**	**836.7**	**475.6**	**1,413.0**
Financial liabilities				
Interest-bearing liabilities			592.9	592.9
Finance lease liabilities			125,6	125.6
Derivatives	61.3	20.0		81.3
Trade payables and other liabilities			879.8	879.8
Book value total	**61.3**	**20.0**	**1,598.4**	**1,679.7**
Fair value total	**61.3**	**20.0**	**1,607.7**	**1,688.9**

EUR mill.	Hedge accounting items	Financial assets at fair value through profit and loss	Loans and receivables	Valued at amortised cost	Book value
31 Dec 2016					
Financial assets					
Receivables			7.4		7.4
Other financial assets		727.9			727.9
Trade receivables and other receivables			211.9		211.9
Derivatives	133.2	43.3			176.6
Cash and cash equivalents			69.4		69.4
Book value total	**133.2**	**771.2**	**288.7**		**1,193.1**
Fair value total	**133.2**	**771.2**	**288.7**		**1,193.1**
Financial liabilities					
Interest-bearing liabilities				578.1	578.1
Finance lease liabilities				139.6	139.6
Derivatives	8.4	16.8			25.2
Trade payables and other liabilities			4.9	773.5	778.4
Book value total	**8.4**	**16.8**	**4.9**	**1,491.2**	**1,521.3**
Fair value total	**8.4**	**16.8**	**4.9**	**1,491.2**	**1,521.3**

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

Derivatives are valued at fair value, with further details in the fair value hierarchy. Financial assets valued at fair value are money market funds (fair value hierarchy level 1) and bonds, or commercial papers (fair value hierarchy level 2). Loans and receivables are mainly current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portion of loans valued at amortised cost, excluding bonds, is 66.8 million euro, and the book value is equivalent to the fair value, because the discount effect is not significant. The issued bonds make the most significant part of the loans valued at amortised cost. The senior bond maturing in 2018 was quoted at 103.3 per cent as per 31 December 2017, and the senior bond maturing in 2022 was quoted at 103.6, which explains the difference between book value and fair value. The valuation principles of financial assets and liabilities are outlined in the accounting principles. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

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

Fair values at the end of the reporting period

EUR mill.	31 Dec 2017	Level 1	Level 2
Assets			
Financial assets at fair value through profit and loss			
Securities held for trading	833.0	735.0	98.0
Derivatives held for trading			
Currency and interest rate swaps and options	0.7		0.7
- of which in fair value hedge accounting	0.7		0.7
Currency derivatives	14.7		14.7
- of which in fair value hedge accounting	0.1		0.1
- of which in cash flow hedge accounting	10.9		10.9
Commodity derivatives	63.1		63.1
- of which in cash flow hedge accounting	63.1		63.1
Equity derivatives	26.0		26.0
- of which in fair value hedge accounting	26.0		26.0
Total	**937.5**	**735.0**	**202.5**
Liabilities			
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency and interest rate swaps and options	18.6		18.6
Currency derivatives	47.6		47.6
- of which in fair value hedge accounting	17.5		17.5
- of which in cash flow hedge accounting	29.0		29.0
Commodity derivatives	0.5		0.5
- of which in cash flow hedge accounting	0.1		0.1
Equity derivatives	14.7		14.7
- of which in fair value hedge accounting	14.7		14.7
Total	**81.3**		**81.3**

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

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

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

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

3.7 Offsetting financial assets and liabilities

EUR mill.	2017	2016
Derivative assets gross amounts	104.5	176.6
Gross amounts of recognised financial liabilities set off in the balance sheet	0.0	0.0
Net amounts of financial assets presented in the balance sheet	**104.5**	**176.6**
Enforceable master netting agreement	-63.8	-95.5
Derivative assets net amount	**40.7**	**81.1**

EUR mill.	2017	2016
Derivative liabilities gross amounts	-81.3	-25.2
Gross amounts of recognised financial assets set off in the balance sheet	0.0	0.0
Net amounts of financial liabilities presented in the balance sheet	**-81.3**	**-25.2**
Enforceable master netting agreement	63.8	95.5
Derivative liabilites net amount	**-17.5**	**70.3**

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

3.8 Derivatives

A Derivative contracts and hedge accounting

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

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

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

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

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

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

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

The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in comprehensive income and presented within equity in the fair value reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. The gains and losses, recognised in the fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the consolidated income statement.

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

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

In relation to the incentive plan negotiated with the pilots in October 2014, Finnair entered into an agreement where the market price of Finnair share has an effect at the end of the plan. Finnair Group has hedged the amount exceeding 12 million euros of the possible cost effect of this plan with stock options. Fair value hedging is applied to the hedges. The unrealised fair value changes of the options are recognised as a liability or receivable in the balance sheet, and in the income statement, the realised hedging results are recognised in the staff cost, and the unrealised hedging result is recognised in the fair value changes in derivatives. The premium and the intrinsic value of the stock options are accrued and recognised in the staff costs over the lifetime of the hedge instrument. The incentive plan is treated as a firm commitment under IFRS. When the stock price exceeds 4 euros, the cost of the incentive plan is also accrued and recognised in the staff costs. The unrealised and realised fair value changes of the incentive plan are recognised in the staff costs in the income statement, and its fair value is shown as a liability or receivable in the balance sheet.

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

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

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

Finnair Group uses jet fuel swaps (forward contracts) and options in the hedging of jet fuel price risk. Unrealised gains and losses on derivatives hedging jet fuel, which are designated as cash flow hedges and fulfil the requirements of IFRS hedge accounting, are recognised in the hedging reserve within other comprehensive income. Accrued derivative gains and losses, recognised in shareholders' equity, are recognised as income or expense in the income statement in the same financial period as the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, and as a result the IFRS hedge accounting criteria are not fulfilled, the fair value changes and the accrued gains and losses reported in shareholders' equity are transferred to the items affecting comparability in the income statement. Changes in the fair value of jet fuel swaps and options excluded from hedge accounting are recognised in fair value changes in derivatives in the income statement, while realised result is presented in fuel costs.

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

Finnair Group uses electricity derivative contracts in the hedging of electricity price risk in its entirety. The electricity price risk hedges are recognised as cash flow hedges. Unrealised gains and losses on derivatives designated as cash flow hedges in accordance with IFRS, are recognised in the hedging reserve within other comprehensive income. Accrued gain or loss on the hedge is transferred to the income statement in the same period as the hedged transaction. Changes in the fair value of hedges excluded from hedge accounting (which do not fulfil the IFRS hedge accounting criteria) are recognised in the fair value changes in derivatives over the tenor time of the derivative, and realised gain or loss is presented in Other expenses at maturity.

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

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

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

Cost of hedging

At Finnair, the time value of an option is excluded from the designation of a financial instrument and accounted for as a cost of hedging. Upon initial recognition, Finnair defers any paid premium in the cost of hedging reserve within other comprehensive income. The fair value changes of the time value are recognised in the cost of hedging reserve within other comprehensive income. The premium will be transferred to the consolidated income statement in the same period that the underlying transaction affects the consolidated income statement for transaction-related hedges. As of 31 December 2017, Finnair has deferred premiums only on transaction-related hedges. A

A = Accounting principles

EUR mill.	2017 Nominal value	2017 Positive fair values	2017 Negative fair values	2017 Fair net value	2016 Nominal value	2016 Positive fair values	2016 Negative fair values	2016 Fair net value
Currency derivatives								
Jet fuel currency hedging					307.3	16.6	-0.1	16.5
Operational cash flow hedging (forward contracts)	385.2	5.8	-16.3	-10.5				
Operational cash flow hedging, bought options	195.1	5.1		5.1				
Operational cash flow hedging, sold options	200.1		-4.0	-4.0				
Fair value hedging of aircraft acquisitions	316.2	0.1	-17.5	-17.4	377.1	74.6		74.6
Hedging of lease payments	131.7	0.1	-8.7	-8.6	172.4	9.7	-0.1	9.6
Hedge accounting items total	**1,228.4**	**11.0**	**-46.5**	**-35.5**	**856.8**	**100.8**	**-0.1**	**100.7**
Operational cash flow hedging (forward contracts)					157.4	5.3	-2.1	3.3
Operational cash flow hedging, bought options					173.2	5.9		5.9
Operational cash flow hedging, sold options					245.4		-2.4	-2.4
Hedging of aircraft divestments	101.3	3.7	-0.1	3.6	123.7		-7.3	-7.3
Balance sheet hedging (forward contracts)	101.0		-0.9	-0.9	118.3	1.9	-0.4	1.5
Items outside hedge accounting total	**202.3**	**3.7**	**-1.0**	**2.6**	**818.0**	**13.1**	**-12.2**	**0.9**
Currency derivatives total	**1,430.7**	**14.7**	**-47.6**	**-32.8**	**1,674.8**	**114.0**	**-12.4**	**101.6**
Commodity derivatives								
Jet fuel forward contracts, tonnes	808,000	58.3		58.3	650,000	26.9	-8.0	18.9
Bought options, jet fuel, tonnes	91,000	4.8		4.8				
Sold options, jet fuel, tonnes	91,000		-0.1	-0.1				
Electricity derivatives, MWh					13,140	0.0	0.0	0.0
Hedge accounting items total		**63.1**	**-0.1**	**63.0**		**26.9**	**-8.0**	**18.9**
Jet fuel forward contracts, tonnes					24,000	0.7	-0.2	0.6
Bought options, jet fuel, tonnes					236,000	13.3		13.3
Sold options, jet fuel, tonnes	37,000		-0.4	-0.4	472,000		-4.4	-4.4
Items outside hedge accounting total		**0.0**	**-0.4**	**-0.4**		**14.0**	**-4.6**	**9.4**
Commodity derivatives total		**63.1**	**-0.5**	**62.7**		**41.0**	**-12.6**	**28.4**
Interest rate derivatives								
Interest rate swaps	64.9	0.7	0.0	0.7	150.0	3.7	0.0	3.6
Hedge accounting items total	**64.9**	**0.7**	**0.0**	**0.7**	**150.0**	**3.7**	**0.0**	**3.6**

EUR mill.	2017 Nominal value	2017 Positive fair values	2017 Negative fair values	2017 Fair net value	2016 Nominal value	2016 Positive fair values	2016 Negative fair values	2016 Fair net value
Cross-currency interest rate swaps	239.6		-18.5	-18.5	291.8	16.1		16.1
Items outside hedge accounting total	**239.6**	**0.0**	**-18.5**	**-18.5**	**291.8**	**16.1**	**0.0**	**16.1**
Interest rate derivatives total	**304.5**	**0.7**	**-18.5**	**-17.9**	**441.8**	**19.8**	**0.0**	**19.8**
Equity derivatives								
Bought options, millions	3.0	26.0		26.0	3.0	1.8		1.8
Sold options, millions	3.0		-14.7	-14.7	3.0		-0.2	-0.2
Hedge accounting items total	**6.0**	**26.0**	**-14.7**	**11.3**	**6.0**	**1.8**	**-0.2**	**1.6**
Equity derivatives total	**6.0**	**26.0**	**-14.7**	**11.3**	**6.0**	**1.8**	**-0.2**	**1.6**
Derivatives total *		**104.5**	**-81.3**	**23.2**		**176.6**	**-25.2**	**151.4**

* Positive (negative) fair value of hedging instruments as of 31.12.2017 is presented in the statement of financial position in the item derivative financial instruments within current assets (derivative financial instruments within current liabilities).

Hedged items in hedge relationships

31 Dec 2017	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item: Assets	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item: Liabilities	Line item in the statement of financial position in which the hedged item is included	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months	Changes in fair value of the hedging instrument used for calculating hedge ineffectiveness, previous 12 months
Cash flow hedges							
Jet fuel price risk							
- Forecasted jet fuel purchases						-121.4	53.6
Foreign exchange risk							
- Forecasted sales and purchases						129.1	-17.2
- Lease payments						41.6	-10.3
Fair value hedges							
Foreign exchange risk							
- Aircraft acquisitions	17.4		17.4		Non-current assets	92.0	-92.0
Interest rate risk							
- Fixed rated loans		65.5		0.7	Interest-bearing liabilities	-3.0	3.0

Ratings of derivative counterparties

EUR mill.	2017	2016
Better than A	2,3	105,3
A	10,2	42,0
BBB	10,7	4,1
Total	**23,2**	**151,4**

Derivatives realised through profit and loss

EUR mill.		2017	2016
Jet fuel hedging	Fuel costs	2.1	-90.4
Hedging of lease payments	Lease payments for aircraft	1.9	14.7
Electricity derivatives	Other expenses	0.0	-0.2
Interest rate swaps	Financial expenses	3.6	2.1
Operational cash flow hedging	Fuel costs	0.1	0.0
Operational cash flow hedging	Aircraft materials and overhaul	0.3	0.0
Operational cash flow hedging	Traffic charges	0.9	0.0
Operational cash flow hedging	Revenue	4.1	0.0
Expenses of hedge accounting items total		**13.0**	**-73.8**
Jet fuel hedging	Fuel costs	0.1	-24.8
Operational cash flow hedging	Other expenses	0.0	14.0
Operational cash flow hedging	Revenue	0.0	-12.3
Hedging of aircraft sales transactions	Items affecting comparability	1.4	-2.0
Balance sheet hedging	Financial expenses	-10.6	0.5
Cross-currency interest rate swaps	Financial expenses	4.3	1.9
Expenses of items outside hedge accounting total		**-4.7**	**-22.8**

3.9 Equity-related information

A Shareholders' equity

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

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

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash flow hedging, actuarial gains and losses related to defined benefit pension plans and translation differences.

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

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

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

Number of shares	2017	2016
Number of outstanding shares in the beginning of the financial year	127,347,151	127,810,910
Purchase of own shares	0	-800,000
Shares granted from the share-bonus scheme	180,904	55,105
Shares granted from FlyShare employee share savings plan	174,693	281,136
Number of outstanding shares at the end of the financial year	**127,702,748**	**127,347,151**
Own shares held by the parent company	433,367	788,964
Total number of shares at the end of the financial year	**128,136,115**	**128,136,115**

Finnair Plc's share capital, paid in its entirety and registered in the trade register, was at 75,442,904.30 euros at the end of 2016 and 2017. The shares have no nominal value. During the year 2017, Finnair transferred a total of 174,693 shares to FlyShare participants and a total of 180,904 shares to participants in Finnair's share-based incentive scheme 2014–2016.

The Group's hedging reserve and other OCI items

EUR mill.	2017	Amounts reclassified to profit or loss	Unrealised gains and losses recognised in OCI	Change in accounting principles	2016	Line item affected in profit or loss because of the reclassification
Jet fuel price hedging	63.7	-2.1	38.0	8.9	18.9	Fuel costs
Jet fuel currency hedging				-16.5	16.5	Fuel costs
Hedging of lease payments	-8.6	-1.9	-16.3		9.6	Lease payments for aircraft
Operating cash flow hedging	-9.8	-5.4	-26.7	22.3	0.0	Revenue and cost lines*
Hedging of interest related to future lease payments	-7.1	0.7			-7.7	Lease payments for aircraft
The actuarial gains and losses of defined benefit plan	40.1		35.9		4.1	
Translation differences	0.7				0.7	
Cost of hedging reserve	-0.5		-4.7	4.3	0.0	
Tax effect	-15.6		-3.5	-3.8	-8.3	
Total	**63.0**	**-8.8**	**22.7**	**15.2**	**33.9**	

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

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2018	2019	2020	2021	2022	Later	Total
Jet fuel price hedging	52.0	11.7					63.7
Hedging of lease payments	-7.5	-1.1					-8.6
Operating cash flow hedging	-7.1	-2.7					-9.8
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-3.6	-7.1
The actuarial gains and losses of defined benefit plan	40.1						40.1
Translation differences						0.7	0.7
Cost of hedging reserve	-0.5						-0.5
Tax effect	-15.3	-1.4	0.1	0.1	0.1	0.7	-15.6
Total	**61.1**	**5.7**	**-0.5**	**-0.5**	**-0.5**	**-2.3**	**63.0**

Hybrid bond

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

Earnings per share

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

EUR mill.	2017	2016
Result for the financial year, EUR mill.	169.4	85.1
Hybrid bond interest, EUR mill.	-15.8	-18.8
Tax effect	3.2	3.8
Adjusted result for the financial year	**156.8**	**70.1**
Weighted average number of shares, mill. Pcs	127.7	127.3
Undiluted and diluted earnings per share, EUR	**1.23**	**0.55**
Effect of own shares	0.0	0.0

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.30 per share be paid for 2017. The annual general meeting on 16 March 2017 decided that EUR 0.10 per share is paid as dividend for 2016.

Finnair Plc's distributable equity

EUR mill.	31 Dec 2017
Retained earnings at the end of financial year	101.7
Unrestricted equity	253.7
Result for the financial year	68.6
Distributable equity total	**424.0**

4 Consolidation

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

4.1 General consolidation principles

Consolidation

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

Translation of foreign currency items

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

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

4.2 Subsidiaries

A Consolidation principles of subsidiaries

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

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

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

Non-controlling interest and transactions with non-controlling interest

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

Subsidiaries

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

*Nordic Regional Airlines AB (Norra) transferred to Finnair full ownership on an interim basis in November 2017. Finnair aims to find a new industrial partner to develop Norra's business further with Finnair. More information can be found in the notes 4.3, 4.4, 4.5 and 4.6.

4.3 Acquisitions and disposals

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

During the latter part of the year Finnair announced that it will acquire 60% of Nordic Regional Airlines AB (Norra) from Staffpoint Holding Oy and Kilco Oy. Finnair owned 40% of the company prior the transaction, that was closed in November. Norra transferred to the full ownership of Finnair on an interim basis, and Finnair aims to find a new, industrial partner to develop Norra's business further with Finnair. The transaction had no impact on Norra's operations or personnel. It neither had a significant effect on Finnair's financial position or results. In Finnair balance sheet, Norra has been classified as assets held for sale. More information related to transaction and cooperation with Norra can be found in the notes 4.4, 4.5 and 4.6.

At the first half of 2016 the Group acquired ATR maintenance business from Nordic Regional Airlines Oy and divested its ownership in associated company Amadeus Eesti. During the latter part of the financial year Finnair sold its subsidiary SMT to American Express Global Business Travel (GBT).

i = Content of the section
A = Accounting principles

4.4 Investments in associates and joint ventures

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

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

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

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

EUR mill.	2017	2016
At the beginning of the financial year	2.5	2.6
Disposals	0.0	-0.2
At the end of the financial year	**2.5**	**2.5**

More information on transactions with associated companies and joint ventures can be found in the note 4.6 Related party transactions.

Information on the Group's associates and joint ventures 31.12.2017

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Suomen Ilmailuopisto Oy*	Finland	19.2	1.5	9.5	0.2	49.50

*The presented figures for 2017 are preliminary and unaudited.

Information on the Group's associates and joint ventures 31.12.2016

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	34.8	34.1	107.9	0.1	40.00
Suomen Ilmailuopisto Oy	Finland	18.8	1.1	8.8	0.2	49.50
Total		**53.6**	**35.2**	**116.7**	**0.3**	

The associated company owned by Finnair, Suomen Ilmailuopisto Oy, is an unlisted company and is not considered material compared to Finnair's operations. Continuous result of associated companies and joint ventures for 2017 was 0,2 (0,3) million euro, of which Finnair's share was 0,0 (0,0) million euro.

Associated companies

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

Nordic Regional Airlines

Nordic Regional Airlines AB (Norra) has during 2017 and 2016 operated mainly purchase traffic for Finnair. Until end of 2017, Norra has been a joint venture of StaffPoint Oy and Kilco Oy where owners had a joint control over the entity. In November, Norra was transferred to Finnair's full ownership on an interim basis. The transaction had no significant effect on Finnair's financial position or results. In Finnair balance sheet, Norra has been classified as assets held for sale. More information can be found in the notes 4.3 Acquisitions and disposals, 4.5 Assets and liabilities held for sale and 4.6 Related party transactions.

4.5 Assets and liabilities held for sale

A Assets held for sale or disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and sale is considered highly probable, during the following twelve months.

Immediately before classification, assets held for sale or assets and liabilities of disposal groups are valued at the lower of the carrying amount or their fair value less cost to sell. Depreciation of these assets is discontinued at the moment of classification. A

Assets and liabilities held for sale include Finnair's ownership in Nordic Regional Airlines AB, which was acquired to Finnair's full ownership on an interim basis during November 2017. Previously Finnair owned 40% share and it was classified as joint venture. Finnair expects to sell the 60% share to new partners in the near future. See more in the notes 4.3, 4.4 and 4.6.

At the end or 2016, aircraft classified as held for sale included four Airbus A340 aircraft, of which three were redelivered to Airbus during the first half of 2017 and one during the second half of 2017, in accordance with a previous agreement. The remaining payment from this transaction, approximately 100 million euros, will be received in 2018 and is included in trade and other receivables. These wide-body aircraft have been replaced by new A350 aircraft. The sale of one ATR 72 aircraft, that was classified as assets held for sale at the end of 2016, was cancelled and therefore reclassified to tangible assets.

The book value of the assets held for sale

EUR mill.	2017	2016
Tangible assets	0,1	139,3
Assets from subsidiary held for sale	16,6	
Assets total	**16,7**	**139,3**
Liabilities from subsidiary held for sale	**11,2**	

A = Accounting principles

4.6 Related party transactions

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

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

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

EUR mill.	2017	2016
Sales of goods and services		
Associates and joint ventures	42.2	42.9
Pension fund	0.0	0.1
Purchases of goods and services		
Associates and joint ventures	105.6	106.8
Pension fund	3.5	3.2
Receivables		
Current receivables from associates and joint ventures		9.3
Liabilities		
Non-current liabilities to pension fund	4.1	29.7
Current liabilities to associates and joint ventures		0.2

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

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

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

Finnair pension fund

The Finnair pension fund in Finland is a stand-alone legal entity which mainly provides additional pension coverage to Finnair's personnel in the form of defined benefit plan, and manages related pension assets. The assets include Finnair's shares representing 0.1% (0.1%) of the company's outstanding shares. Real estate and premises owned by the pension fund have been mainly leased to Finnair. In 2017 and 2016 Finnair did not pay any contributions to the fund. Pension obligation was 4.1 million euros (29.7) at the end of the financial year.

4.7 Changes in accounting principles

IFRS 9 Financial Instruments

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

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

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

1 Impairment of financial assets

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

Credit risk from trade receivables – According to IFRS 9, Finnair can use a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables and an expected default rate. The lifetime expected credit loss allowance total was recognised as an adjustment of 1.2 million euros to the opening balance of retained earnings in the year 2017, and thereafter the changes in expected credit losses will be recognised in profit and loss. However, the yearly recognition of credit losses in profit and loss is expected to be low due to nature of the business; flight tickets and other services provided by Finnair are usually paid before the service is delivered.

The impairment model does not affect investments in bonds and money market funds included in other financial assets as those are measured at fair value through profit and loss both under IAS 39 and IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

2 Changes in the classification of financial assets and liabilities

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

Based on Finnair’s analysis, the application of IFRS 9 did not have any significant impact on the recognition or measurement of the Group’s financial assets. Investments in debt securities, such as commercial paper and deposits, are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset’s contractual cash flows represent only payments of principal and interest. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Other financial assets, such as investments in bonds and money market funds, are measured at fair value. The changes in the fair values of financial assets are recognised in the income statement.

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

3 Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

Finnair will adopt 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 will supersede all current revenue recognition requirements under IFRS. Finnair applies cumulative catch-up method in the transition.

Finnair has finalized its evaluation of the effects of the new standard for different revenue streams (products). Finnair has worked with other airlines through the IATA (International Air Transport Association) Industry Accounting Working Group (IAWG) in coordination with the Airlines Revenue Recognition Task Force of the AICPA (American Institute of Certified Public Accountants) to agree harmonised accounting treatment for issues requiring clarity under the new standard. Finnair applies these published industry papers in its interpretations. Based on evaluation, IFRS 15 will change 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 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. Currently ticket revenue is recognised when the tickets are used or when the rights expire. In practice the recognition of breakage means that revenue is recognised earlier but the impact will be insignificant. Finnair Plus loyalty program accounting treatment or point valuation will not change due to implementation of IFRS 15.

In ancillary sales, the revenue related to change fees will be recognised later than currently, 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 will be minor.

In the beginning of 2018, Finnair will make 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.

IFRS 16 Leases

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

Finnair expects that the new standard will have a significant impact on its financial statements and key ratios. The present value of the future operating lease payments for aircraft, real estate and other operating lease arrangements will be recognised as right-of-use assets and interest-bearing liabilities in the balance sheet. Currently, future lease payments are presented in the notes as operating lease commitments at their nominal value. The currently reported lease commitments at the end of 2017 amounted to 1,429 million euros (see note 2.2 Leasing arrangements for more detail). Based on Finnair's preliminary evaluation, service contracts that relate to the usage of airports and terminals (HEL hub) do not qualify as lease arrangements for IFRS 16 purposes.

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

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

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

5 Other notes

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

5.1 Income taxes

A The tax expense for the period includes current and deferred tax and adjustments to previous years' taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or other equity items.

Deferred taxes are calculated for temporary differences between accounting and taxation using the valid tax rates for future years at the closing date. Deferred tax asset is recognised to the extent that realisation of the related tax benefit through future profits is probable. Temporary differences arise mainly from sales of tangible assets, depreciation and unused tax losses. Deferred tax is recognised for foreign subsidiaries' undistributed earnings only when related tax effects are probable.

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

Income taxes

EUR mill.	2017	2016
Taxes for the financial year		
Current tax	-0.6	-0.5
Adjustments recognised for current tax of prior periods	0.0	0.1
Deferred taxes	-41.1	-20.2
Total	**-41.7**	**-20.6**

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

EUR mill.	2017	2016
Result before taxes	211.1	105.8
Taxes calculated using the Finnish tax rate	-42.2	-21.2
Different tax rates of foreign subsidiaries	0.1	0.1
Tax-exempt income	0.7	1.5
Non-deductible expenses	-0.4	-1.2
Adjustments recognised for taxes of prior periods	0.0	0.1
Income taxes, total	**-41.7**	**-20.6**
Effective tax rate	19.8%	19.5%

Effective tax rate was 19.8% (19.5%). Current tax relates to tax cost accrued in Finnair Kitchen Oy whose control was transferred to Finnair Group during the financial year.

Deferred tax assets and liabilities

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

Changes in deferred taxes during 2017:

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

The estimated amount of confirmed tax losses after the 2017 taxable result is approximately 68 million euros. Confirmed tax losses expire earliest within 5–10 years.

Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.4 million euros (0.3).

Changes in deferred taxes during 2016:

EUR mill.	2015	Recognised in the income statement	Recognised in shareholders' equity	2016
Deferred tax assets and liabilities				
Confirmed losses	51.7	-26.2	3.8	29.3
Employee benefits	0.5	1.8	3.6	6.0
Property, plant and equipment	-59.2	5.8		-53.4
Finance leasing	-3.4	-1.2		-4.7
Other temporary differences	-2.1	-0.4		-2.5
Valuation of derivatives at fair value	21.6		-29.0	-7.5
Total	**9.1**	**-20.2**	**-21.6**	**-32.7**
Deferred tax assets that can be used after more than 12 months	0.5			0.6
Deferred tax liabilities that are expected to realise after 12 months or more	-60.2			-54.4

i = Content of the section
A = Accounting principles

5.2 Disputes and litigation

Finnair reports only cases of which the interest is material and that are not insured. On 31 December 2017 there were no such disputes pending.

5.3 Events after the closing date

Finnair has decided to reschedule the delivery of one A350 aircraft from 2023 to 2019, which means that the remaining eight A350s will be delivered to Finnair between 2018-2022.

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2017	2016
Revenue	6.2	**2,419.4**	**2,102.8**
Other operating income	6.3	78.0	88.0
Operating income		**2,497.5**	**2,190.8**
Materials and services	6.4	1,128.5	1,055.5
Staff expenses	6.5	327.7	287.1
Depreciation and reduction in value	6.6	9.1	12.0
Other operating expenses	6.7	950.9	834.3
Operating expenses		**2,416.3**	**2,188.9**
Operating profit/loss		**81.2**	**2.0**
Financial income and expenses	6.8	-25.9	1.2
Profit/loss before appropriations and taxes		**55.3**	**3.2**
Appropriations	6.9	29.9	128.4
Income taxes	6.10	-16.5	-22.4
Profit/loss for the financial year		**68.6**	**109.2**

Finnair Plc balance sheet

EUR mill.	Note	2017	2016
ASSETS			
Non-current assets			
Intangible assets	6.11	24.0	18.2
Tangible assets	6.12	63.4	56.1
Investments			
Holdings in group undertakings		447,6	448.6
Participating interests		2,5	2.5
Other shares and similar rights of ownership		0,4	0.4
Loan and other receivables	6.14	21,1	223.6
Total investments	6.13	471,6	675.0
Deferred tax assets	6.15	0,0	12.3
Total non-current assets		**559.0**	**761.6**
Current assets			
Current receivables	6.16	787.3	443.1
Marketable securities	6.17	833.0	727.9
Cash and bank equivalents	6.18	146.4	66.5
Total current assets		**1,766.6**	**1,237.5**
TOTAL ASSETS		**2,325.6**	**1,999.1**
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		253.7	252.2
Legal reserve		147.7	147.7
Hedging reserve		42.8	28.3
Retained earnings		101.7	20.5
Profit/loss for the financial year		68.6	109.2
Total equity	6.19	**714.7**	**658.0**
Accumulated appropriations	6.20	20.5	20.4
Provisions	6.21	98.4	83.5
Liabilities			
Non-current liabilities	6.22	406.4	357.2
Current liabilities	6.23	1,085.8	880.1
Total liabilities		**1,492.1**	**1,237.3**
EQUITY AND LIABILITIES TOTAL		**2,325.6**	**1,999.1**

Finnair Plc cash flow statement

EUR mill.	2017	2016
Cash flow from operating activities		
Result before appropriations	55.3	3.2
Depreciation	9.1	12.0
Other non-cash transactions	21.9	-37.9
Financial income and expenses	28.6	-1.2
Changes in working capital	82.3	59.2
Interest and other financial expenses paid	-30.6	-27.8
Received interest and other financial income	2.2	9.9
Cash flow from operating activities	**168.6**	**17.5**
Cash flow from investing activities		
Investments in intangible and tangible assets	-32.6	-38.7
Proceeds from sales of tangible assets	0.4	3.6
Change in long-term receivables	-195.0	67.3
Investments in subsidiaries	2.4	0.0
Proceeds from sales of subsidiaries	0.0	8.0
Received dividends	0.0	17.1
Cash flow from investing activities	**-224.7**	**57.3**
Cash flow from financing activities		
Purchase of own shares	0.0	-4.3
Proceeds from loans	200.0	0.0
Loan repayments and changes	-74.9	-81.7
Hybrid bond repayments	0.0	-38.3
Dividends paid	-12.8	0.0
Received and given group contributions	128.7	139.2
Cash flow from financing activities	**241.0**	**14.8**
Change in cash flows	**184.9**	**89.6**
Change in liquid funds		
Liquid funds, at beginning	794.4	704.8
Change in cash flows	184.9	89.6
Liquid funds, at end	**979.4**	**794.4**

Notes to Finnair Plc financial statements

6.1 Accounting principles

Foreign currency items

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

Derivative contracts

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

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

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

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

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

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

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

Financial assets and liabilities

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

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

Fixed assets and depreciation

Buildings, over 50 years from the time of acquisition to a residual value of 10%.
Other tangible assets, over 3–15 years.
Diminishing balances method, that has been previously used in depreciating some buildings and other tangible assets, has been changed during 2017 to straight-line method. The change did not have significant impact to depreciation amounts of the financial year.

Research and development costs

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

Leasing

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

Appropriations

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

Income taxes

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

Pension schemes

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

Provisions

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

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

6.2 Revenue by business area

EUR mill.	2017	2016
Revenue by division		
	2,419.4	**2,102.8**
Passenger revenue	2,109.0	1,891.4
Ancillary services	108.5	103.2
Other	201.9	108.2
Distribution of turnover by market areas based on flight routes, % of turnover		
Finland	7%	17%
Europe	39%	40%
Other countries	53%	43%
Total	**100%**	**100%**

6.3 Other operating income

EUR mill.	2017	2016
Aircraft lease income	26.0	28.0
Other rental income	27.3	31.9
Capital gains on sales of tangible assets	0.0	0.2
Other income	24.8	27.8
Total	**78.0**	**88.0**

6.4 Materials and services

EUR mill.	2017	2016
Materials and supplies		
Ground handling and catering expenses	283.8	203.5
Fuel costs	472.2	491.5
Aircraft materials and overhaul	235.5	231.1
IT expenses	72.8	68.0
Other items	64.3	61.4
Total	**1,128.5**	**1,055.5**

6.5 Staff costs

EUR mill.	2017	2016
Wages and salaries	254.4	227.2
Pension expenses	48.4	42.1
Other social expenses	25.0	17.7
Total	**327.7**	**287.1**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.6	1.3
Board of Directors	0.4	0.4
Personnel on average	3,761	3,569

6.6 Planned depreciation and amortisation

EUR mill.	2017	2016
On other long-term expenditure	8.4	4.5
On buildings	0.3	6.6
On other equipment	0.5	0.9
Total	**9.1**	**12.0**

6.7 Other operating expenses

EUR mill.	2017	2016
Lease payments for aircraft	306.9	249.6
Other rents for aircraft capacity	117.1	123.3
Office and other rents	35.6	34.0
Traffic charges	266.5	262.8
Sales and marketing expenses	76.4	67.1
Other expenses	148.6	97.5
Total	**950.9**	**834.3**

6.8 Financial income and expenses

EUR mill.	2017	2016
Dividend income		
From group companies	0.0	17.1
Total	**0.0**	**17.1**
Interest income		
From group companies	5.5	5.9
From other companies		
Net gains on debt instruments held mandatorily at FVPL	-0.7	0.7
Other interest income	0.3	0.1
Total	**5.1**	**6.7**
Gains on disposal of shares	2.8	4.1
Interest expenses		
To group companies	0.0	-0.2
To other companies	-28.5	-25.6
Total	**-28.6**	**-25.9**
Other financial expenses		
To group companies	-0.1	-1.6
To other companies	0.0	-0.3
Total	**-0.1**	**-1.9**
Exchange gains and losses	-5.1	1.1
Financial income and expenses total	**-25.9**	**1.2**

6.9 Appropriations

EUR mill.	2017	2016
Change in depreciation difference	-20.1	-0.3
Change in reinvestment provision	20.0	0.0
Received group contribution	30.0	128.7
Total	**29.9**	**128.4**

6.10 Income taxes

EUR mill.	2017	2016
Change in deferred taxes	-16.5	-22.4
Total	**-16.5**	**-22.4**

6.11 Intangible assets

EUR mill.	2017	2016
Other long-term expenditure		
Acquisition cost 1 January	41.8	37.5
Additions	14.1	11.1
Disposals	-3.0	-6.8
Acquisition cost 31 December	**52.9**	**41.8**
Accumulated depreciation 1 January	-23.6	-25.4
Disposals	1.7	6.3
Depreciation and reduction in value	-7.0	-4.5
Accumulated depreciation 31 December	**-28.9**	**-23.6**
Book value 31 December	**24.0**	**18.2**

6.12 Tangible assets

Tangible assets 2017

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

Tangible assets 2016

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 Jan 2016	0.7	24.5	7.2	19.1	51.5
Additions	0.0	0.6	1.6	28.6	30.8
Disposals	0.0	-16.7	-2.3	-0.3	-19.3
Acquisition cost 31 Dec 2016	**0.7**	**8.4**	**6.4**	**47.4**	**63.0**
Accumulated depreciation 1 Jan 2016	0.0	-11.4	-4.2	0.0	-15.5
Disposals	0.0	14.9	1.4	0.0	16.2
Depreciation for the financial year	0.0	-6.6	-0.9	0.0	-7.5
Accumulated depreciation 31 Dec 2016	**0.0**	**-3.1**	**-3.7**	**0.0**	**-6.8**
Book value 31 Dec 2016	**0.7**	**5.3**	**2.7**	**47.4**	**56.1**
The share of machines and equipment in the book value of tangible assets 31 Dec 2016			7.3%		

6.13 Investments

EUR mill.	2017	2016
Group companies		
Acquisition cost 1 January	448.6	452.6
Additions	0.3	0.0
Disposals	-1.3	-4.0
Book value 31 December	**447.6**	**448.6**
Associates and joint ventures		
Acquisition cost 1 January	2.5	2.5
Book value 31 December	**2.5**	**2.5**
Shares in other companies		
Acquisition cost 1 January	0.4	0.4
Book value 31 December	**0.4**	**0.4**

Associates and joint ventures	Share of parent company %
Suomen Ilmailuopisto Oy, Finland	49.50

Group companies	Share of parent company %		Share of parent company %
Finnair Cargo Oy, Finland	100.00	Finnair Travel Retail Oy, Finland	100.00
Finnair Aircraft Finance Oy, Finland	100.00	Finnair Kitchen Oy, Finland	100.00
Northport Oy, Finland	100.00	Kiinteistö Oy Lentokonehuolto, Finland	100.00
Finnair Technical Services Oy, Finland	100.00	Amadeus Finland Oy, Finland	95.00
Finnair Engine Services Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.00
Finnair Flight Academy Oy, Finland	100.00	FTS Financial Services Oy, Finland	100.00
*Nordic Regional Airlines AB, Sweden	100.00	Finnair Business Services OÜ, Estonia	100.00

* Finnair owned 40% of Nordic Regional Airlines AB prior to the transaction, that was closed in November, in which it was transferred to the full ownership of Finnair on an interim basis.

Kiinteistö Oy LEKO 8, Finland and Kiinteistö Oy Air Cargo Center 1, Finland were merged to Finnair Oyj on 31st December 2017. Finnair took a control of LSG Sky Chefs Finland Oy and changed a name to Finnair Kitchen Oy. A/S Aero Airlines, Estonia was removed from the Estonian Business Register on 29th August 2017.

6.14 Non-current loan and other receivables

EUR mill.	2017	2016
From group companies	19.6	222.1
From other companies	1.5	1.5
Total	**21.1**	**223.6**

6.15 Deferred tax assets

EUR mill.	2017	2016
Change in accounting principles	3.8	0.0
Deferred tax assets 1 January	12.3	65.3
From result for the financial year	-16.5	-22.1
From temporary differences	0.0	-0.2
Taxes from previous periods	0.0	-0.1
From valuation of derivates at fair value	-3.6	-30.6
Offset against deffered tax liabilities	4.0	0.0
Deferred tax assets 31 December	**0.0**	**12.3**

6.16 Current receivables

EUR mill.	2017	2016
Short-term receivables from group companies		
Trade receivables	27.4	26.6
Received Group contribution	30.0	128.7
Accrued income and prepaid expenses	2.6	4.4
Other receivables	426.2	25.6
Total	**486.2**	**185.2**
Short-term receivables from associates and joint ventures		
Trade receivables	0.0	8.7
Total	**0.0**	**8.7**
Short-term receivables from others		
Trade receivables	123.5	85.6
Prepaid expenses	68.8	54.3
Derivative financial instruments	100.7	74.3
Other receivables	8.1	34.9
Total	**301.1**	**249.1**
Short-term receivables total	**787.3**	**443.1**

6.17 Investments

EUR mill.	2017	2016
Short-term investments at fair value	833.0	727.9

6.18 Cash and bank equivalents

EUR mill.	2017	2016
Funds in bank accounts and deposits maturing in three months	146.4	66.5

6.19 Equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 31 Dec 2016	**75.4**	**24.7**	**147.7**	**28.3**	**252.2**	**129.6**	**658.0**
Change in accounting principles				15.2		-15.2	0.0
Equity 1 Jan 2017	**75.4**	**24.7**	**147.7**	**43.5**	**252.2**	**114.5**	**658.0**
Change in fair value of equity instruments				-0.7			-0.7
Share-based payments					1.6		1.6
Dividend						-12.8	-12.8
Result for the financial year						68.6	68.6
Equity 31.12.2017	**75.4**	**24.7**	**147.7**	**42.8**	**253.7**	**170.3**	**714.7**

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1 Jan 2016	**75.4**	**24.7**	**147.7**	**-94.1**	**250.4**	**24.8**	**428.9**
Change in fair value of hedging instruments				122.5			122.5
Share-based payments					1.7		1.7
Purchase of own shares						-4.3	-4.3
Result for the financial year						109.2	109.2
Equity 31 Dec 2016	**75.4**	**24.7**	**147.7**	**28.3**	**252.2**	**129.6**	**658.0**

Distributable equity

EUR mill.	2017	2016
Unrestricted equity funds	253.7	252.2
Retained earnings	101.7	20.5
Profit/loss for the financial year	68.6	109.2
Total	**424.0**	**381.8**

6.20 Accumulated appropriations

EUR mill.	2017	2016
Accumulated depreciation difference 1 January	0.3	0.0
Change in depreciation difference	20.1	0.3
Accumulated depreciation difference 31 December	**20.5**	**0.3**

EUR mill.	2017	2016
Accumulated reinvestment provision 1 January	20.0	20.0
Change in reinvestment provision	-20.0	0.0
Accumulated reinvestment provision 31 December	**0.0**	**20.0**
Accumulated appropriations total	**20.5**	**20.4**

6.21 Provisions

EUR mill.	2017	2016
Provisions 1 January	83.5	89.8
Provision for the period	42.6	42.6
Provision used	-16.0	-50.8
Exhange rate differences	-11.8	2.0
Provisions 31 December	**98.4**	**83.5**
Of which long-term	78.3	62.0
Of which short-term	20.1	21.5
Total	**98.4**	**83.5**

Long-term aircraft maintenance provisions are expected to be used by 2029.

6.22 Non-current liabilities

EUR mill.	2017	2016
Loans from group companies	0.0	1.0
Bonds	200.0	153.6
Hybrid loan	200.0	200.0
Deferred tax liability total	4.0	0.0
Other liabilities	2.4	2.5
Total	**406.4**	**357.2**
Maturity of interest-bearing liabilies		
1-5 years	200.0	
after 5 years	200.0	
Total	**400.0**	

6.23 Current liabilities

EUR mill.	2017	2016
Current liabilities to group companies		
Trade payables	40.5	37.9
Accruals and deferred income	20.6	4.5
Group bank account liabilities	130.6	119.8
Total	**191.7**	**162.2**
Current liabilities to others		
Loans from financial institutions	65.6	0.0
Advance payments received	0.1	0.1
Trade payables	73.5	82.8
Accruals and deferred income	739.3	616.4
Other liabilities	15.7	18.6
Total	**894.1**	**717.9**
Current liabilities total	**1,085.8**	**880.1**
Accruals and deferred income		
Unflown air transport revenues	384.9	348.3
Jet fuels and traffic charges	74.7	67.8
Holiday payment liability	56.7	52.8
Loyalty program Finnair Plus	40.9	33.6
Derivative financial instruments	35.5	17.4
Other items	146.6	101.1
Total	**739.3**	**620.9**

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2017	2016
Guarantees and contingent liabilities		
On behalf of group companies	71.0	69.0
On others companies	0.0	0.0
Total	**71.0**	**69.0**
Aircraft lease payments		
Within one year	364.2	297.7
After one year and not later than 5 years	1,618.7	1,399.1
Later than 5 years	420.9	355.6
Total	**2,403.8**	**2,052.4**

Parent company has leased the aircraft fleet from the fully owned subsidiary.

EUR mill.	2017	2016
Other lease payments		
Within one year	27.9	27.7
After one year and not later than 5 years	55.4	92.5
Later than 5 years	180.9	168.9
Total	**264.3**	**289.1**
Pension obligations		
Total obligation of pension fund	334,1	331.0
Non-mandatory benefit covered	-334,1	-331.0
Total	**0.0**	**0.0**

6.25 Derivatives

	2017				2016			
EUR mill.	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Jet fuel currency hedging					307.3	16.6	-0.1	16.5
Operational cash flow hedging (forward contracts)	385.2	5.8	-16.3	-10.5				
Operational cash flow hedging, bought options	195.1	5.1		5.1				
Operational cash flow hedging, sold options	200.1		-4.0	-4.0				
Hedge accounting items total	**780.4**	**10.9**	**-20.3**	**-9.4**	**307.3**	**16.6**	**-0.1**	**16.5**
Operational cash flow hedging (forward contracts)					157.4	5.3	-2.1	3.3
Operational cash flow hedging, bought options					173.2	5.9	0.0	5.9
Operational cash flow hedging, sold options					245.4	0.0	-2.4	-2.4
Items outside hedge accounting total					**576.0**	**11.2**	**-4.5**	**6.7**
Currency derivatives total	**780.4**	**10.9**	**-20.3**	**-9.4**	**883.3**	**27.8**	**-4.6**	**23.2**
Commodity derivatives								
Jet fuel forward contracts, tonnes	808,000	58.3		58.3	650,000	26.9	-8.0	18.9
Bought options, jet fuel, tonnes	91,000	4.8		4.8				
Sold options, jet fuel, tonnes	91,000		-0.1	-0.1				
Electricity derivatives, MWh					13,140	0.0	0.0	0.0
Hedge accounting items total		**63.1**	**-0.1**	**63.0**		**26.9**	**-8.0**	**18.9**
Jet fuel forward contracts, tonnes					24,000	0.7	-0.2	0.6
Bought options, jet fuel, tonnes					236,000	13.3		13.3
Sold options, jet fuel, tonnes	37,000		-0.4	-0.4	472,000		-4.4	-4.4
Electricity derivatives, MWh					0	0.0	0.0	0.0
Items outside hedge accounting total		**0.0**	**-0.4**	**-0.4**		**14.0**	**-4.6**	**9.4**
Commodity derivatives total		**63.1**	**-0.5**	**62.7**		**41.0**	**-12.6**	**28.4**
Interest rate derivatives								
Interest rate swaps	64.9	0.7	0.0	0.7	150.0	3.7	0.0	3.6
Hedge accounting items total	**64.9**	**0.7**	**0.0**	**0.7**	**150.0**	**3.7**	**0.0**	**3.6**
Interest rate derivatives total	**64.9**	**0.7**	**0.0**	**0.7**	**150.0**	**3.7**	**0.0**	**3.6**
Equity derivatives								
Bought options, millions	3.0	26.0		26.0	3.0	1.8		1.8
Sold options, millions	3.0		-14.7	-14.7	3.0		-0.2	-0.2
Hedge accounting items total	**6.0**	**26.0**	**-14.7**	**11.3**	**6.0**	**1.8**	**-0.2**	**1.6**
Equity derivatives total	**6.0**	**26.0**	**-14.7**	**11.3**	**6.0**	**1.8**	**-0.2**	**1.6**
Derivatives total *		**100.7**	**-35.5**	**65.2**		**74.3**	**-17.4**	**56.9**

* Positive (negative) fair value of hedging instruments on 31 Dec 2017 is presented in the statement of financial position in the item derivative assets within current assets (derivative liabilities within current liabilities).

6.26 Financial assets and liabilities measured at fair value

Fair value hierarchy of financial assets and liabilities valued at fair value
Fair values at the end of the reporting period

EUR mill.	31.12.2017	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	833.0	735.0	98.0
Derivatives held for trading			
Currency and interest rate swaps and options	0.7		0.7
- of which in fair value hedge accounting	0.7		0.7
Currency derivatives	10.9		10.9
- of which in cash flow hedge accounting	10.9		10.9
Commodity derivatives	63.1		63.1
- of which in cash flow hedge accounting	63.1		63.1
Equity derivatives	26.0		26.0
- of which in fair value hedge accounting	26.0		26.0
Total	**933.6**	**735.0**	**198.7**
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	20.3		20.3
- of which in cash flow hedge accounting	20.3		20.3
Commodity derivatives	0.5		0.5
- of which in cash flow hedge accounting	0.1		0.1
Equity derivatives	14.7		14.7
- of which in fair value hedge accounting	14.7		14.7
Total	**35.5**		**35.5**

6.27 Fuel price risk in flight operationsi

Timing of the notional and hedged price

			Maturity	
31.12.2017	**Hedged price $/tonne**	**Notional amount (tonnes)**	**Under 1 year**	**1 to 2 years**
Jet fuel consumption priced with NWE index	535.9	962,407	736,407	226,000
Jet fuel consumption priced with SING index	535.8	64,593	64,593	

Foreign exchange risk

			Maturity	
Timing of the notional EUR mill. **31.12.2017**	**Average exchange rate of hedging instruments against the euro**	**Notional amount (gross)**	**Less than 1 year**	**1 to 2 years**
USD	1.14	502.9	350.8	152.1
JPY	129.3	277.5	213.1	64.4

Interest rate risk

Timing of the notional and hedged price range EUR mill. **31.12.2017**	**Notional amount (gross)**	**Maturity Less than 1 year**
Interest rate derivatives	64.9	64.9

Calculation of key ratios

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

Items affecting comparability:
Gains and losses on aircraft and other transactions and restructuring costs

Comparable EBITDAR:
Comparable operating result + depreciation + lease payments for aircraft

EBITDA:
Operating result + depreciation

Shareholders' equity:
Equity attributable to owners of the parent

Gross capital expenditure:
Investments in intangible and tangible assets excluding advance payments

Liquid funds:
Cash and cash equivalents + other financial assets

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

Interest-bearing net debt:
Adjusted interest-bearing liabilities - liquid funds

Adjusted interest-bearing net debt:
Interest-bearing net debt + 7 × lease payments for aircraft

Average capital employed:
Equity + interest-bearing liabilities (average of reporting period and comparison period)

Earnings per share:

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

Equity/share:

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

Dividend/earnings, %:

$$\frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$$

Dividend yield, %:

$$\frac{\text{Dividend/share}}{\text{Share price at the end of the financial year}} \times 100$$

Cash flow from operating activities/share:

$$\frac{\text{Cash flow from operating activities}}{\text{Average number of shares during the financial year, adjusted for share issues}}$$

Price/earnings ratio (P/E):

$$\frac{\text{Share price at the end of the financial year}}{\text{Earnings/share}}$$

Equity ratio, %:

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

Gearing, %:

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

Adjusted gearing, %:

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

Return on equity (ROE), %:

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

Return on capital employed (ROCE), %:

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

Available seat kilometres (ASK):
Total number of seats available × kilometres flown

Revenue passenger kilometres (RPK):
Number of revenue passengers × kilometres flown

Passenger load factor (PLF), %:
Share of revenue passenger kilometres of available seat kilometres

Available cargo tonne kilometres (cargo ATK):
Number of tonnes of capacity for carriage of cargo and mail × kilometres flown

Revenue cargo tonne kilometres (cargo RTK):
Total revenue load consisting of cargo and mail × kilometres flown

Overall load factor, %:
Share of revenue tonne kilometres of available tonne kilometres

Revenue per available seat kilometre (RASK):
Unit revenue (RASK) represents the Group's revenue divided by available seat kilometres (ASK).

Unit revenue (RASK) with constant currency aims to provide a comparative, currency neutral measurement for unit revenues. All the currency changes and currency hedging results are excluded from the measurement.

Cost per available seat kilometre (CASK):
Unit cost (CASK) represents the Group's operational costs divided by available seat kilometres. Other operating income is deducted from operational costs.

Unit cost (CASK) with constant currency aims to provide a comparative, currency neutral measurement for unit costs. All the currency changes and currency hedging results are excluded from the measurement.

Unit revenue per revenue passenger kilometre (yield):
Passenger Revenue by product divided by Revenue passenger kilometres (RPK).

Cargo traffic unit revenue per revenue cargo tonne kilometre:
Cargo Revenue by product divided by Revenue cargo tonne kilometres (cargo RTK).

Board of Directors' proposal on the dividend

Finnair Plc's distributable equity on 31 December 2017 amounts to 424,036,052.14 euros, of which the net result for the financial year 2017 is 68,644,816.95 euros. There have been no material changes in the company's financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.30 euros per share be paid based on the balance sheet to be adopted for the financial year, which ended on 31 December 2017, and the remaining portion of the result be retained in the equity. Based on the number of outstanding shares as of 15 February 2018, the total amount of dividend proposed to be paid is 38,310,824.40 euros.

Signing of the Report of the Board of Directors and the Financial Statements

Helsinki, 15 February 2018
The Board of Directors of Finnair Plc

Jouko Karvinen

Colm Barrington

Mengmeng Du

Maija-Liisa Friman

Jussi Itävuori

Jonas Mårtensson

Jaana Tuominen

Pekka Vauramo
President and CEO of Finnair Plc

AUDITOR'S REPORT (TRANSLATION FROM THE FINNISH ORIGINAL)

To the Annual General Meeting of Finnair Oyj

Report on the audit of the financial statements

Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

- We have audited the financial statements of Finnair Oyj (business identity code 0108023-3) for the year ended 31 December 2017. The financial statements comprise:
- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

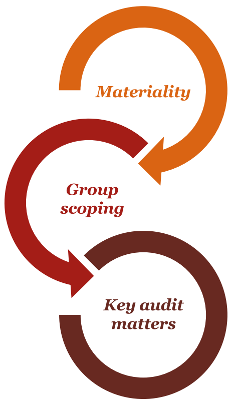
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 1.3.3 to the Financial Statements.

Our audit approach

Overview



Materiality

- Overall group materiality: € 12 000 000 which represents approximately 0.5% of Group's revenues

Group scoping

- Audit scope: We have audited parent company and four the most significant subsidiaries. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.

Key audit matters

- Deferred revenue on ticket sales
- Aircraft maintenance provision
- Defined employee benefit plans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 12,000,000 (previous year € 12,000,000)
How we determined it	0.5% of revenues
Rationale for the materiality benchmark applied	The group's profitability has been volatile over the last few years and has been significantly impacted by items affecting comparability. Therefore, we chose revenues as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans, and which we believe is also the benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark. We chose 0.5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Group operates domestically through several legal entities. In addition, Group has few small legal entities outside Finland. Group's sales is mainly generated by parent company and we have audited the parent company as part of our audit of consolidated financial statements. In addition, we have audited four the most significant subsidiaries. We have considered that the remaining subsidiaries don't present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to targeted audit procedures over significant balances and to analytical procedures performed at Group level.

By performing the procedures above at legal entities, combined with additional procedures at the Group level, we have obtained sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Deferred revenue on ticket sales	
Airline tickets are typically sold in advance when payments received are recognized as deferred revenue. The deferred revenue related to unflown tickets amounted €385.2 million as of December 31, 2017. Airline ticket sales are recognised as revenue when the flight is flown or when ticket has expired. Revenue recognition related to expired tickets is done manually. This manual adjustment is based on the expiry of the tickets when Finnair has no obligation to return the related payment to customer. Due to magnitude of the balance and related manual adjustment we consider this as a key audit matter in the audit of the Group. This matter is a significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	We evaluated the design and tested the operating effectiveness of certain controls over revenue recognition. We have tested a sample of tickets recognized as revenues. We have tested a sample of unused tickets in the deferred revenue. We have performed computer assisted audit procedures to deferred revenue related to unflown tickets.
Aircraft maintenance provision	
Refer to note 1.3.5 to the consolidated financial statements for the related disclosures. The Group operates aircrafts which are owned or held under finance or operating lease arrangements. The Group is obligated to return leased aircraft at the required redelivery condition agreed with the lessor. To fulfil these maintenance obligations the Group has recognized airframe heavy maintenance, engine performance maintenance and engine life limited part provisions which amounted €97.3 million as of December 31, 2017. Liabilities for maintenance costs are incurred during the term of the lease in respect of aircraft leased under operating leases. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor. At each balance sheet date, the maintenance provision is calculated using a model that incorporates a number of variable factors and assumptions including: likely utilisation of the aircraft; the expected cost of the heavy maintenance check at the time it is expected to occur; and the expected occurrence of the heavy maintenance check. We focused on this area because of an inherent level of management judgement required in calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.	We evaluated the maintenance provision model and tested the calculations therein. This included assessing the process by which the variable factors within the provision were estimated, evaluating the reasonableness of the assumptions, testing the input data and testing mathematical accuracy of the calculations. In particular, we challenged the key assumptions that were based on the Group's internal data, such as expected timing and cost of maintenance checks and maintenance contract terms. We also evaluated the provision and the key assumptions in the light of actual utilisation in the year.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Defined employee benefit plans	
Refer to note 1,3.7.2 to the consolidated financial statements for the related disclosures. The group has defined employee benefit plans where amount of pension benefit that an employee will receive on retirement is defined and that is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit liability amounted to €6.4 million as of December 31, 2017. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Calculation of the defined benefit obligation requires use of actuarial assumptions such as life expectancy, inflation and future salary increases. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The plan assets are valued at fair value as of December 31, 2017 and valuation involve use of judgment in particular relating to unlisted investments. We considered valuation of the defined benefit obligation and plan assets as a key audit matter in the audit of the Group due to materiality of the related balances and judgments involved in these estimates.	We have used auditors expert to review the actuarial statement prepared by independent actuaries. This has included assessment of the appropriateness of the actuarial assumptions used in calculating the defined benefit obligation. We have tested valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at the year end. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price or prior year audited valuation and publicly available information on similar investments and compared that to the management valuation.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Finnair Oyj by the annual general meeting on 14.8.1964 and our appointment represents a total period of uninterrupted engagement of 53 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Other statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 15 February 2018
PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant

TAX FOOTPRINT

Tax principles

Finnair's principle is to pay, collect, remit and report the indirect and direct taxes it is subject to in each country according to local laws and regulations. High-quality tax returns and reports are very important to Finnair and, as a result, we prepare tax returns carefully and submit them on time. Finnair also discusses openly with tax authorities. The aim of Finnair's tax principle is to support business decisions and to ensure their appropriate implementation, also from the perspective of taxation. Finnair Group does not have any structures in place in order to transfer taxable income from Finland to jurisdictions with lower tax rates.

Taxes related to international business operations

Finnair's international business operations are mainly related to the sales of flight tickets and cargo through Finnair Plc's foreign sales units, as well as local sales promotion activities. Sales units are not separate legal entities. The sales units' income is taxed pursuant to the regulations and double tax treaties pertaining to the international airline business as part of the parent company's taxable income in Finland. The operations of Finnair's foreign subsidiaries in 2017 and 2016 have been primarily related to travel and back office services, and they are very minor in scale relative to the Group's business operations as a whole. Finnair has also minor holdings (less than 20%) in some insurance captives located in Guernsey for business reasons, the results of which are subject to taxation in Finland.

Finnair's taxable operations in individual countries outside of Finland are minor in scale. Hence, the table below presents Finland separately and all other countries together. Country level information for subsidiaries is found in the second table on this page. Country level specification for taxes paid and collected outside Finland is found on the next page.

Finnair's operations in Finland and in other countries	2017 Finland*	2017 Other countries	2017 Total	2016 Finland*	2016 Other countries	2016 Total
Revenue, EUR million	2,557.7	10.8	2,568.4	2,307.9	8.8	2,316.8
Result before taxes, EUR million	210.6	0.5	211.1	105.1	0.6	105.8
Number of personnel	5,034	492	5,526	4,408	500	4,908

* Figures include also sold and acquired subsidiaries from the time they were part of Finnair group. Internal turnover has been eliminated.

Finland 2017 figures include Finnair Kitchen Oy and Finland 2016 figures include SMT Oy for the time the companies were part of the Group. Finnair Group's foreign operative subsidiaries are located in Estonia, where income tax is due in connection with distribution of dividends. The Group has also a dormant subsidiary in Russia. Specification for revenue, result before taxes, income tax payable and number of personnel is presented in the below table.

Finnair's operations in other countries	2017 Estonia	2017 Russia	2017 Total	2016 Estonia	2016 Russia	2016 Total
Revenue, EUR million	10.8	0.0	10.8	8.8	0.0	8.8
Result before taxes, EUR million	0.5	0.0	0.5	0.6	0.0	0.6
Income taxes payable	0.0	0.0	0.0	0.0	0.0	0.0
Number of personnel	186	0	186	188	0	188

Profits of sales units are taxed in accordance with regulations and double tax treaties pertaining to the international airline business and hence, revenue, result before taxes, income tax payable and number of personnel in other countries are not separately adopted in financial statements. Specification of taxes paid and collected in other countries is presented overleaf.

Direct taxes payable, EUR million	2017 Finland*	2017 Other countries	2017 Total	2016 Finland*	2016 Other countries	2016 Total
Employer contributions	5.0	2.1	7.1	5.7	1.8	7.5
Property taxes	0.4	0.0	0.4	0.6	0.0	0.6
Other taxes	1.4	0.1	1.4	1.7	0.0	1.7
Public subsidies received	-2.1	0.0	-2.1	-2.1	0.0	-2.1
Taxes included in direct operating expenses and subsidies in total	**4.7**	**2.1**	**6.9**	**5.9**	**1.8**	**7.7**
Income taxes payable*	20.1	0.0	20.1	22.6	0.0	22.6
Total direct taxes payable	**24.8**	**2.1**	**26.9**	**28.4**	**1.8**	**30.3**

* Income taxes payable are tax expenses recorded based on the taxable result, which has been utilised against confirmed tax losses. Figures include also sold and acquired subsidiaries from the time they were part of Finnair group.

Other taxes primarily include environmental and electricity taxes. Due to the nature of the international airline business, jet fuel is tax-free. Public subsidies mainly consist of subsidies received for training and they are primarily related to the aviation training services provided by Finnair. The reported public subsidies do not include subsidies paid to the airline business by the authorities in other countries, as they are considered business secrets. The reported public subsidies, however, include a subsidy of 0.1 million euros (0.0) relating to Enontekiö region's tourism promotion received in 2017 from a Finnish authority.

Finnair has confirmed losses in taxation from previous tax periods amounting to approximately 147 million euros. The estimated amount of confirmed tax losses after 2017 taxable result is approximately 68 million euros. The confirmed tax losses can be utilised against positive taxable income over the next five to ten years. Income tax (cash tax) becomes due for payment only when previous losses have been utilised in full.

More detailed specification of employer contributions paid in other countries is found on the next page.

More information on direct taxes, such as the taxes pursuant to the consolidated income statement, deferred tax assets and liabilities, and the adjustment of the effective tax rate, is presented in Note 5.1 in Finnair's consolidated financial statements.

Indirect taxes collected for the financial year, EUR million	2017 Finland*	2017 Other countries	2017 Total	2016 Finland*	2016 Other countries	2016 Total
Value added taxes, sales	90.4	1.0	91.5	77.0	0.8	77.8
Value added taxes, purchases	118.8	4.9	123.8	103.6	4.9	108.5
Value added taxes, net	**-28.4**	**-3.9**	**-32.3**	**-26.6**	**-4.1**	**-30.7**
Withholding taxes on wages and salaries and other indirect taxes	92.6	2.5	95.1	87.0	2.8	89.7
Excise taxes	0.4	0.1	0.5	0.4	0.0	0.4
Total	**64.6**	**-1.4**	**63.2**	**60.7**	**-1.2**	**59.5**

* Figures include also sold and acquired subsidiaries from the time they were part of Finnair group.

The most significant indirect taxes collected during the financial year are withholding tax liabilities, value added taxes and excise taxes. Finnair was subject to tax audit in 2016 which resulted in Finnish withholding tax payable relating to Finnair's own foreign crew. Reassessed taxes have been paid and included in withholding taxes on wages and salaries in 2016.

The passenger tariffs collected from flight passengers are not considered as tax-like payments remitted to the authorities subject to reporting as part of the tax footprint, as these payments are usually remitted to private or public parties responsible for airport operations. More detailed specification of taxes collected in other countries is found overleaf.

Country specific information for 2017 is presented below only regarding countries where the amount of taxes paid, collected or deducted is at least 0.05 million euros. Countries where this threshold is not met are presented as two areas below. The figures below include taxes paid and collected by subsidiaries and sales units.

2017 Country specification, EUR million	Employer contributions	Value added taxes, sales	Value added taxes, purchases	Value added taxes, net	Withholding taxes on wages and salaries	Total
Countries						
Estonia	0.9	0.2	0.2	0.0	0.5	1.3
China	0.3	0.0	0.0	0.0	0.4	0.7
Belgium	0.1	0.0	0.0	0.0	0.2	0.2
Greece	0.0	0.2	0.0	0.2	0.0	0.2
USA	0.0	0.0	0.0	0.0	0.1	0.1
Italy	0.0	0.1	0.0	0.1	0.1	0.1
Russia	0.0	0.0	0.0	0.0	0.1	0.1
Spain	0.1	0.1	0.2	-0.1	0.1	0.1
Australia	0.0	0.0	0.1	-0.1	0.1	0.0
Switzerland	0.0	0.0	0.1	-0.1	0.1	0.0
Sweden	0.2	0.0	0.3	-0.3	0.2	0.0
Singapore	0.0	0.0	0.1	-0.1	0.0	0.0
France	0.0	0.1	0.1	-0.1	0.0	-0.1
Denmark	0.0	0.0	0.1	-0.1	0.0	-0.1
South-Korea	0.0	0.0	0.2	-0.2	0.0	-0.1
Germany	0.0	0.1	0.4	-0.3	0.1	-0.1
Norway	0.0	0.0	0.5	-0.5	0.1	-0.4
Japan	0.2	0.1	1.2	-1.1	0.5	-0.4
Thailand	0.0	0.0	0.5	-0.5	0.0	-0.4
The UK	0.0	0.1	0.8	-0.7	0.0	-0.7
Areas						
Other Europe countries*	0.1	0.2	0.1	0.1	0.1	0.2
Rest of the world**	0.0	0.0	0.0	0.0	0.0	0.0
Total	**2.1**	**1.0**	**4.9**	**-3.9**	**2.5**	**0.6**

* Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Hungary, Ireland, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Slovakia and Slovenia

** Canada and India

Employer contributions paid relate to mandatory employer payments regarding employees located outside of Finland. Withholding taxes on salary are collected based on local legislation. Value added taxes on sales and purchases relate mainly to passenger sales and cargo services.

Total amount of excise taxes outside Finland in 2017 and 2016 has been less than 0.1 million euros and, hence. this information is not presented on a country-by-country basis.

Country specific information for 2016 is presented below only regarding countries where the amount of taxes paid, collected or deducted is at least 0.05 million euros. Countries where this threshold is not met are presented as two areas below. The figures below include taxes paid and collected by subsidiaries and sales units.

2016 Country specification, EUR million	Employer contributions	Value added taxes, sales	Value added taxes, purchases	Value added taxes, net	Withholding taxes on wages and salaries	Total
Countries						
Estonia	0.7	0.0	0.1	-0.1	0.4	1.0
China	0.2	0.0	0.0	0.0	0.5	0.7
USA	0.0	0.0	0.0	0.0	0.1	0.1
Italy	0.0	0.1	0.1	0.0	0.1	0.1
Greece	0.0	0.1	0.0	0.1	0.0	0.1
Australia	0.0	0.0	0.1	-0.1	0.2	0.1
Russia	0.0	0.0	0.0	0.0	0.1	0.1
Belgium	0.1	0.0	0.0	0.0	0.0	0.1
Spain	0.1	0.0	0.1	-0.1	0.1	0.0
Switzerland	0.0	0.0	0.0	0.0	0.1	0.0
Sweden	0.1	0.1	0.5	-0.4	0.2	0.0
France	0.0	0.1	0.1	-0.1	0.0	0.0
Denmark	0.0	0.0	0.1	-0.1	0.1	0.0
Singapore	0.0	0.0	0.1	-0.1	0.0	0.0
South-Korea	0.0	0.0	0.2	-0.2	0.0	-0.1
Germany	0.0	0.1	0.4	-0.3	0.1	-0.2
Norway	0.0	0.0	0.5	-0.5	0.2	-0.2
Japan	0.3	0.1	1.3	-1.2	0.6	-0.3
Thailand	0.0	0.0	0.4	-0.4	0.0	-0.4
The UK	0.0	0.0	0.7	-0.7	0.0	-0.6
Areas						
Other EU-countries*	0.1	0.2	0.1	0.0	0.0	0.1
Rest of the world**	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.8**	**0.8**	**4.9**	**-4.1**	**2.8**	**0.6**

* Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Hungary, Ireland, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Slovakia and Slovenia

** Canada and India

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT 2017

Contents

Regulatory framework

This Corporate Governance Statement is prepared in accordance with the Finnish Corporate Governance Code 2015 for listed companies. It sets out the governing bodies and the principles of governance of Finnair Plc. Finnair complies with the recommendations of the Code without exceptions.

The principal legislative authorities on corporate governance of Finnish listed companies are the Companies Act, the Securities Market Act, the Market Abuse Regulation (MAR), the regulations and guidelines issued by the Financial Supervisory Authority, the rules and instructions for listed companies issued by Nasdaq Helsinki and the Finnish Corporate Governance Code, all of which are complied with by Finnair. Company specific authorities on the governance of Finnair are the Articles of Association and the charters and policies specified Finnair's Board of Directors and Executive Board.

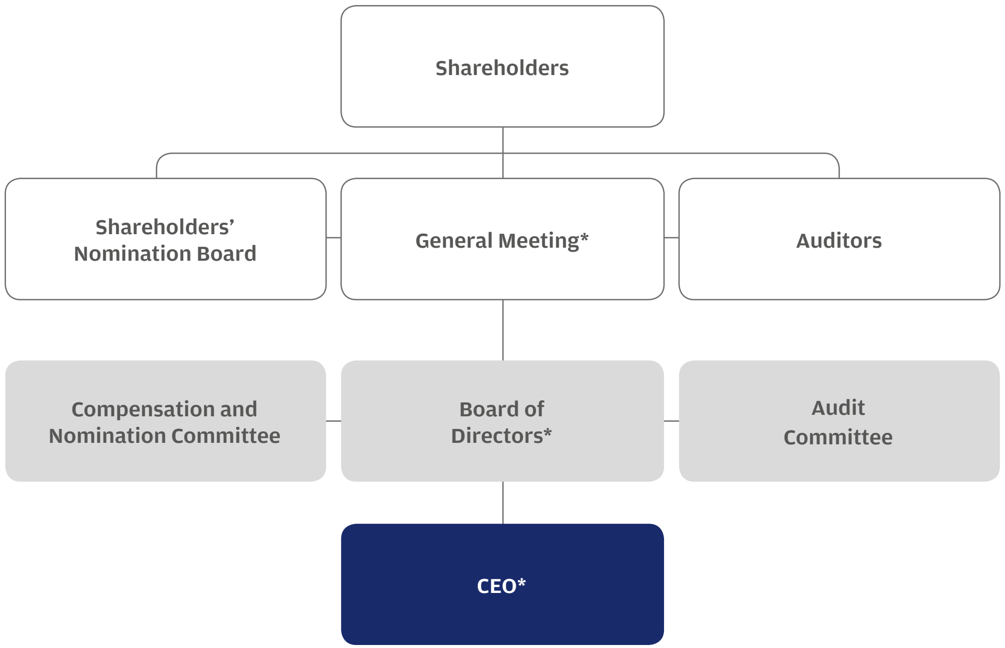
The Articles of Association, the published policies and other additional information on Finnair's corporate governance can be found at Finnair's website at https://investors.finnair.com/en/governance. The Corporate Governance Code is publicly available on the website of the Securities Market Association at www.cgfinland.fi.

This statement has been reviewed by Finnair's Audit Committee and the Board of Directors, and it has been prepared as a separate report from the Board of Directors' Report. Finnair's audit firm, Pricewaterhouse-Coopers, has verified that the description of the main features of internal control and risk management related to the financial reporting process contained in this statement and in the financial statements are consistent with each other.

Governing bodies

The governing bodies of Finnair pursuant to the Companies Act and the Articles of Association are the General Meeting of Shareholders, the Board of Directors (the "Board") and the Chief Executive Officer (the "CEO"). The roles of the governing bodies are described below.

Governing bodies of Finnair*)



General Meeting of Shareholders

The ultimate authority in Finnair is vested in the General Meeting of Shareholders. An Annual General Meeting (the "AGM") must be held each year by the end of May.

The competence of the General Meeting of Shareholders is set out in the Companies Act and in Finnair's Articles of Association. The AGM shall annually decide on the following matters:

- adoption of the financial statements and the consolidated financial statements
- the use of the profit shown on the balance sheet
- the discharging of the Members of the Board and the CEO from liability
- the appointment of the Members of the Board and their remuneration
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

The Board convenes the General Meetings of Shareholders by publishing a notice not earlier than three months and not later than three weeks before the date of the meeting and always at least nine days before the record date of the meeting. The notice shall be published as a stock exchange release and on Finnair's website.

Each shareholder who is registered on the record date as a shareholder in the company's public register of shareholders, maintained by Euroclear Finland Oy, has the right to participate in the General Meeting of Shareholders. If a holder of nominee-registered shares wishes to participate in the meeting, he or she has to register temporarily in the register of shareholders. Furthermore, in order to attend the meeting, a shareholder must register for the meeting in the manner defined in the notice convening the meeting.

A shareholder has the right to have a matter falling within the competence of the General Meeting of Shareholders addressed by the meeting, if the shareholder so demands in writing from the Board by the date announced on Finnair's website.

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair's website within two weeks of the meeting.

2017 Annual General Meeting

Finnair's AGM 2017 was held in Helsinki on 16 March. A total of 263 shareholders, representing 69.5 per cent of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members, candidates for Board membership and the auditors of the company were present in the meeting.

Auditor

The company's auditor in 2017 was PricewaterhouseCoopers, and Mr. Mikko Nieminen acted as the auditor with principal responsibility. The audit fees paid in 2017 amounted to 0.3 million euros, and the fees for other services rendered amounted to 0.4 million euros.

Shareholders' Nomination Board

The AGM 2013 decided to establish a permanent Shareholders' Nomination Board. The term of the Nomination Board continues until further notice. The previous practice since 2008 was that a Shareholders' Nomination Committee was established annually by the AGMs.

The purpose and task of the Nomination Board is to prepare and present to the AGM, and if necessary, to an Extraordinary General Meeting, proposals on the remuneration of the members of the Board, on the number of members of the Board and on the members of the Board. In addition, the task of the Nomination Board is to seek potential future candidates for Board members. The Nomination Board shall forward its proposals to the company's Board by 31 January each year.

The Nomination Board consists of four members nominated annually. The company's three largest shareholders appoint three of the members, and the current Chairman of the Board serves as the fourth member. The Nomination Board appoints its chairman from among its members. The company's largest shareholders entitled to appoint members to the Nomination Board are determined on the basis of the registered holdings in the company's shareholder register held by Euroclear Finland Oy as of the first working day in September each year. In the event that a shareholder does not wish to exercise its right to appoint a representative, such right passes to the next largest shareholder.

The members of the Nomination Board are not remunerated by Finnair for their membership in the Nomination Board. The members' expenses are reimbursable in accordance with the company's expense policy. In addition, the Nomination Board's costs of using external experts shall be borne by the company.

The Charter of the Nomination Board is available at the company website.

2016 Nomination Board

The 2016 Nomination Board consisted of the representatives of three largest shareholders as at the first working day in September 2016 i.e. the State of Finland, Keva and Varma, and of the Chairman of the Board. The composition of the 2016 Nomination Board was the following:

- Mr. Eero Heliövaara, b. 1956, M. Sc. (Econ.), M. Sc. (Eng.), Director General in the Ownership Steering in the Prime Minister's Office (Chairman)
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva
- Mr. Reima Rytsölä, b. 1969, M.Soc.Sc, EVP Investments, Varma Mutual Pension Insurance Company
- Mr. Klaus Heinemann, b. 1951, Diplom Kaufmann, Chairman of the Board of Finnair until March 16th 2017

The Nomination Board convened 3 times and the participation rate was 100%. On 25 January, 2017, the Shareholders' Nomination Board submitted to the Board of Directors its proposals for the AGM to be held on 16 March 2017. The proposals are available at Finnair's website.

2017 Nomination Board

The 2017 Nomination Board consisted of the representatives of first, third and fourth largest shareholders as at the first working day in September 2017 i.e. the State of Finland, Mr. Heikki Kyöstilä and Mutual Pension Insurance Company Ilmarinen, and of the Chairman of the Board. The composition of the 2017 Nomination Board was the following:

- Mr. Pekka Timonen, b. 1960, Director General of Ministry of Economic Affairs and Employment (Chairman)
- Mr. Heikki Kyöstilä, b. 1946, Managing Director of Planmeca Oy
- Mr. Mikko Mursula, b. 1966, Chief Investment Officer of Mutual Pension Insurance Company Ilmarinen
- Mr. Jouko Karvinen, see details on page 118. Chairman of the Board of Finnair.

The Nomination Board convened 3 times and the participation rate was 100%. In addition, the Nomination Board held several telephone conferences and interviewed the Board candidates in Finland and abroad. On 30 January 2018, the Nomination Board submitted to the Board its proposals for the 2018 AGM to be held on 20 March 2018. The proposals are available at Finnair's website.

Board of Directors

The Chairman and the Members of the Board are elected by the AGM. According to the Articles of Association, the Board consists of the Chairman and a minimum of four and a maximum of seven other members. The Board elects a Vice Chairman from among its members. The term of office of the members of the Board ends at the close of the first AGM following their election.

According to the Companies Act, the Board represents all shareholders of Finnair and has the general duty to act diligently in the interests of the company. Under law, the Board is accountable to the shareholders for the appropriate governance of the company and for ensuring that the operations of the company are run adequately.

The accountability for the company's governance pertains specifically to the assurance of the reliability of the financial reporting of the company and the effectiveness of the company's system of internal controls. The main features of the company's system of internal controls and risk management are described later in this report. Finnair has a number of procedures and policies issued by the Board of Directors or the Executive Board, designed to enhance the internal controls. The procedures and policies are assessed at least once a year and updated where necessary.

In addition to the Board's statutory tasks, certain significant matters are reserved for the Board's decision, as set out in the Board's charter. The Board prepares and approves the charters of the Board and of its committees. The Board approves also the Internal Audit Charter. The Board sets the company's strategic aims and monitors the implementation of the strategy. The Board approves other significant strategic matters, business plans, significant partnerships and other decisions exceeding the limits that the Board has set to the CEO's decision-making authority. The Board decides on guarantees and other commitments for external liabilities. The monetary limit for the CEO's decision-making authority is 10 million euros.

The Board appoints and removes the CEO and other members of the Executive Board, evaluates their performance and determines their levels of remuneration. The Board also attends to the succession planning of the management. The Board establishes and regularly evaluates the group's personnel policies, including the compensation structures. The Board evaluates its own work on an annual basis. The Board's charter is available on Finnair's website in its entirety.

The Board has determined its diversity principles for the perusal of the Shareholders' Nomination Board when searching successors to retiring Board members and preparing proposals on the composition of the Board to the Annual General Meeting. The diversity principles do not bind the Nomination Board nor the AGM.

The diversity principles of the Board of Directors are:

- The Board must have sufficient expertise and experience to conduct its duties carefully and effectively, taking into account the quality, scope and international nature of the company's operations, the company's strategic targets and changes in the business environment and society.
- The members of the Board must be capable of cooperating with the other members and the management.
- The members of the Board should have education and experience that complements each other and experience from industries that are important for the company.
- The members should have experience of board work and of managerial duties in businesses or in other areas of society.
- The Board shall have at least 40 per cent both men and women. The composition should show diversity also in terms of the age distribution, length of service and cultural background.
- Sufficient continuity should be ensured when renewing the composition of the Board, but the continuous term of any member may not exceed 10 years.

The principles applying to the composition of the Board were fulfilled well in the Board elected in 2017. The members represent diverse experience from managerial and board duties in Finland and abroad. The members come from three countries and speak three different languages as their native tongue. Women represent 43 per cent of the Board members, which meets both the diversity target set by the Finnish Council of State in its resolution of 17 February 2015 and the target set by the company's Board of Directors. At the end of 2017, the term of all members had lasted less than six years. The median year of birth of the Board members is 1957 and the age differential between the youngest and eldest member is 34 years.

Members of the Board and their independence

The 2017 AGM held on 16 March elected Mr. Jouko Karvinen as Chairman of the Board and Mr. Colm Barrington, Ms. Mengmeng Du, Ms. Maija-Liisa Friman, Mr. Jussi Itävuori, Mr. Jonas Mårtensson and Ms. Jaana Tuominen as other members of the Board. The Board elected Mr. Colm Barrington as its Vice Chairman.

The Board has assessed the independence of its members and concluded that all members are independent of the company and its major shareholders.

The ownership of the Directors and companies controlled by them in Finnair

At the end of 2016 and 2017, neither the members of the Board of Directors nor any companies under their control held any shares or any rights relating to shares in any company within Finnair Group.

Members of the Board in 2017 and their attendance in Board and Committee meetings

In 2017, the Board had 9 planned and 5 extraordinary meetings. See the table at right for information on the Board members' participation in the meetings.

The Board's work in 2017

In 2017, the Board had 9 planned and 5 extraordinary meetings.

In addition to its duties under its charter and the law, the Board focused in its work on monitoring the company's financial result and status, monitored the implementation of the company's strategy, and evaluated changes in the operating environment as well as their impacts on the company's strategy and confirmed the financial targets and focus areas of strategy implementation in 2017–2020. The Board monitored the status of flight and occupational safety as well as corporate security and operational quality, and reviewed the related management systems. It also monitored the functioning of the enterprise risk management and the development of internal controls and compliance. The Board held a risk management workshop and approved the company's risk appetite statement and risk management policy.

Name	Personal Information	Participation in Board meetings in 2017*	Participation in Committee meetings in 2017*	
			Audit	Compensation and Nomination
Jouko Karvinen	Chairman of the Board since 16 March 2017 Vice Chairman of the Board between 17 March 2016 and 16 March 2017 B. 1957, M. Sc. Tech Main occupation: Board professional Committee membership: Audit Committee until 16 March 2017	9/9	1/1	
Colm Barrington	Vice Chairman of the Board since 16 March 2017 B. 1946, MA (Econ) Main occupation: CEO and Director of Fly Leasing Limited Committee membership: Audit Committee	7/7	5/5	
Mengmeng Du	Member of the Board since 16 March 2017 B. 1980, M.Sc. (Econ), M.Sc. (Computer science) Main occupation: Board professional; digital advisor Committee membership: Audit Committee	7/7	5/5	
Maija-Liisa Friman	Member of the Board since 28 March 2012 B. 1952, M.Sc. (Eng.) Main occupation: Board professional Committee membership: Audit Committee (Chairman)	9/9	6/6	
Jussi Itävuori	Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Managing Director and Senior Partner, RJI Partners Oy Committee memberships: Compensation and Nomination Committee (Chairman)	9/9		5/5
Jonas Mårtensson	Member of the Board since 16 March 2017 B. 1977, M. Sc. Business Administration Main Occupation: CEO of Mojang Committee membership: Compensation and Nomination Committee	7/7		3/4
Jaana Tuominen	Member of the Board since 27 March 2014 B. 1960, M. Sc. (Eng.) Main occupation: CEO of Fiskars Group Committee membership: Compensation and Nomination Committee	9/9		5/5
Members until 16 March 2017				
Klaus W. Heinemann	Chairman of the Board between 27 March 2013 and 16 March 2017 Member of the Board since 28 March 2012 B. 1951, B.Sc. (Econ.) Main occupation: Board professional Committee membership: Audit Committee until 27 March 2014	2/2		
Gunvor Kronman	Member of the Board since 28 March 2012 B. 1963, Master of Arts Main occupation: CEO of Swedish-Finnish Cultural Centre Committee membership: Compensation and Nomination Committee	2/2		1/1
Nigel Turner	Member of the Board since 27 March 2014 B. 1958, BA (Hon.) Main occupation: - Committee membership: Audit Committee	2/2	1/1	

* Participation statistics are presented with respect to meetings during each Board member's term of office

More information on the Members of the Board is available on page 118 and on Finnair's website.

The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the Compensation and Nomination Committee. The Board appoints the Committee members and their Chairs from among the members of the Board. The minimum number of members is three in both Committees.

Each Committee meets regularly under their respective charters. The Committees' tasks and the work carried out by them during the year are described in their respective sections below. The Committees report on their work regularly to the Board but they do not have decision-making powers independent from the Board, except where expressly authorised by the Board. Copies of the Committees' charters are available on Finnair's website.

Audit Committee

The Audit Committee assists the Board in its task to ensure the proper governance of the company, in particular by considering the accounting and financial reporting, the Company's internal control systems and the work of the external auditors. The Audit Committee addresses concerns pertaining to control matters as may be detected by the management or the internal audit or external auditors of the company. These are reported to the Board by the Audit Committee. The Audit Committee ensures that appropriate action is taken by the management to rectify identified shortcomings. In addition, the Audit Committee monitors the development and implementation of the Code of Conduct and Compliance program of the company, and evaluates compliance reports, resources and qualifications.

The members of the Audit Committee are independent of the company and its significant shareholders. The members have complementary expertise and business management experience as well as industry experience. The Audit Committee as a whole has sufficient expertise and experience of the matters in its remit.

The main duties of the Audit Committee

The Audit Committee shall:

- monitor the financial status of the company
- monitor the reporting process of financial statements and interim reports and assess the draft financial statements and interim reports
- monitor the efficiency of the company's internal controls, internal auditing and risk management system
- monitor the statutory audit and review all material reports from the auditor.
- assess the independence of the auditors, in particular with regard to their non-audit services and establish the procedures and limits applying to the procurement of such services
- prepare for the Board proposals to the Annual General Meeting regarding the election of the auditor(s) and their remunerations
- review the auditors' and internal auditors' audit plans and reports
- review the company's corporate governance statement
- prepare for the Board the group's risk management policies
- prepare for the Board decisions on significant changes in the accounting principles or in the valuations of the group's assets
- assess the group's compliance with laws and regulations; and
- maintain contact with the auditors.

The Audit Committee's members are Ms. Maija-Liisa Friman (Chair), Mr. Colm Barrington and Ms. Mengmeng Du.

The Audit Committee held 6 planned and one extraordinary meeting in 2017. The CEO, the CFO, the Head of Internal Audit and Risk Management as well as the external auditor also participated in the Committee's in-person meetings. Finnair's General Counsel acted as the secretary of the Audit Committee. The Committee held closed sessions as well as sessions where the external or internal auditors participated without the presence of the members of the management.

The Audit Committee's activities in 2017

In addition to its customary tasks, in 2017 the Audit Committee attended selected focus areas, such as the progress in the new IFRS reporting standards and their implementation, evaluation of past key projects, the company's IT architecture as well as development of the financial management processes, the internal controls and the Compliance function. Audit Committee participated in the planning and preparation of the Board of Directors risk assessment workshop. Risks against Finnair's strategic objectives were assessed in the workshop. Based on the risk assessment Finnair Risk Appetite Statement was reviewed and updated.

The Audit Committee also:

- Reviewed and approved the Internal Audit's risk-based annual audit plan and assessed the sufficiency of the resources in the Internal Audit function;
- Discussed with the auditors and the management the company's significant accounting policies and the estimates and judgements applied in preparing the reports;
- Performed an annual self-evaluation and drafted the Committee's annual plan for 2018.

In 2018, the Audit Committee's focus areas will be the implementation of IFRS 16 reporting standard and the continued development of the financial management processes and controls.

Compensation and Nomination Committee

The Compensation and Nomination Committee assists the Board in matters pertaining to the compensation and benefits of the CEO and other senior management, their performance evaluation, appointment and successor planning. The Committee assists the Board also in establishing and evaluating the group's compensation structures and other personnel policies. Pursuant to Board's authorisation, the Committee reviews and confirms the achievement of targets for short-term incentives and approves the payment of incentives to the CEO and other top management.

The main duties of the Compensation and Nomination Committee
The Committee prepares the following matters for the Board:

- compensations, pensions, benefits and other material terms of the contract of the CEO
- compensations, pensions and benefits of the top executives of the group, and other material terms of their contracts to the extent that the same deviate from the customary practice
- nominations of the CEO and other top executives
- top executives' succession planning
- composition of the Executive Board
- equity-based incentive plans
- the principal compensation policies and practices regarding the personnel
- major organisational changes
- proposals of awarding the members of the management honorary decorations and titles.

A copy of the Committee's charter is available on Finnair's website.

The members of the Compensation and Nomination Committee are Mr. Jussi Itävuori (Chairman), Mr. Jonas Mårtensson and Ms. Jaana Tuominen. All Committee members are independent of the Company and of its significant shareholders.

The members of the Compensation and Nomination Committee met 5 times in 2017. The CEO and the SVP, People and Culture participated in the meetings and Finnair's General Counsel acted as the Committee's secretary.

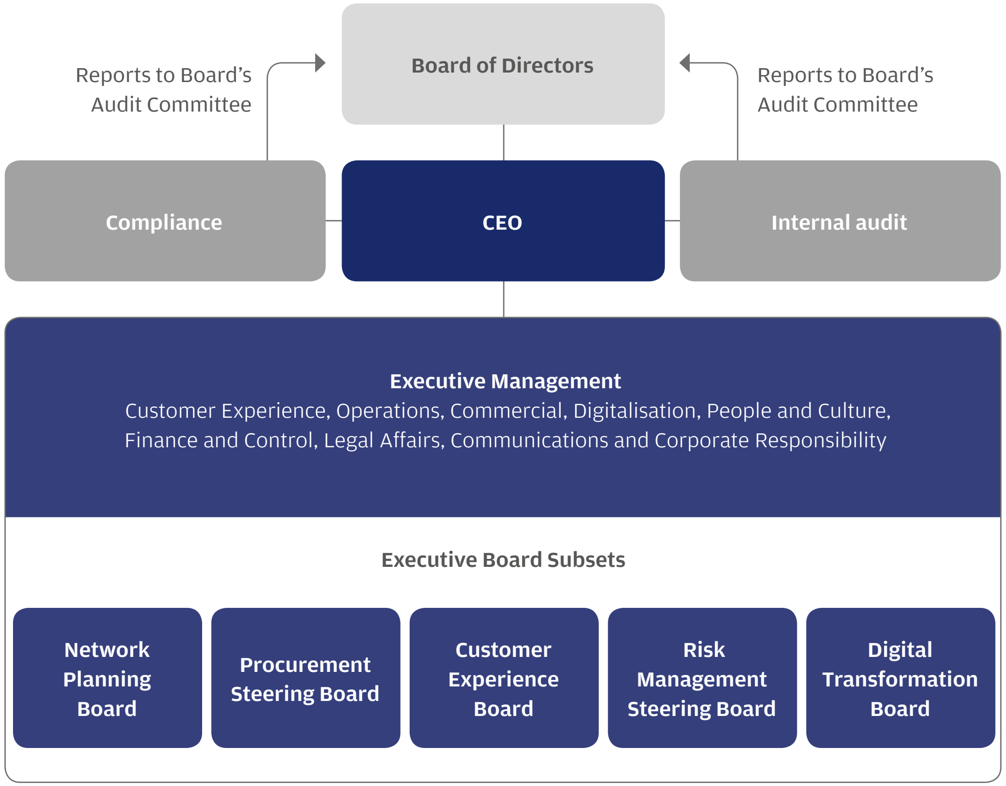
The Compensation and Nomination Committee's work in 2017
The Committee, among other things:

- Prepared for the Board approval the conditions and targets of the employee share saving plan (FlyShare) for the earnings period beginning in 2018;
- Reviewed the senior management's compensation levels compared to the market level, assessed the performance of the management relative to the long and short-term incentive targets, and approved the payment of short-term management incentives;
- Assisted the Board in determining the personnel fund's bonus criteria for 2018 and the semi-annual targets and conditions for top management for 2017;
- Assisted the Board in determining the participants, targets and conditions for the next earnings period of the share bonus plan for key personnel;
- Assessed the company's compensation structures and programmes and their development needs; and
- Assessed the methodology and results of the company's successor and talent mapping.

Company management

Finnair's corporate structure
Finnair's core airline activities are operated in the Group's parent company, Finnair Plc whereas technical services, travel services (package tours), catering services and financial business services are run in wholly owned subsidiaries. Finnair business is considered as one operating segment, consisting of Finnair units Customer Experience, Operations and Commercial. The shared functions in Finnair's Group Administration are Finance and Control, People and Culture, Digitalisation, Communications and Corporate Responsibility, Legal Affairs, Internal Audit and Compliance.

Company Management



The CEO

The CEO is appointed by the Board. The CEO manages the company's day-to-day operations in accordance with guidelines and instructions issued by the Board. The CEO's instructions from the Board include, in particular, the implementation of Finnair's strategy, driving of structural changes and improving the company's profitability. The CEO acts as the Chairman of the Executive Board.

The Board determines the CEO's compensation and sets his short and long-term incentive targets. The main contents of the CEO's contract, including his compensation and benefits, are described in the Remuneration Statement and on Finnair's webpages.

The CEO of Finnair is Mr. Pekka Vauramo, b. 1957, M.Sc. (Tech). At the end of the year, he owned 122,562 Finnair shares. Neither he nor any company under his control held shares in other Finnair Group companies. Neither he nor any entity under his control had share-based rights in any Finnair Group company at the end of 2017. The CEO belongs to Finnair's long-term incentive programs as well as to the FlyShare program, described in more detail in Note 1.3.7 to the financial statements and in the Remuneration Statement.

Executive Board

The Executive Board of the Company is led by the CEO and it comprises the senior management responsible for Finnair's operations and commercial activities, customer experience, digitalisation, finance and control, people and culture, communications and corporate responsibility and legal affairs. The members' respective roles and their direct and indirect shareholdings in Finnair as at 31 December 2017 are shown below.

Hakakari, Eija, b. 1961, M.Sc. (Ed), SVP Human Resources	12,298
Harra-Salonen, Katri, b. 1969, M.Sc. (Tech), eMBA, Chief Digital Officer	2,437
Järvinen, Juha, b. 1976, MBA, Chief Commercial Officer	8,208
Karhu, Piia, b. 1976, Doctor, Business Administration, SVP Customer Experience	3,411
Sarelius, Sami, b. 1971, LLM, SVP and General Counsel	50,037
Schildt, Jaakko, b. 1970, MBA, B.Sc. Engineering, SVP Operations	2,498
Suominen, Arja, b. 1958, MA, eMBA, SVP Communications and Corporate Responsibility	82,727
Vähähyyppä, Pekka, b. 1960, M.Sc (Econ), eMBA, CFO	56,476

The Executive Board members are appointed by the Board, which also determines their remuneration.

The duties of the Executive Board include group-wide development projects, the definition of principles and procedures that guide the company's activities, and the preparation of matters to be dealt with by the Board. The Executive Board also acts as Finnair's risk management steering group.

In 2017, Finnair's Executive Board met twice a month on average. A major proportion of the Executive Board's time was used in leading key projects relating to Finnair's strategy and in further development of the strategy. Investments required by the fleet and traffic growth and related operational challenges required the attention of the Executive Board throughout the year. The Executive Board continued the managers' talent and leadership development programs that support the implementation of the strategy and the company's transformation. The Executive Board also focused on the financial position of the company and on improving the operational quality, customer experience, personnel wellbeing and occupational health and safety. The Executive Board also worked with reinforcing the ethics and compliance culture and the company's key processes and internal controls.

Subsets of the Executive Board

The Executive Board delegates certain of its functions to five subsets. These subsets' decision-making authorities are derived from that of the Chief Executive Officer, which in turn is set by the Board of Directors.

Network Planning Board is responsible for fleet and network strategy and short and long-term traffic planning of Finnair's scheduled, leisure and cargo traffic, among other things. The Group is headed by the Chief Commercial Officer, and it meets monthly.

Procurement Steering Board is responsible for Finnair's Procurement Guidelines, procurement category structure and related development projects. It also leads supplier relationship management. The Group convenes at least four times a year and it is chaired by the CFO.

Customer Experience Board is responsible for decisions related to customer experience, such as the brand, customer service identity, airport experience, the flight product, aircraft interior design and lounges. The Board is headed by SPV Customer Experience and it meets bi-monthly.

Digital Transformation Board is responsible for the implementation of the digital strategy and related decisions, including those concerning the digital customer and employee interface, development and IT projects related to digital planning and implementation as well as technology. In addition, the development of expertise, innovation and technological capabilities in the area of digitalisation fall within the Board's remit. The Board convenes approximately once a month and it is chaired by the Chief Digital Officer.

In addition, the Executive Board acts as the **Risk Management Steering Board** that is responsible for the Group's strategic risk assessment and the implementation of risk management measures. It assesses the adequacy and timeliness of the Group's risk management policy. In addition, it approves changes in the risk reporting process, Finnair common risk language and risk model. The Steering Group is headed by the CEO and it meets bi-monthly.

Management Board

Finnair Management Board is principally a communication and co-operation forum designed for the personnel's participation in the company's governance processes, especially with regard to matters that affect the personnel. The focus of the Management Board work is on enhancing communication and understanding between the personnel groups and the management as to the implementation of the company's strategic objectives and on sharing information and discussing plans and projects that affect Finnair's personnel. The Management Board also discusses the business plans and financial performance of the Group, the operational quality and customer satisfaction as well as significant development projects. The Management Board comprises the Executive Board members, certain senior managers and the representatives of all personnel groups.

In 2017, the Management Board met 7 times.

Corporate Governance in Finnair subsidiaries

For major subsidiaries, the members of the boards of directors are selected from individuals belonging to Finnair's senior management and, in selected subsidiaries, also from representatives proposed by personnel groups. The key tasks of the boards of directors of subsidiaries include strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of the approval limits issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2017 under Note 4.2.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Nordic Regional Airlines Oy through Nordic Regional Airlines AB (ownership 40 per cent until 17 November 2017 and 100 per cent thereafter). Nordic Regional Airlines Oy is a Finnish regional passenger airline operating ATR turboprop and Embraer 190 aircraft. Its route network is designed to provide convenient feeder connections to Finnair's European and long-haul routes. Finnair's influence over the governance of the company is secured by shareholding and various contractual rights. As of 17 November 2017, Finnair acquired the sole ownership of Nordic Regional Airlines AB when the previous majority owners, Staffpoint Oy and Kilco Oy, exited in connection with Staffpoint's ownership change. Finnair aims to find a new majority owner to Nordic Regional Airlines.

Finnair procures certain important operational services from strategic partners, such as the ground handling services in Helsinki hub from Swissport Finland Ltd, and the engine and component services from SR Technics, Lufthansa Technik and Rolls Royce. In the area of IT and mobile services Finnair partners with IBM and Apple, among others. The cost and quality targets of these agreements have been determined so as to correspond at least to a good general market level.

Finnair participates in joint business ventures consisting of certain airlines belonging to the **one**world alliance. These joint business ventures seek to improve competitiveness and efficiency in a manner benefitting the passengers. Finnair's influence in the joint business ventures is based on contractual arrangements. Decisions by the joint venture are sought to be made unanimously.

All Finnair's service providers are expected to comply with Finnair's Supplier Code of Conduct. Finnair aims to secure in its supply contracts the rights to audit the Supplier's governance and security measures.

Finnair's Code of Conduct and Supplier Code of Conduct are available on Finnair's website.

Main features of the internal control and risk management system pertaining to the financial reporting process

Description of the overall system

The objective of internal control and risk management system pertaining to the financial reporting process is to provide the Board, the Executive Management and other key stakeholders with a reasonable assurance of the reliability and correctness of financial and operational reporting, as well as compliance with associated laws, regulations and internal policies. It is built on the principles of Finnair's overall system of risk management which is aligned with commonly accepted COSO ERM framework and ISO 31000:2009 standard for risk management.

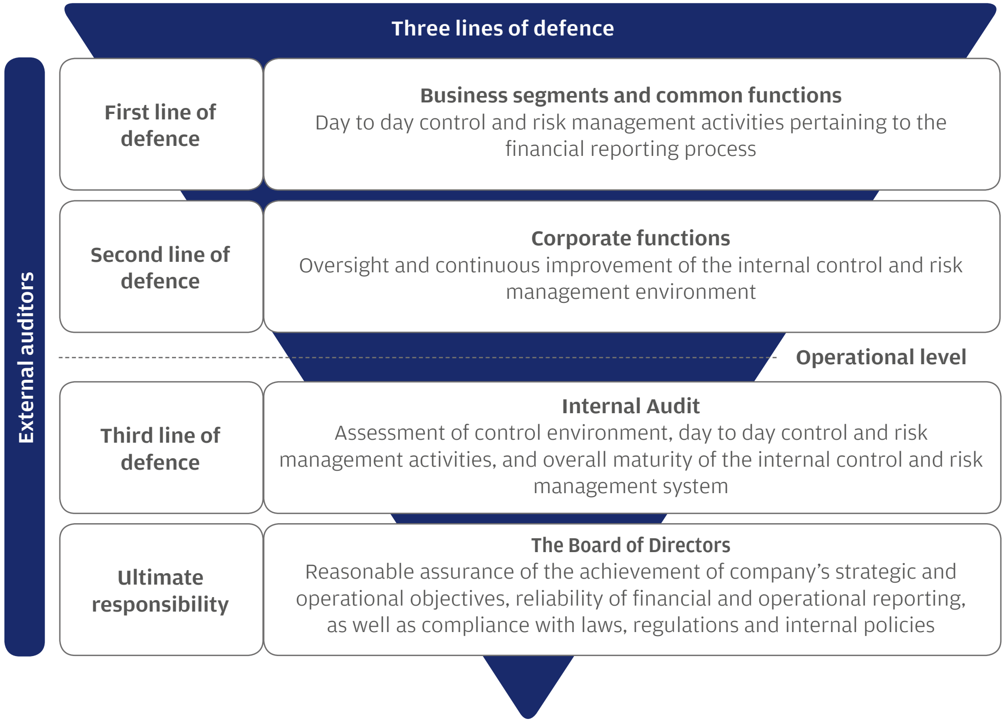
Control environment

Finnair's Code of Conduct and management system form the foundation for its control environment and background for awareness and implementation of control activities across the organisation. Guiding principles of internal control and risk management in Finnair are documented in the Group Risk Management Policy. Other key steering instruments supporting control over reporting include, but are not limited to, Accounting principles, Treasury Policy, Procurement Policy, Credit Policy, Disclosure Policy and Approvals Policy.

Finnair's Board of Directors holds the overall responsibility for the company's internal control and risk management. The Board has delegated the implementation of efficient control environment and measures to ensure the reliability of financial reporting to the CEO. The Group CFO is responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. The line organisations of business units and Group-wide functions have the main responsibility for executing day to day control activities pertaining to the financial reporting process.

Internal Audit assesses the control environment as well as the status and effectiveness of planned control and risk management activities. To ensure the independence of the Internal Audit activity, Internal Audit has a direct functional reporting line to the Audit Committee of Finnair Board and it is positioned to operate administratively under the CEO. The Audit Committee appointed by the Board of Directors oversees the financial reporting process and overall maturity of the internal control and risk management system. The described roles and responsibilities are in accordance with the Finnish Companies Act, and the Finnish Corporate Governance Code. The picture below summarises the roles of the listed stakeholders in the implementation of the internal control and risk management system.

The role in the implementation of the internal control and risk management system



Risk Assessment

The objective of Finnair's financial reporting risk assessment is to identify, evaluate and prioritise the most significant threats to the reliability of internal and external reporting at the Group, unit, function and process levels. Processes related to financial reporting are subject to on-going risk assessment by the business unit controllers, financial controllers and other shared service center staff as part of their activities.

Control activities

Financial reporting instructions have been prepared to be followed across the organization. The instructions outlining the content and schedule for the reporting aim to increase the overall controllability of the financial reporting process and ensure that financial statement fulfils the requirements set in the IFRS standards and other applicable requirements.

Risks related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for listed companies.

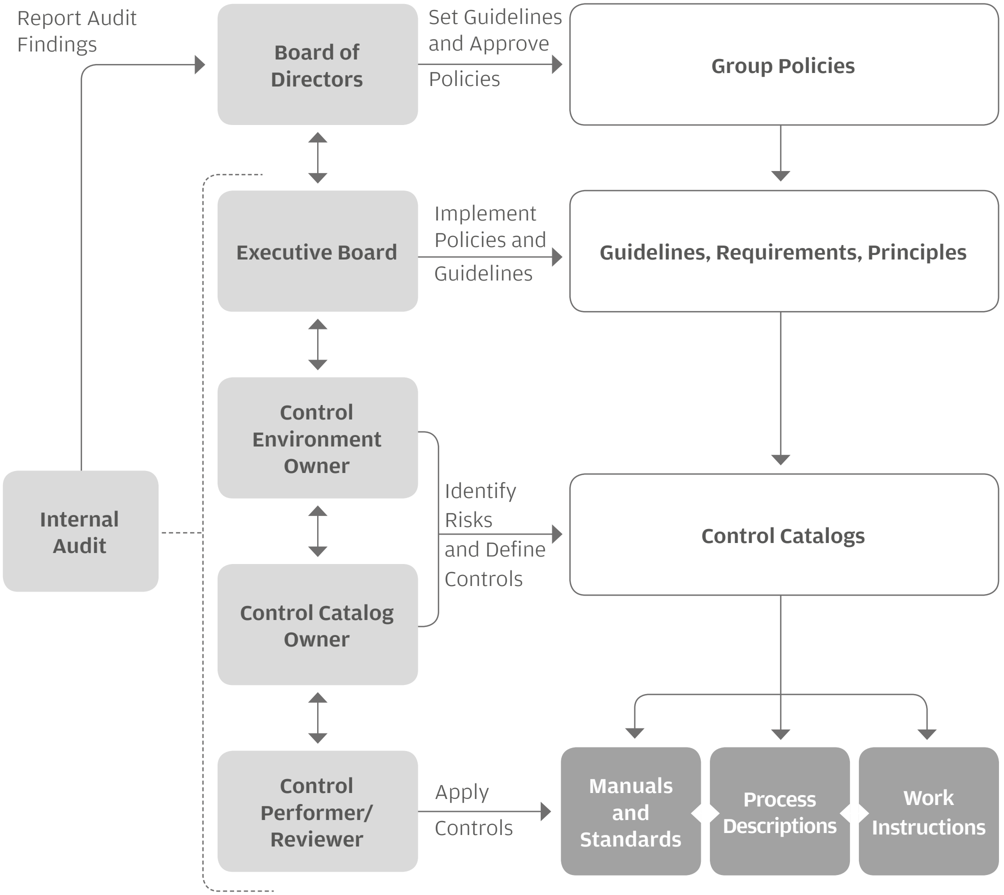
These control activities are:

- preventive, detective and corrective in nature;
- integrated into reporting processes in business units, group-wide functions and subsidiaries;
- operationalized through the implementation of Group Policies
- captured in Control Catalogues;
- supported by Standards, Rules and Manuals as well as Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

Responsibilities over reporting controls are illustrated in the matrix below:

Role	Description
Control Environment Owner – Group CFO	Responsible for governing financial reporting control environment and acting as the risk owner of reporting risks
Control Catalogue Owner – Process Owners	Owner of the process controls defined in the control catalogue
Control Performer / Reviewer	Responsible for executing / monitoring key control(s) defined in the control catalogue
Internal Audit	Responsible for audit of reporting processes and related controls according to the annual audit plan

The main components and roles associated with control planning, implementation and monitoring are summarized below:



Information and communication

Information and communication system provides means for Finnair's personnel to capture and communicate information related to risk assessments and control activities across company's operations. The system aims at providing required personnel access to adequate and timely information on accounting and reporting as well as on related controls. Information regarding control requirements is communicated through common policies, dedicated guidelines and process level procedure descriptions.

The CFO, supported by Investor Relations function, is responsible for the disclosure of financial information and fulfilment of the communication obligations of a listed company. Investor Relations holds the responsibility over planning and implementation of investor communications and daily contact with investors and analysts.

Monitoring and improvement

Finnair's internal control and risk management system is subject to both on-going and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of corporate management, business units and group-wide functions.

Focus areas of internal control over financial reporting in 2017 and 2018

Key Activities in 2017

During 2017 internal controls development was more closely integrated to finance process development as part of finance process ownership and development model implementation. According to the model, finance processes and controls are monitored, reviewed and developed in a continuous manner. Specific emphasis was put on financial forecasting and reporting process areas where processes and controls were reviewed and redefined during implementation of a new finance planning and reporting system.

The Internal Audit and external auditors performed audits on key controls as defined in the annual audit plan.

Planned Key Activities for 2018

Continuous finance process and control development model will be further developed during 2018. In addition, detailed internal controls assessment and redefinition project will be conducted on selected process areas identified based on updated financial reporting materiality and risk assessment.

Internal Audit

The Internal Audit is established by the Board of Directors, and its responsibilities are defined by the Audit Committee of the Board of Directors as part of their oversight function.

The mission of Internal Audit in Finnair is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations. Internal Audit helps the organisation to mitigate factors that might undermine its business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit focus areas in 2017 and 2018

Key Activities in 2017

In 2017 Internal Audit's key focus areas were based on and aligned with corporate strategy, results of risk assessments conducted by company's management and recent changes in internal processes. Audit activities payed special attention to the strategic focus areas (profitable growth, customer experience, people experience and digital transformation).

Planned Key Activities for 2018

Internal Audit focus areas and annual plan for 2018 have been approved by the Audit Committee of the Board of Directors in December 2017. In 2018, audit activities will concentrate on the four above-mentioned strategic focus areas, continue auditing of the selected IT application controls and focus on auditing the IT strategy and generic IT controls. In addition, Internal Audit participates in internal controls development by reviewing control catalogues and activities for selected process areas.

Compliance

Finnair is committed to complying with applicable international and local laws and ethical policies in accordance with the company's Code of Conduct updated in 2016. In order to strengthen Finnair's Compliance system, Compliance function was established as an independent Group function in 2017, and a new Head of Compliance was appointed in August 2017. The Compliance function is positioned to operate under the CEO and, in order ensure effective reporting, has a direct functional reporting line to the Audit Committee of Finnair Board.

Finnair Compliance function supports the business lines and other functions in identifying and complying with applicable laws and regulations as well as governance practices and policies. Other key tasks of Finnair's Compliance function are the maintenance and the development of Finnair's compliance program and furthering of ethical business culture. In addition to Group Compliance function, Finnair's flight operations have a comprehensive compliance monitoring system relating to the requirements set by special legislation within the airline operations and by the supervisory authorities.

Compliance focus areas in 2017 and 2018

During 2017, the Compliance function focused in particular on the implementation of the new Code of Conduct, training a total of 4,360 Finnair employees in online training on Finnair's Code of Conduct. In addition members of Finnair leadership teams and Finnair managers were educated on Finnair's Code of Conduct in interactive workshops. Also Finnair's Supplier Code of Conduct was renewed in 2017. Another focus area has been preparations for the EU General Data Protection Regulation. Compliance further supports effective system of internal controls and participated in 2017 in the internal control development based on the findings and recommendations of the internal and external auditors.

During 2018 Compliance will support the documentation and implementation of Group wide key controls, with a special focus on regulatory changes impacting Finnair operations and processes. Other key focus areas for 2018 will be EU General Data Protection Regulation compliance and continuing the implementation of Finnair's Code of Conduct amongst personnel outside of Finland and with key outsourcing partners.

Transactions with closely associated parties

Finnair has guidelines concerning the avoidance of conflicts of interest, which concern, among other things, business transactions between the Finnair group and people in its employ. The guidelines also apply to the members of the Board of Directors. A permission must be obtained for transactions with the company. The permission can be given by the Executive Board, or if the permission concerns the CEO or a member of the Board of Directors, by the Board of Directors. The requirement to have a permission also applies to transactions in which the counterparty is a person closely related to a Finnair employee or Board member, or an entity in which these have an ownership of at least 20%. The person concerned may not participate in discussing the matter on the Executive Board or the Board of Directors or participate in preparations, decisions or implementation of the matter on behalf of the company.

In addition, the members of the Executive Board and the Board of Directors are required to file an annual report of transactions conducted by them or their closely related parties with Finnair during the financial period as well as of transactions anticipated for the next period.

The permission and notification procedures only apply to negotiated transactions. Hence, they do not apply to service or product purchases available on normal commercial terms or to normal employee discounts.

Significant transactions between Finnair and closely associated parties are announced with a stock exchange release in accordance with the rules of Nasdaq Helsinki.

Information on transactions with closely associated parties is also provided in note 4.6 to the financial statements.

Managers' transactions and key insider management procedures

Inside information within the company and transactions on Finnair financial instruments by persons discharging managerial responsibilities in the company or their closely related persons are managed in accordance with the Market Abuse Regulation (MAR) and the insider guidelines of Nasdaq Helsinki and of the company. The company's insider rules also apply to employees in the so-called informative core of the company.

The company maintains a list of persons discharging managerial responsibilities in Finnair (managers), including their closely related persons and entities, who are under the obligation to notify the company and the Financial Supervisory Authority of their transactions on the company's financial instruments within three business days of the execution of the transaction. The company is under the obligation to disclose these transactions in a stock exchange release during the same period. The company's managers refer to the members of Finnair's Board of Directors and of the Executive Board.

The company's managers and employees in the so-called informative core of the company are bound by a closed window on trading, which begins 30 days before the release of interim or annual results and continues until the end of the release date. The company may also impose other trading restrictions and grant exemptions in accordance with its insider guidelines.

The company's managers and employees in the so-called informative core of the company must give an advance notice to the company before the execution of a planned transaction. In addition, they can request an advance assessment of the legality of a planned transaction. The advance notice obligation and advance assessment opportunity are intended to reduce the risk of trading during a closed trading window or at a time when the company has undisclosed inside information. Giving an advance notice does not affect the responsibility of the company's managers and employees in its so-called informative core regarding the abuse of inside information.

The disclosure policy of the company requires, in accordance with the Market Abuse Regulation (MAR), that the company discloses as soon as possible any inside information it may have. However, the disclosure may be delayed if the requirements specified in MAR are met. The identification of inside information and decisions regarding the disclosure or delay of disclosure are made by the company's Disclosure Committee, which comprises of the members of the Executive Board. The Disclosure Committee assesses the company's information every two weeks or otherwise whenever necessary. If the company delays the disclosure of inside information, it establishes a project-specific insider list and enters the persons with access to the relevant information on the insider list.

The person responsible for insider issues within the company is the General Counsel.

Finnair's insider rules are available at the company's website.

RISK MANAGEMENT AND MAJOR RISKS

Risk management
Finnair operates in a global and highly competitive environment that is sensitive to economic fluctuations. In executing its strategy, Finnair and its operations are exposed to a broad range of risks and opportunities.

To exploit opportunities to create value, Finnair is prepared to take and manage risks within the limits of its risk appetite (rewarded risks). In relation to flight safety matters, compliance with laws and regulations, and reliability of reporting, Finnair's objective is to minimise risks (unrewarded risks). The purpose of risk management is to provide a systematic approach to the management of rewarded and unrewarded risks in all sections of Finnair's operations.

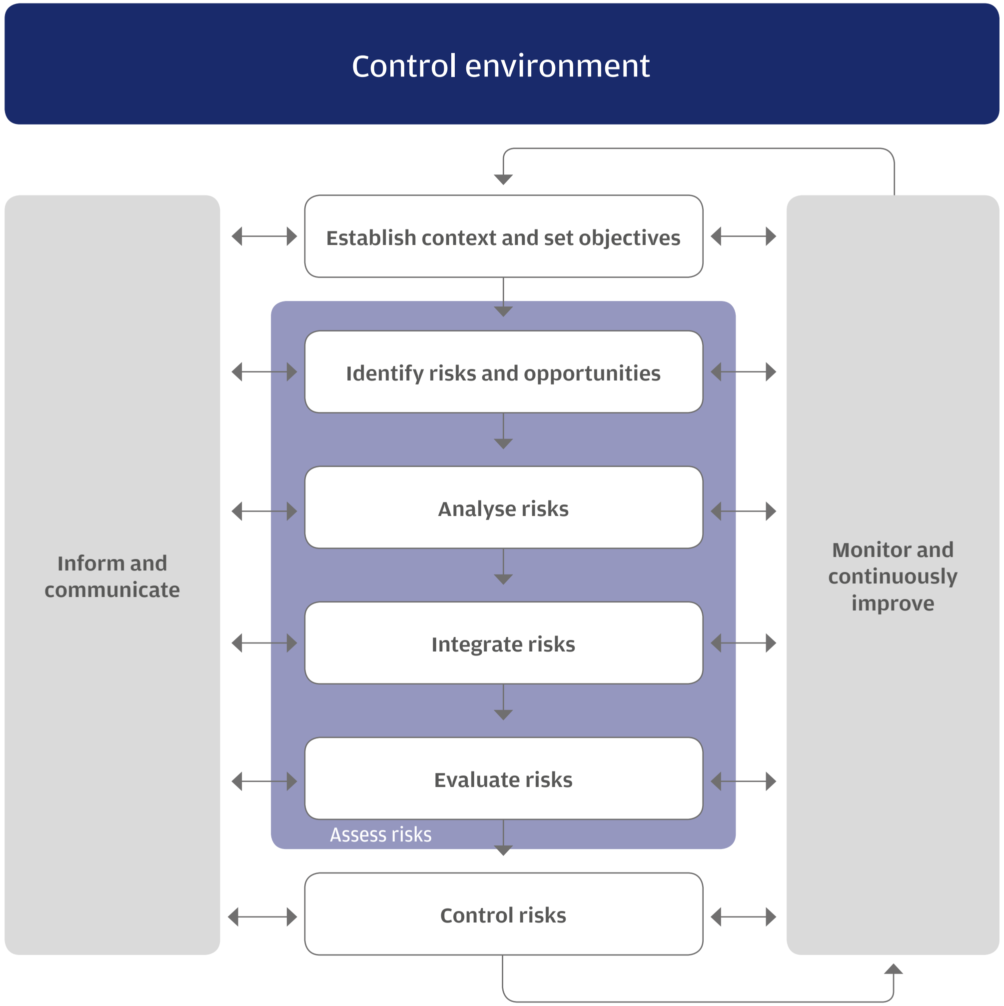
Policy and framework
In Finnair, risk is considered as the potential for loss caused by an internal or external event or series of events that can adversely affect the implementation of strategy, achievement of business objectives or shareholder value. Both negative events and unrealised positive events are considered as risk.

The Finnair Risk Management Policy defines the overall framework for risk management at Finnair. This framework, while taking into account industry specific requirements, is aligned with the commonly accepted COSO ERM framework and the ISO 31000:2009 standard for risk management.

Specific Risk Management Standards have been established to support the implementation of the Risk Management Policy in the following contexts: Treasury, New Ventures, Programs and Projects, Supply Chain, Flight Safety, Corporate Security and Information Security. Principles associated with financial risk management are discussed in Note 3.5 on page 59.

Policy implementation
The Board of Directors holds the ultimate responsibility for the Enterprise Risk Management system in Finnair. It is responsible for approving the Risk Management Policy, setting Finnair's Risk Appetite and overseeing the effectiveness of Risk Management.

Finnair's CEO holds the responsibility for the appropriateness of the risk management and oversight of Risk Management Policy implementation. The CEO, supported by the Risk Management Steering Group consisting of the members of the Executive Board, is also responsible for reviewing the Risk Management Policy and risk management priorities.



Business units, group functions and subsidiaries of Finnair are responsible for implementing the Risk Management Policy into the management system as well as for aligning risk management guidelines and procedures with the Risk Management Policy.

Process

Finnair's Risk Management System consists of the following components:

Establish context and set objectives

Finnair's Risk Management System ensures that management has a process in place to assess and manage uncertainties associated with set objectives, and that those uncertainties are analyzed and managed within the boundaries of Finnair's risk bearing capacity.

Risk assessment

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

Risk assessment in Finnair includes the following phases:

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

Finnair's risk model and criteria for risk evaluation have been established to ensure comprehensive risk identification and systematic risk evaluation. Assumptions behind strategic objectives are analyzed and validated as a part of strategic risk assessment.

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

Risk response

Risk response strategies shall be applied to prioritized risks in order to reach reasonable assurance that their outcomes fall within an acceptable level. These risk response strategy options include:

- Acceptance of risk
- Avoidance of risk
- Transfer of risk
- Mitigation of risk

The CEO, supported by the Risk Management Steering Group, is responsible for defining risk response strategies and procedures and for setting risk management priorities.

Control activities

Risk owners are composed of the members of the Risk Management Steering Group. They are responsible for planning and implementing control measures within business units, group functions and subsidiaries to ensure an acceptable level of residual risk, and that the relevant risk interdependencies are appropriately acknowledged.

Information and communication

The risk management information system aims to provide a means for Finnair's personnel to capture and communicate information related to the execution of risk assessments and control activities across the company's operations. Identified risks and their control measures are documented in risk logs for follow-up purposes. Dedicated information systems are in place to identify and analyze operational risk events and to support associated operational audit activities.

Risk reporting to the Board of Directors and to the Risk Management Steering Group takes place on a quarterly basis under the coordination of Finnair Internal Audit and Risk Management function. The status of risk management development activities and the implementation of control measures are reported to the Audit Committee of the Board of Directors six times per year. In addition to the periodical business risk reporting, there are several reporting lines associated with financial and operational risk reporting to both internal and external stakeholders.

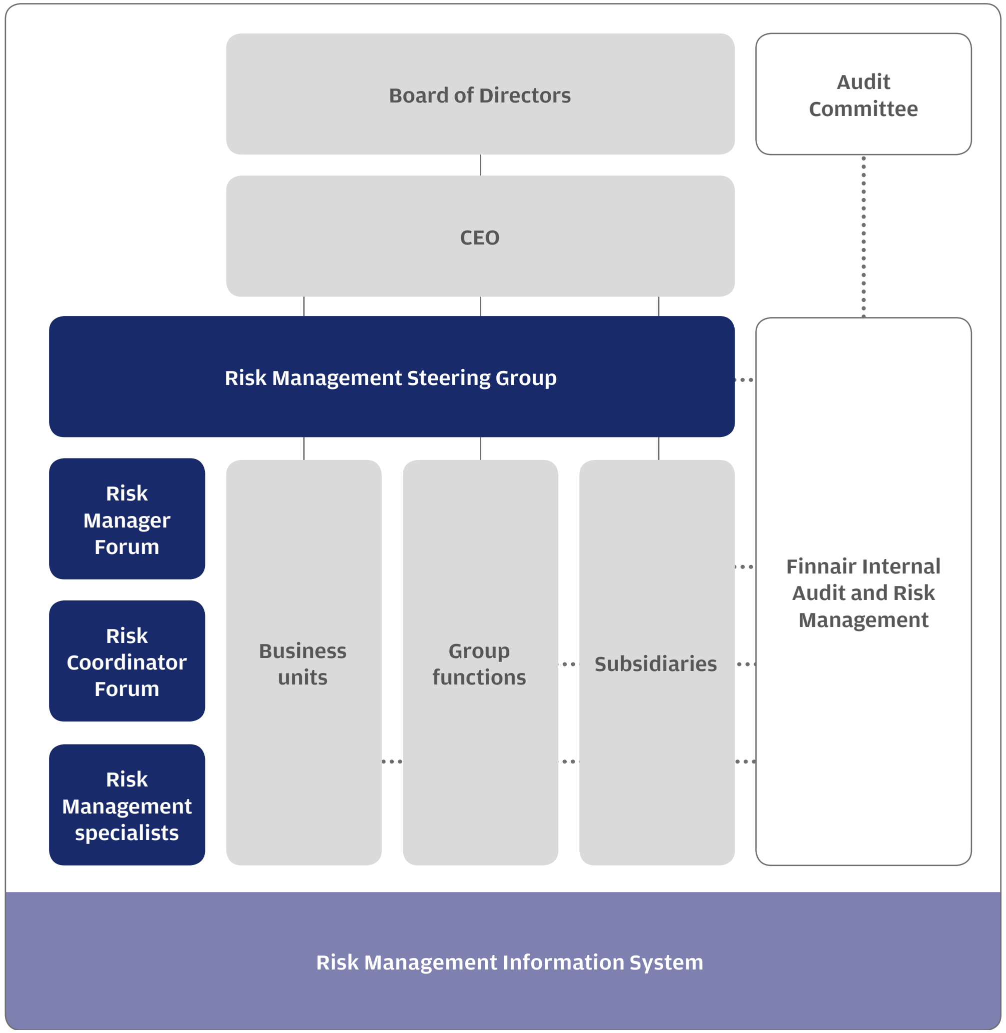
Monitoring and continuous improvement

Finnair's Risk Management System is subject to both ongoing and periodical monitoring activities to gain reasonable assurance of its appropriateness and effectiveness. The implemented risk management system is subject to continuous improvement activities based on a PDCA (Plan-Do-Check-Act) cycle consistent with ISO 31000:2009. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of the corporate management, business units and group functions.

The effectiveness of all flight safety related control activities and the general compliance with official regulations are monitored through the safety and quality system. Within the scope of the safety and quality system, the safety-critical elements of the company are audited annually.

The Audit Committee of the Board of Directors is responsible for regularly reviewing and monitoring the

Governance model and reporting lines



implementation of the Risk Management Policy and the Enterprise Risk Management process. Finnair Internal Audit and Risk Management in cooperation with the Risk Manager Forum is responsible for the assessment and development of the maturity of the risk management system. In order to ensure well-coordinated risk management development activities across the organisation and exchange of best practices, a dedicated Risk Manager Forum consisting of risk management specialists has been established.

Risk Management focus areas in 2017 and 2018

Regarding risk management development activities in 2017, the focus was on the further integration of risk management into strategic decision making as part of the strategy process, and the implementation of formal risk appetite setting in Risk Management Steering Group as part of continuous risk management, as well as the further development of risk management activities in relation to partners and suppliers.

The following activities are the focus areas in 2018: Further improvement of the established company-wide bottom-up approach to risk management as well as continuing development of the systematic risk management activities in relation to partners and suppliers.

Major risks

Globally the airline industry is one of the sectors most sensitive to external shocks, seasonality and cyclical changes in economic conditions. Finnair carries out a comprehensive risk management process to ensure that risks are identified and mitigated where possible although many remain outside our full control. The risks and uncertainties described below are considered to potentially have significant effect on Finnair's business, financial results and future prospects. This list is not intended to be exhaustive.

Major risks

Risk	Definition	Our risk responses include, but are not limited to:	
BUSINESS ENVIRONMENT			
Competitors	The risk of competitors or new entrants to the market taking actions to establish sustainable competitive advantage over Finnair.	• Continuous monitoring of competitor activities • Scenario analysis • Contingency planning	• Product development program(s) • Cost-competitiveness program(s) • Active joint business and alliance cooperation
Economic volatility	Risk of major economic volatility or other large scale economic disturbances slow down travelling.	• On-going analysis of market trend development • Periodical risk assessments • Contingency planning	• Risk diversification through active vendor portfolio management • Fleet ownership strategy
Traffic charges and flight permissions	The price and availability of overflight rights as well as the price of traffic charges, such as arrival, departure and navigation charges result in a negative impact on Finnair's business operations and profit margin.	• Continuous monitoring of political environment • Lobbying	• Active cooperation with key stakeholders • Enterprise-wide dependency analysis
Country risk	The risk that sudden changes in demand, political upheaval, cultural factors, natural disasters, pandemic or other disturbances in destination countries slow down travelling and/or hinder Finnair's ability to conduct business.	• Continuous monitoring and market intelligence • Group level risk assessments • Foreign unit risk assessments	• Contingency planning • Crisis communication planning • Network diversification
Laws and regulations	The risk that new laws or changes in laws, regulations or their interpretations significantly affect Finnair's ability to efficiently conduct business.	• Compliance management program to identify changes in external requirements and align internal activities to support compliance • Dedicated internal policies	• Awareness through tailored training programs • Ensuring ability and resources to execute controls
FINANCIAL			
Market risk	The risk of incurring additional costs due to adverse movements of the interest rates, unsuccessful currency position, and/or rise of jet fuel price.	• Treasury policy approved by the Board of Directors • Internal controls over Treasury policy implementation	• Continuous monitoring of hedging ratio(s) • Scenario and sensitivity analysis
Liquidity risk	The risk of incurring additional or unnecessary costs due to inability to generate cash flow.	• Maintain robust cash balance • Diversify funding sources • Pre-committed aircraft financing	• Maintain an unutilised credit facility and commercial paper program
BUSINESS OPERATIONS			
Capacity planning	The risk that insufficient capacity threatens Finnair's ability to meet customer demands, or excess capacity threatens Finnair's ability to generate competitive profit margins.	• Network strategy • Demand forecasting • Route performance monitoring	• Deviation analysis • Continuous process improvement
Revenue management	The risk that Finnair is not capable to perform competitive revenue management to optimise its revenues per seat kilometre.	• Global sales strategy and revenue optimisation process • Daily monitoring of booking trends, issued sales, advance booking reports • Monitoring of key variables such as market shares, pricing structure and yields of other relevant airlines as well as route profitability	• Executive level monitoring and performance evaluation • Control measures to ensure timeliness and integrity of revenue management information
Sales and distribution channels	The risk that Finnair is not able to create an optimal sales and distribution channel mix in various markets.	• Continuous benchmarking to market players • Continuous development in channel solutions	
Marketing mix	The risk that segmentation and marketing mix decisions on product, price, promotion and distribution do not support creation of sustainable competitive advantage.	• Continuous benchmarking and strategic positioning of Finnair product • Customer satisfaction and consumer trend surveys	• Continuous product and service development
Human capital	The risk that Finnair is not able to execute its strategy due to inadequate quality, commitment or resourcing of human capital.	• Strategic competency management • Continuous improvement of HR processes • Change management program • Employee wellbeing strategy	• Internal communication management • Union relations management • Contingency planning • Active and open communication with key stakeholders
Innovations management	The risk of Finnair not being able to produce product, service and/or process innovations to drive increased customer satisfaction and continued cost reductions.	• Digital vision and strategy • Digitalization roadmaps • Project portfolio management • Innovation process	

PARTNERSHIPS			
Airline partnerships and alliances	The risk that other alliances and/or airline partnerships gain competitive advantage over **one**world or airline partnerships in which Finnair is a member, and/or the risk that objectives set for airline partnerships and alliances are not reached.	• Active alliance cooperation • Joint business governance model • Dedicated alliance and joint business teams	• Joint continuous process improvement activities • Internal controls over joint business processes
Partners and suppliers	The risk that quality and availability issues and/or unexpected costs associated with partners and suppliers have adverse effect on Finnair's product and profit margin or partners/suppliers gain bargaining power over Finnair.	• Supplier relationship management program • Supplier risk assessments • Contract risk management	• Dedicated procurement specialists per supplier category • Scenario analysis • Contingency planning
SAFETY & SECURITY			
Flight safety	The risk of endangered flight safety due to poor process design, poor process execution or human error.	• SMS (safety management system) • SQM Governance (Safety and Quality Board, safety action groups, post holder responsibilities) • Continuous analysis • Risk assessment	• Reporting • Monitoring • Safety and Quality audit program • FRMS (fatigue risk management system)
Information and cyber security	The risk of a cyber-attack on aviation systems having an impact on operations and therefore damaging the Finnair brand. The risk that inappropriate parties can access Finnair's sensitive or classified information jeopardizing its confidentiality and/or integrity. The risk that a large-scale attack or disruption in information systems affects Finnair's ability to conduct its business as planned.	• Risk assessments • Security audits and evaluations • Risk management actions • Contingency planning	

REMUNERATION STATEMENT 2017

Content

Introduction

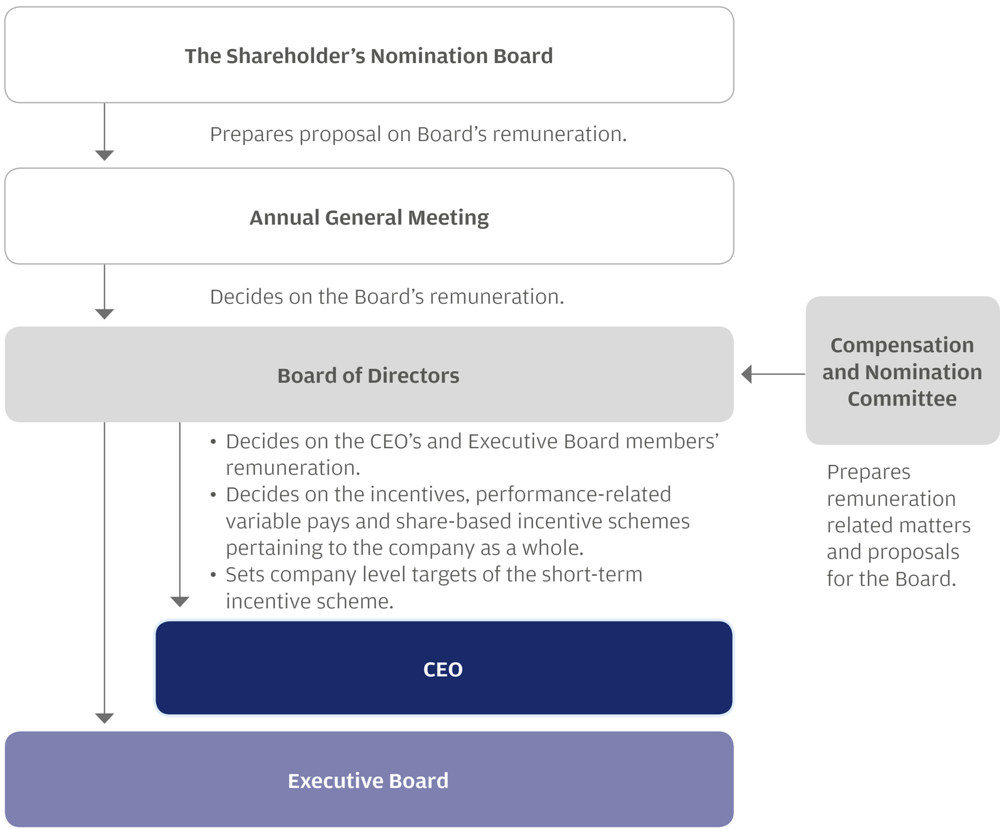
This remuneration statement describes Finnair's remuneration principles and the remuneration of the Board of Directors, the CEO and the members of the Executive Board in 2017. Further information is available on the company website at www.finnairgroup.com. This remuneration statement has been prepared based on the 2015 Finnish Corporate Governance Code for Listed Companies published by the Finnish Securities Market Association, and it also covers other key components of remuneration that we believe the readers are interested in.

Remuneration governance

The Board of Directors' remuneration: The Shareholders' Nomination Board annually prepares its proposal for the remuneration of the members of the Board of Directors. The Annual General Meeting of shareholders makes the final decision on the Board's remuneration.

The remuneration of the CEO and the Executive Board: The Board of Directors decides on the salary, incentive schemes and associated targets of the CEO and other members of the Executive Board based on preparatory work carried out by the Board's Compensation and Nomination Committee. Decisions on remuneration are made with consideration of the government guidelines on management remuneration.

Remuneration decision-making procedure



Remuneration principles at Finnair

Finnair's aim is to recruit, motivate and develop employees to enable them to successfully implement the company's strategy. A motivating, fair, competitive and transparent remuneration structure has a significant effect on the company's ability to achieve this aim. Remuneration must also be competitive in terms of its costs.

Finnair's remuneration practices follow local legislation as well as guidelines regarding remuneration for the management of state-owned companies. The remuneration of Finnair's different personnel groups are compared annually to the local remuneration practices in each country where the company operates.

The remuneration applicable to the CEO, the members of the Executive Board, senior salaried employees and personnel based in units abroad are based on the following main elements:

I. Fixed pay: base salary
II. Variable pay: short and long-term incentives linked to company and individual performance
III. Employee benefits: perquisites and other personnel benefits

Finnair uses job grading as the basis for determining the compensation structure of the CEO, members of the Executive Board, senior salaried employees and personnel based in units abroad. Job grading is based on the significance of the job and responsibility within the organization, and it brings structure and enables uniformity in compensation-related decisions both internally and compared to the market.

Salaries, addendums and other compensation components of personnel groups other than those mentioned above are, for the most part, defined in their respective Finnish collective agreements. Outside Finland, Finnair follows the pay practices and collective agreements of each country of operation.

Employment benefits for all personnel include a staff ticket benefit in line with company policy, as well as a Sickness Fund for employees based in Finland. Certain personnel groups also have a car benefit and mobile phone benefit in line with company policy.

Finnair aims to make work rewarding and interesting also by offering opportunities for development and job rotation within the company. Employees are satisfied at Finnair, as evidenced by a high average duration of employment and a very low employee turnover. The average number of service years of all employees was 15.0 at year-end 2017.

Average years of service in Finnair's different personnel groups on 31 Dec 2017

Personnel group	Average years of service
Executive Board	5.6
Pilots	12.8
Management Positions	13.9
White Collar Employees	13.9
Technical Employees	24.7
Technical Service Workers	18.8
Cabin Crew	16.3
Ground Service Workers	15.0
Aviation Employees	19.5
Travel Agency Employees	14.6
Travel Guides	5.5
Travel Agency Professionals	9.5
Abroad Employees	10.9
Average of personnel groups	**15.0**

Variable pay

The aim of variable pay is to drive performance to support the achievement of Finnair's strategic targets. Long-term incentives are also aimed at committing the personnel and management to the company and aligning their interests to the interests of shareholders. Performance targets for the CEO and members of the Executive Board are set by Finnair's Board of Directors.

Short-term incentives (STI)
The purpose of the short-term incentive (STI) plan is to drive individual and organizational performance and support rapid implementation of strategic initiatives. When target level performance is achieved, the STI payout ranges from 2.5–30 per cent of base salary, depending on the job grade. If an individual exceeds his or her targets substantially, the payout may, at a maximum, reach 5–60 per cent of base salary. The variable pay is calculated based on the individual's base salary for the period in question.

To support rapid implementation of strategic initiatives and to help react to the fast changing market environment, Finnair operates a bi-annual (six-month) performance period. As of 2018, the CEO and members of the Executive Board will change to an annual (twelve-month) performance period while other employees eligible for the STI plan will continue with the bi-annual performance period.

The STI for the CEO and other members of the Executive Board is determined based on financial, operative and quality measures as set by the Board of Directors.

The STI for the CEO and the members of the Executive Board corresponds to 30 per cent of the base salary at the target level and 60 per cent of the base salary at the maximum level. The combined value of short-term and long-term incentives paid out during any calendar year may not exceed 120 per cent of the annual gross base salary.

Personnel fund
Finnair has a Personnel Fund owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined on the basis of targets set by the Board of Directors. The CEO, other members of the Executive Board and the participants of the performance share plan are not eligible for the Personnel Fund payout. In 2017, 116 per cent of the targets of the personnel fund were reached based on company performance. As a result, 6.7 million euros will be transferred to the fund.

Employee share savings plan Fly Share
On 27 March 2013, Finnair's Board of Directors decided to launch Fly Share, an employee share savings plan. The plan encourages employees to become shareholders in the company, and thereby strengthens the employees' interest in the development of Finnair's shareholder value and rewards them in the long-term.

The plan consists of annually starting savings periods which are followed by a two-year shareholding period. Every new savings period is decided separately by the Finnair Board. In December 2017, Finnair's Board of Directors decided to continue the plan with a new savings period that starts on 1 July 2018.

Participation in the plan is voluntary. Through the plan, each eligible Finnair employee is offered the opportunity to save a part of his or her salary to be invested in Finnair shares. The amount of monthly savings can be 2–8 per cent of each participant's gross base salary per month. Shares are purchased with the accumulated savings at the market price quarterly, after the publication dates of Finnair's interim results. Any dividends paid on purchased shares during the savings period will be automatically reinvested in Finnair shares on the next share purchase date following the payment of dividend.

After the two-year shareholding period, Finnair will award each participating employee one matching share for each two shares purchased. The awarded additional shares are taxable income for the recipient. In addition, employees participating in the plan for the first time are rewarded with 20 bonus shares after the first three months. The bonus shares are also taxable income.

In 2017, Finnair delivered a total of 167,353 shares as awarded matching shares to the participants for the 2014–2015 saving period.

Performance share plan for key personnel
Finnair operates a performance share plan which is aimed at a limited amount of key personnel. The purpose of the arrangement is to motivate the management to work to increase the shareholder value in the long-term and to commit the management to the company.

The Board of Directors decided in December 2016 upon a new performance share plan structure, with the first period covering the years 2017–2019. In December 2017, Finnair's Board of Directors decided on a new period covering the years 2018–2020. In the revised structure, the annually commencing performance share plans include a three-year performance period as before. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the free disposal of the participants after delivery.

The members of Finnair's Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the Executive Board.

The maximum combined value of all variable compensation paid to an individual participant in any given calendar year may not exceed 120 per cent of the participant's annual gross base salary.

Within the plan, the participants have the opportunity to earn Finnair shares, if the performance targets set by the Board of Directors for the plan are achieved. The potential share rewards for the period 2018–2020 will be delivered to the participants in the spring 2021.

If the targets set for the plan for years 2018–2020 are fully achieved, the maximum number of shares to be delivered based on this plan is approximately 370,000 shares. This number of shares represents a gross earning, from which applicable payroll tax is deducted and the remaining net-value is delivered to the participants in shares.

The number of employees eligible to participate in the plan 2018–2020 is approximately 70 persons.

A person is not entitled to the incentive if he or she resigns or is dismissed before the date of payment. The Board of Directors is also entitled, for a particularly weighty reason, to change or cancel the incentive or to postpone its payment. The Board of Directors is entitled to remove a participant from the share plan if the person has committed a significant offence or acted in a manner detrimental to the company or contrary to the company's interests.

Performance criteria and payout of the performance share plans
The performance criteria applied to the plans 2014–2016, 2015–2017 and 2016-2018 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). These criteria are weighted equally (50 per cent and 50 per cent).

The achieved payout rate was 118 per cent of the 2014–2016 plan, while the target was 100 per cent and the maximum 200 per cent.

The performance criteria applied to the plans 2017–2019 and 2018–2020 are earnings per share (EPS) and revenue growth.

The target levels and maximum levels set for the criteria are based on long-term strategic objectives set by the company's Board of Directors. Performance against the criteria is monitored quarterly.

Long-term incentive plan for pilots
Finnair's Board of Directors approved on 13 October 2014 a new long-term incentive plan for Finnair pilots. The plan is a part of the savings agreement between Finnair and the Finnish Airline Pilots' Association (SLL) that brings Finnair 17 million euros in permanent annual savings. The savings agreement was contingent on the realization of the incentive plan.

The plan period is 2015-2018 and the prerequisite for rewarding pilots based on this plan is the achievement of the agreed cost savings over this time period. In addition, the company share price must be at least 4 euros at the end of the incentive plan. If these conditions are met, the pilots are entitled to a cash payment. The amount of the payment is based on the Finnair share price. The total payment is 12 million euros with a share price of 4 euros and 24 million euros with a share price of 8 euros, which is also the maximum earning of the plan. Divided over the four-year period, the annual earnings potential for one participant is equivalent to 5-10 per cent of the annual base salary.

There are approximately 700 pilots eligible to participate in the plan. The cash payment will be delivered in spring 2019, provided that the conditions stated above are met.

Extra reward 2017
The year was a great success for Finnair, and it was decided to reward Finnair employees with an extra reward of up to 2,000 euros per employee in January 2018 payroll. The CEO and members of the Executive Board are excluded from the reward.

Other remuneration and terms of employment for the CEO and members of the Executive Board

Supplementary pensions

The CEO, Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. In addition, the CEO is entitled to a defined-contribution pension insurance, where the contribution equals 20 per cent of the CEO's fixed annual salary (pension contribution under the supplementary scheme as of 2017).

The members of the Executive Board accumulate pension in accordance with the Finnish Employees' Pensions Act. In addition, the company has a supplementary pension scheme that includes some of the members of the Executive Board. All pension arrangements for members of the Executive Board are collective within the meaning of Finnish tax laws. All supplementary pensions taken for the executives are defined contribution schemes. The supplementary defined contribution pension arrangement applies to two members of the Executive Board. The annual contribution equals 10 per cent of the income for the year. The supplementary pension includes vested rights. The retirement age is 63 years.

Termination of the service contract and severance pay

According to Pekka Vauramo's service contract, both the CEO and the company have the right to terminate the service contract without a specific cause. The notice period is six months for both the company and the CEO. In the event that the company terminates the service contract, the CEO is entitled to a severance pay corresponding to the total salary for twelve months (base salary + taxable value of benefits) in addition to the salary for the notice period. The severance pay does not apply if the CEO resigns or retires.

According to the service agreements of the Executive Board members, both parties have the right to terminate the service contract without a specific cause. The maximum notice period is six months for both parties. In the event that the company terminates the agreement, the member of the Executive Board is entitled to a severance pay corresponding to the base salary of maximum of twelve months in addition to the salary for the notice period. This severance pay does not apply if the contract of employment is cancelled, if the executive terminates the contract or retires.

Other benefits

CEO Pekka Vauramo's benefits include life insurance, free-time accident insurance, travel insurance, management liability insurance and medical insurance. The life insurance coverage starts at 20 per cent of annual pay and increases each year. The total sum may not, however, exceed 500,000 euros. The CEO also has a mobile phone benefit in line with company policy.

The benefits of the members of the Executive Board include free-time accident insurance, travel insurance, management liability insurance and the right to medical insurance. They also have a car benefit and mobile phone benefit in line with company policy.

Remuneration of the CEO and members of the Executive Board in 2017

In 2017, Finnair's CEO was Pekka Vauramo. The Executive Board comprised eight members in addition to the CEO. The Executive Board members are presented on page 119 in the Annual Report 2017.

In 2017, the rewards from the Performance share plan 2014–2016 were paid to the management in one batch in March. The targets of the program were achieved by 118 per cent, while the target was 100 percent and the maximum 200 per cent.

The differences between management remuneration in 2016 and 2017 are mainly due to the 2014–2016 LTI incentives being achieved at higher rate than in the previous year due to the company's result.

Salary and other remuneration paid, euros per year		CEO 2017	CEO 2016	Executive Board[1] 2017	Executive Board[1] 2016
		Pekka Vauramo	Pekka Vauramo		
Base Salary[2]					
The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors.	**In total, euros**	**648,964**	**648,912**	**1,764,987**	**1,686,867**
Employee benefits					
Employee benefits are described on page 112	Car benefit, taxable value	0	0	54,234	60,201
	Phone benefit, taxable value	240	240	1,920	1,887
	Other taxable benefits[3]	2,297	2,052	16,674	17,145
	In total, euros	**2,537**	**2,292**	**72,828**	**79,234**
Short-term incentives[4]					
The principles are described on page 113	**In total, euros**	**236,070**	**260,889**	**621,394**	**588,791**
Long-term incentives					
	Key personnel LTI, monetary and share reward, total	224,851	80,793	326,057	76,383
	Fly Share, monetary and share reward, total	5,888	0	6,563	13,552
	In total, euros	**230,739**	**80,793**	**332,620**	**89,935**
Supplementary pensions (defined contribution)					
	In total, euros	**123,600**	**0**	**57,150**	**78,155**
SALARY AND OTHER REMUNERATION PAID IN TOTAL		**1,241,910**	**992,886**	**2,848,979**	**2,522,982**

[1] Salary and remuneration included for Executive Board membership period only.

[2] Base salary includes holiday bonus.

[3] Other taxable benefits include health insurances and staff tickets.

[4] Earning period for incentives paid in 2016 was 1 Jul 2015–30 Jun 2016 and for incentives paid in 2017 1 Jul 2016–30 Jun 2017.

Management remuneration, the company's long-term incentive plan and pension contributions are also described in Finnair Financial Statements in note 1.3.7 Employee benefits.

Remuneration of the Board of Directors in 2017

The Annual General Meeting (AGM) decides annually on the remuneration and other financial benefits of the members of the Board of Directors and its committees. The election and remuneration of the members of the Board are prepared by the Nomination Board formed by the representatives of the company's largest shareholders. The remuneration of the Board of Directors and its committees is paid in cash.

The members of the Board of Directors are not covered by the company's share incentive scheme or other incentive schemes.

The annual remuneration and meeting compensation decided by the 2017 AGM for the members of the Board of Directors are:

- Chairman's annual remuneration, 61,200 euros
- Deputy Chairman's annual remuneration, 32,400 euros
- Chairmen of the Audit Committee and Compensation and Nomination Committee, 32,400 euros, where these individuals are neither the Chairman nor the Deputy Chairman of the Board
- Other Board members' annual remuneration, 30,000 euros
- Meeting compensation paid per Board or committee meeting is 600 euros when the meeting takes place in the member's country of residence and 2,400 euros for other meetings. For telephone meetings, the fee is 600 euros.

The members of the Board of Directors are entitled to a daily allowance and compensation for travel expenses in accordance with Finnair's general travel rules. In addition, the members of the Board of Directors have a limited right to use staff tickets in accordance with Finnair's staff ticket rules. Under the current rules, the Directors and their spouses are entitled to 4 return or 8 one-way tickets on Finnair flights per calendar year in Economy or Business Class. The fare of these tickets is zero, exclusive of any airport taxes, fees and charges, which are payable by the Directors and their spouses. These tickets constitute taxable income in Finland.

Annual remuneration for members of the Board of Directors has remained unchanged since 2008.

Remuneration paid to Finnair Board of Directors in 2017

	Annual remuneration[1]	Board meetings	Committee meetings	Meeting compensations in total	Taxable benefits[2]	Total
Members 1.1.–31.12.2017						
Jouko Karvinen (deputy chairman until 16.3. and chairman from 16.3.)	54,000	8/8	1/1	15,600	3,156	72,756
Maija-Liisa Friman	33,750	8/8	7/7	9,600	8,910	52,260
Jussi Itävuori	33,750	8/8	5/5	13,200	462	47,412
Jaana Tuominen	30,000	8/8	5/5	7,800	1,808	39,608
Members 16.3.–31.12.2017						
Colm Barrington (deputy chairman)	22,800	7/7	6/6	15,600	1,834	40,234
Mengmeng Du	22,500	7/7	6/6	19,200	3,139	44,839
Jonas Mårtensson	22,500	7/7	3/4	11,400	0	33,900
Members 1.1.-16.3.2017						
Klaus Heinemann (chairman)	15,300	2/2	0/0	4,800	0	20,100
Nigel Turner	7,500	2/2	1/1	7,200	0	14,700
Gunvor Kronman	7,500	2/2	1/1	1,800	389	9,689

Remuneration paid to the Board in 2017.

[1] The remuneration is expressed at the annual level but paid in monthly instalments.

[2] Taxable benefits include Finnair staff tickets. The members of the Board and their spouses have a right to use staff tickets in accordance with Finnair's staff ticket rule.

BOARD OF DIRECTORS 31 DECEMBER 2017







Jouko Karvinen
b. 1957, M.Sc. (Tech.), Finnish citizen.
Chairman of the Finnair Board of Directors since 16 March 2017 and Vice Chairman since 2016.
Independent of the company and its largest shareholders.
Committee memberships: -
Main occupation: Board professional
Key positions of trust: Vice Chairman of the Board of Valmet; Member of the Foundation and Supervisory Boards of IMD Business School, Lausanne, Switzerland; Member of International Advisory Board of Komatsu Corporation of Japan

Colm Barrington
b. 1946, MA (Econ), Irish citizen.
Vice Chairman and member of the Finnair Board of Directors since 2017.
Independent of the company and its largest shareholders.
Committee memberships: -
Main occupation: CEO and Director of Fly Leasing Limited
Key positions of trust:
Member of the Board of Directors of IFG Group plc and Hibernia REIT plc.

Mengmeng Du
b. 1980, M.Sc. (Econ), M.Sc. (Computer science), Swedish citizen.
Member of the Finnair Board of Directors since 2017.
Independent of the company and its largest shareholders.
Committee memberships:
Audit committee
Main occupation: Digital advisor, board professional
Key positions of trust: Member of the Board of Directors of Skandia and Netonnet Group and Member of the Swedish National Innovation Council.

Maija-Liisa Friman
b. 1952, M.Sc. (Chem. Eng.), Finnish citizen.
Member of the Finnair Board of Directors since 2012.
Independent of the company and its largest shareholders.
Committee memberships:
Audit Committee (Chairman)
Key positions of trust:
Member of the Boards of Essity AB and the Finnish Securities Market Association, partner of Boardman Oy.

Jussi Itävuori
b. 1955, M. Sc. (Econ.), Finnish Citizen.
Member of the Finnair Board of Directors since 2012.
Independent of the company and its largest shareholders.
Committee memberships: Compensation and Nomination Committee (Chairman)
Main occupation: Managing Director, RJI Partners Oy, Senior Partner and Director, RJI Partners Limited
Key positions of trust: Chairman of the Board of Barona Group Oy and RJI Partners Oy, and Chairman of the Board of RJI Holding Oy and Cloudator Payroll Oy.

Jonas Mårtensson
b. 1977, M.Sc. Business Admin (Business Development), M.Sc. Business Admin (Entrepreneurship), Swedish citizen.
Member of the Finnair Board of Directors since 2017.
Independent of the company and its largest shareholders.
Committee memberships: Compensation and Nomination Committee
Main occupation: CEO of Mojang, a videogame development company
Key positions of trust: -

Jaana Tuominen
b. 1960, M. Sc. (Eng.), Finnish citizen.
Member of the Finnair Board of Directors since 2014.
Independent of the company and its largest shareholders.
Committee memberships: Compensation and Nomination Committee
Main occupation: CEO of Fiskars Oyj Abp since 2017
Key positions of trust: Suominen Oyj, member of the Board of Directors.

The Board of Directors was elected in the Annual General Meeting held on 16 March 2017. More detailed information about the board members can be found at https://company.finnair.com/en/about/board. Information on their ownership of Finnair shares can be found at https://investors.finnair.com/en/governance/insider-issues/managers-holdings.

EXECUTIVE BOARD 31 DECEMBER 2017









Pekka Vauramo
b. 1957, M. Sc. (Mining). President and CEO as of 1 June 2013. Mr. Vauramo joined Finnair from Cargotec, a Finnish cargo and load handling company, where he held different management position between 2007 and 2013. Before his transfer to Finnair, Mr. Vauramo was based in Hong Kong since 2010 as COO of the MacGregor Business Area. Between 1985 and 2007 Mr. Vauramo worked at Sandvik, a Swedish mining and construction company.
Key positions of trust: Member of the Board of Glaston Plc 2011–, Member of the Board of Boliden Group, May 2016–

Eija Hakakari
b. 1961, M. Sc. (Education), SVP Human Resources as of 1st of October 2014. Before joining Finnair, Eija Hakakari was SVP Human Resources at Stora Enso's Printing and Living division. Her previous positions include SVP Human Resources at Rautaruukki and various HR director positions in both China and Finland.

Juha Järvinen
b. 1976, BA (Hons), MBA, Chief Commercial Officer as of 1 November 2014. In Finnair service since 2012. Mr. Järvinen has extensive experience in managing different services within the airline industry. He served as Managing Director of Finnair Cargo since March 2012, and prior to that he was the Vice President, Ground Handling International in SAS Scandinavian Airlines.

Sami Sarelius
b. 1971, LLM, SVP and General Counsel, in Finnair's service since 1998.

Arja Suominen
b. 1958, MA, eMBA, SVP Corporate Communications and Corporate Responsibility, in Finnair's service March 2011.
Ms. Suominen previously worked for Nokia, mainly in communications positions, ultimately as Nokia's Senior Vice President, Communications.

Pekka Vähähyyppä
b. 1960, M.Sc. Econ., eMBA, Finnair CFO as of 17 August 2015. Vähähyyppä joined Finnair from Stockmann where he held different management positions in 2000–2015, most recently as CFO. Prior to that, he held financial management positions in for example, Nestlé's Nordic subsidiaries, OKO-Venture Capital and A-lehdet Oy.
Key positions of trust: Member of the Board of A-lehdet Oy 2013–, IATA Financial Committee June 2017-June 2019

Katri Harra-Salonen
b. 1969, M.Sc. (Tech), eMBA, Finnair Chief Digital Officer (CDO) as of 21 March 2016. Harra-Salonen has conducted a long career in digital transformation positions. Since 2012, she has been a founder and the CEO of Umbrella Strategic Advisory Ltd. Previously, she has been the CEO of Fjord Sweden in Stockholm and held leadership positions at Satama Interactive in Finland and Sweden. Since autumn 2016, she has served on the Board of Directors of Veho Oy Ab.

Piia Karhu
b. 1976, Doctor of Science (Economics and Business Administration) SVP Customer Experience as of 1 March 2016. Karhu has held various leadership positions at Finnair since 2013, most recently in charge of network planning and business development.

Jaakko Schildt
b. 1970, MBA, BSc Engineering, appointed as Finnair SVP Operations on 1 March 2016. Mr. Schildt joined Finnair from Thomas Cook Airlines UK where he held the position as Accountable Manager. Previously, Mr Schildt has worked as the head of Finnair Technical Services, as well as in various leadership positions within SAS Group.

Information on Finnair shares owned by members of Group management is available at the https://investors.finnair.com/fi/governance/insider-issues/managers-holdings.

INFORMATION FOR THE SHAREHOLDERS

Annual General Meeting
Finnair Plc's Annual General Meeting will be held on Tuesday 20 March 2018, at 16:00 at the Messukeskus Helsinki at the address Messuaukio 1, Conference Centre, Helsinki, Finland. The reception of persons who have registered for the meeting and the distribution of voting tickets will commence at 15:00. Coffee is served before the commencement of the AGM.

The notice to convene the AGM
The notice to convene the AGM and the proposals of the Board of Directors to the AGM will be published as a stock exchange release and on Finnair's company website. The notice will contain the agenda for the AGM. Shareholders are entitled to having an issue put on the Annual General Meeting's agenda, provided that such an issue requires a decision by the Annual General Meeting according to the Finnish Companies Act, and provided that they request it in writing in due time to be included in the notice.

The right to participate in the AGM
Each shareholder who is registered on Thursday 8 March 2018 in the Company's register of shareholders maintained by the Euroclear Finland Oy has the right to participate in the AGM.

Registration for the AGM
The shareholder who wants to participate in the general meeting and exercise their voting right can register to the meeting at the latest on Thursday 15 March 2018 at 10:00. Registration can be done:

- In the internet at http://company.finnair.com/en,
- By e-mail to: agm@finnair.com,
- By phone from Monday to Friday at 9:00–16:00 in the number: +358 20 770 6866 or
- By mail to: Finnair Plc, Register of shareholders, HEL-AAC/ 502 01053 FINNAIR.

A holder of nominee registered shares is advised to request without delay necessary instructions regarding the registration in the shareholder's register of the company, the issuing of proxy documents and registration for the general meeting from his/her custodian bank. The account management organization of the custodian bank will register a holder of nominee registered shares, who wants to participate in the general meeting, to be temporarily entered into the shareholders' register of the company at the latest on Thursday 8 March 2018 at 10 a.m.

The shareholder may participate in the meeting either in person or through authorised or proxy representative. Possible proxy documents shall be delivered by the end of registration period to: Finnair Plc/AGM, HEL ACC/502, 010153 Finnair, Finland.

AGM 2018 – Important dates
8 March 2018 Record date
15 March 2018 At 10:00 deadline for giving notice of attendance
20 March 2018 At 15:00 the reception of persons registered to the AGM will commence and at 16:00 the AGM will commence

Board of Directors' proposal on dividend
Finnair Plc.'s distributable funds were 424,036,052.14 euros on 31 December 2017. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.30 euros per share be distributed for 2017.

Financial information in 2018
Finnair Plc will publish four financial reviews in 2018. The publication dates are as follows:

- Financial Statements Bulletin for 2017 on Friday 16 February 2018
- Interim Report for January–March 2018 on Wednesday 25 April 2018
- Interim Report for January–June 2018 on Tuesday 17 July 2018
- Interim Report for January–September 2018 on Thursday 25 October 2018

The financial statements bulletin and interim reports in 2018 will be published at approximately 9:00 am EET. Financial report, financial statements and interim reports are published in Finnish and English. The material is available on the company website. Shareholders can subscribe or unsubscribe for the releases at http://company.finnair.com/en/media.

Silent period
Finnair's silent period starts three weeks prior to publishing of its interim financials and four weeks prior to publishing of annual financial results. Finnair will not comment on its business or meet with capital market representatives during that period.

Changes in contact information

Euroclear Finland Ltd maintains a list of Company shares and shareholders. Shareholders who wish to make changes to their personal and contact information are kindly asked to contact their own account operator directly. Finnair cannot make these changes.

Assessments regarding Finnair as an investment

According to our knowledge, the following analysts have regular coverage on Finnair Group. The list may be incomplete. Finnair has made agreements on analyst services with Evli Bank and Inderes. However, all the listed analysts do their analysis independent of Finnair and Finnair is not responsible for their views.

- Carnegie, Robin Nyberg, Finland, Tel. +358 9 618 71 234
- Evli Bank, Markku Järvinen, Finland, Tel. +358 9 4766 9314
- HSBC, Achal Kumar, UK, Tel. +91-80-4555 2751
- Nordea, Pasi Väisänen, Finland, Tel. +358 9 1655 9943
- Pohjola, Jari Räisänen, Finland, Tel. +358 10 252 4504
- Inderes, Antti Viljakainen, Finland, Tel. +358 44 5912216

SUSTAINABILITY

Cleaner, caring, collaborative

MATERIALITY ANALYSIS

Finnair updated its materiality analysis for corporate responsibility in 2015 in accordance with the GRI G4 reporting guidelines. The materiality analysis was used to identify the key economic, environmental and social impacts in Finnair's value chain as well as impacts on business and stakeholder decision-making.

The materiality analysis was based on identifying corporate responsibility issues emerging from Finnair's business environment through an analysis of industry trends, legislation, corporate responsibility reporting guidelines, the reporting of peer companies and issues highlighted by various stakeholders.

The identified corporate responsibility aspects were assigned priorities in expert workshops based on their business impact and stakeholder interest.The results of the prioritisation were reviewed with the representatives of key stakeholders. Finnair's Executive Board and Board of Directors approved the results of the materiality analysis.

The material aspects defined as a result of the materiality analysis were grouped under five themes. This analysis was also used as the basis for reporting for 2017.

Identified material themes and aspects of corporate responsibility

Environment

- Fuel efficiency
- Energy and greenhouse gas emissions
- Environmental legislation and regulation
- Efficient air traffic management
- Biodiversity

Economy

- Financial performance and future competitiveness
- Local economic impacts

Ethical business conduct and responsible sourcing

- Code of conduct
- Anti-corruption and anti-bribery policies
- Human rights
- Purchasing practices and supply chain sustainability

Personnel

- Employee safety
- Competence development, wellbeing, diversity, equality and non-discrimination

Customer

- Passenger wellbeing and safety
- Customer satisfaction
- Punctuality
- Accessibility and non-discrimination

Finnair's most significant corporate responsibility impacts are related to ensuring the safety of customers and employees, maintaining the company's financial competitiveness and its role in Finnish society, and the continuous improvement of fuel efficiency. In addition to these themes, stakeholder representatives highlighted the significance of employee competence, well-being and equality, as well as ethical operating methods and good corporate governance.

The following table illustrates the links between Finnair's material themes and aspects with the aspects defined in the GRI G4 reporting guidelines, as well as the aspect boundaries. Based on the materiality analysis, the GRI content reported by Finnair is focused on the most significant impacts of Finnair's value chain.

Finnair's material themes and aspects and aspect boundaries

Finnair's theme and material aspect	GRI G4 aspects (G4-19)	Aspect boundaries (G4-20, G4-21)
Environment • Fuel efficiency • Energy and greenhouse gas emissions • Environmental legislation and regulations • Route planning • Biodiversity	**Environmental responsibility aspects (EN)** • Energy • Emissions • Waste water and solid waste • Biodiversity • Compliance	Finnair's own operations and indirect impacts on greenhouse gas emissions (Scope 3) and biodiversity
Economic aspects • Financial results and future competitiveness • Local and economic impacts	**Economic responsibility (EC)** • Financial results • Indirect economic impacts	Finnair's own operations, society and local communities
Customer • Passenger well-being and safety • Customer satisfaction • Punctuality	**Product responsibility (PR))** • Customer health and safety • Product and service information • Marketing communications • Customer privacy protection • Compliance	Finnair's own operations and customers
Personnel • Employee safety • Employee competence, well-being, diversity and equality	**Social responsibility – Labour practices (LA)** • Employment • Employer-employee relations • Occupational health and safety • Training • Diversity and equal opportunities • Equal remuneration	Finnair's own operations
Ethical business and responsible sourcing • Code of Conduct • Anti-corruption and anti-bribery procedures • Human rights • Purchasing policies and supply chain responsibility	**Society (SO)** • Anti-bribery and anti-corruption • Lobbying • Restrictions on competition • Compliance **Human rights (HR)** • Human rights screenings • Supplier human rights screenings **Economic responsibility (EC)** • Purchasing policies	Finnair's own operations, partners and supply chain

REPORTING PRINCIPLES

Finnair was one of the first airlines in the world to communicate on its corporate responsibility issues under the Global Reporting Initiative (GRI) reporting framework. The Annual Report 2017 has been compiled in accordance with the GRI's G4 Guidelines (Core option).

The report covers the parent company and all Finnish subsidiaries.

Finnair Group does not report on the operations of foreign subsidiaries, because they are deemed not to be of key significance in terms of the group's corporate responsibility issues as minor operators. Any exceptions to this are mentioned separately in connection with each indicator. Finnair does not report on outsourced operations either. The business units and subsidiaries covered by the report are listed in the adjacent table.

Finnair's maintenance organisation consists of two independent companies: Finnair Technical Services Oy and Finnair Engine Services Oy. This approach is justified by the fact that the operations of both technical services subsidiaries are the repair and maintenance of aircraft and their components, and for this reason their corporate responsibility aspects are convergent at the group level. Hence, they are treated in this report as one unit, Finnair Technical Services.

Information sources, measurement and Finnair Group calculation methods

The information of the report has been collected from the Group's internal statistics systems and also from various subcontractors. In terms of measurement and calculation methods, the GRI G4 calculation guidelines have been adhered to whenever the available data have so allowed. If some other measurement or calculation method has been used, this is mentioned in connection with the key figure concerned. The figures have been presented in time series when this has been appropriate and reliably possible.

Figures on economic responsibility are mainly derived from the financial statements. Other information with respect to economic responsibility is derived from the group's various operators.

Indicators on personnel are based on active employment relationships as of 31 December 2017. The figures exclude dormant employees and Aurinko Oü, Suntours' Baltic subsidiary (number of personnel on 31 December 2017).

Finnair's largest single material cost item is jet fuel. In this report, jet fuel is treated, however, as energy, because in terms of its purpose and environmental effects it is sensible to understand jet fuel as stored energy. Fuels are also reported on the basis of their mass and volumes.

Fuel consumption and emission figures for flight operations (Annex 1 EU ETS Directive 2003/87/EC of the European Parliament and of the Council) are derived from the company's own monitoring systems and based on actual fuel consumption (Method A EU ETS Monitoring and Reporting Regulation (EU) N:o 601/2012). Emission factor for jet fuel used in the report is 3.15 kg CO_2/kg (Default IPCC emission factors, taken from the 2006 IPCC Inventory Guidelines).

European Union Emissions Trading System (EU ETS) "Method A" formula: Amount of fuel contained in aircraft tanks once fuel uplift for the flight is complete – Amount of fuel contained in aircraft tanks once fuel uplift for subsequent flight is complete + Fuel uplift for that subsequent flight. This method is used in order to capture the fuel consumption by the aircraft's auxiliary power unit (APU) on the ground.

Where Method A cannot be used, we are using actual leg consumption (fuel onboard - remaining fuel) adding average APU usage.

Fuel mass is converted to volume using densities provided by fuel vendor. If density is not available we are using default value 0,800.

Finnair Group

Operating area	Business unit / subsidiary	Included in report
Airline business	Airline business	x
	Finnair Cargo Oy	x
	Finnair Aircraft Finance Oy and FAF subsidiaries	x
	Finnair Technical Services Oy	x
	Finnair Engine Services Oy	x
	Finnair Kitchen	x
Travel services	Oy Aurinkomatkat - Suntours Ltd Ab	x
	Amadeus Finland Oy	x
Other functions	Group administration	x
	Joint functions	x
	FTS Financial Services Oy	x
	Finnair Flight Academy Oy	x

For wet-leased flights fuel burn is requested from wet-lessor. If not received then fuel burn is calculated by aircraft manufacturers specifications or lessors information on aircraft type fuel burn per block hour.

Data gaps and erroneous data are handled using substitution data as close to actual values as possible. The electricity and heat data are based on metered consumption data, and on estimations based on surface area, where direct metering data was unavailable.

Finnair has assessed its Scope 3 emissions based on GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard). Category 3 (Fuel and Energy related activities not included in Scope 1-2) primary data originates from Finnair's fuel data base. Emission factor source: SFS-EN 16258 standard for JET A-1. Emissions of Extraction, production and transportation of the fuels = amount of fuel * 0,0159 tonnes CO_2/GJ.

In relation to material streams, the amounts of waste and energy consumption of properties, data have been obtained from service providers, goods suppliers and on the basis of invoices paid. With respect to Finnair Technical Services, environmental data are also obtained from monitoring and measuring systems required by their environmental permits. In terms of Technical Services' use of materials, only chemicals are reported, because the statistical practice of raw materials and spare parts does not allow a comparable way of presentation. Finnair Technical Services is not, however, a significant user of raw materials, and its main environmental aspects relate to storage and use of chemicals.

Information on personnel comes from Finnair's HR information system and from parties responsible for the well-being of employees. Accident statistics are obtained from the insurance company and they are updated retroactively, as a result of which the 2017 figures may be subject to further adjustment. Information relating to human rights and local communities are derived from procurement agreements, from personnel responsible for procurement, subcontractors and, in terms of the impact of tourism, mainly from Aurinkomatkat-Suntours, which as a tour operator occupies a key position in this respect. Oper- ational compliance with laws and regulations has been confirmed with the group's Legal Affairs department.

Customer satisfaction data, on the other hand, are based on customer satisfaction surveys and on feedback received by the group.

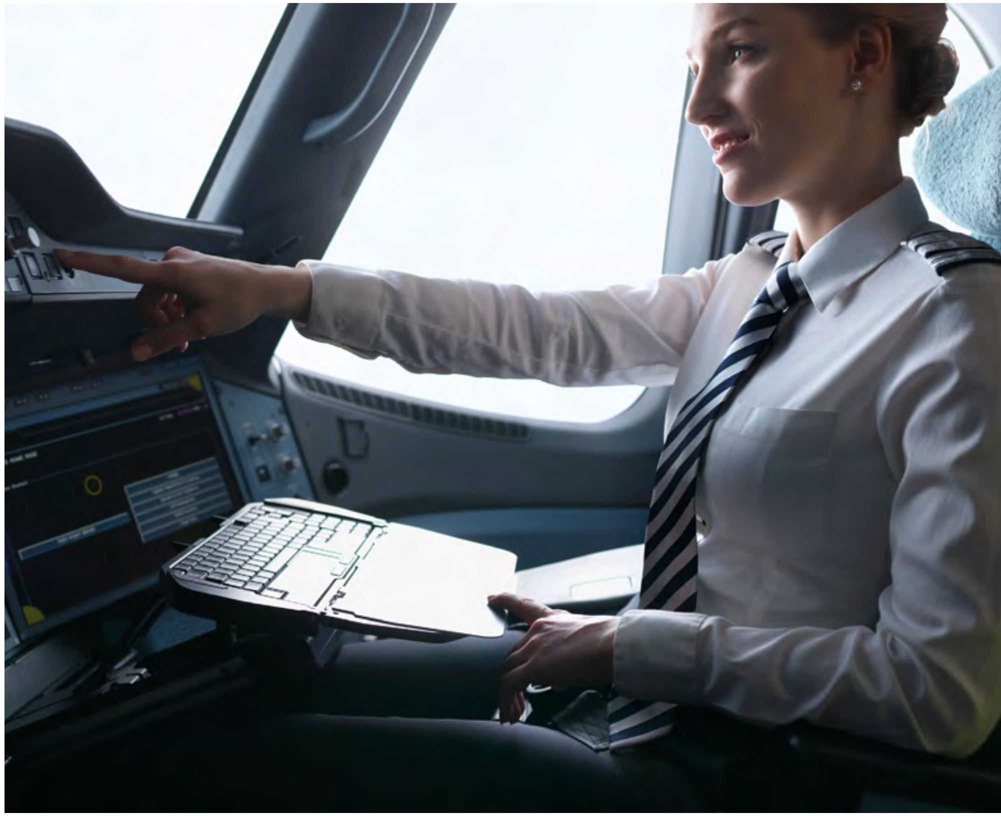
Effect of any restatements of information provided in earlier reports

In 2015, Finnair updated its materiality analysis on corporate responsibility in accordance with the GRI G4 reporting guidelines. Impacts and indicators related to material aspects were redefined in the process. This report follows the same principles.

LSG Sky Chefs Finland Oy operating at Helsinki Airport was transferred under the control of Finnair and named Finnair Kitchen Oy. It will become a part of Finnair's Customer Experience unit.and The LSG Finland employees are transferred to the service of Finnair Kitchen.

However, there have been no changes in the data compared with the previous report. Information on changes in individual indicator data is provided under the section on the indicator in question.

Changes pertaining to the Finnair's organisational structure and the calculation of financial statement data are described in more detail in connection with Finnair's financial key figures.



Reporting priorities

In 2013, Finnair discontinued the publication of a separate corporate responsibility report and financial report.

All the data can be found in the Annual Report and this GRI section.

The priorities of the report are based on the materiality analysis described on page 123.

FINNAIR HAS REPORTED ACCORDING TO THE GRI GUIDELINES EVER SINCE 2008.

MANAGEMENT PRINCIPLES

General management principles

Finnair's management system is aimed at achieving strategic goals, creating added value for the company's owners and other stakeholders, managing operational risks and improving the company's performance.

The Company's operations are guided by principles, policies and guidelines defined by the company, including the following:

- Code of Conduct
- Supplier Code of Conduct
- Corporate responsibility policy
- Environmental and energy policy
- Risk management policy and related, more detailed guidelines for different areas
- Safety and security policies
- Data security policy and guidelines
- Disclosure policy
- Equality and non-discrimination guidelines
- Remuneration policy
- Procurement policy and guidelines on supplier relationship management
- Sponsorship guidelines
- Anti-competition policy and guidelines
- The Group's anti-bribery guidelines
- The Group's guidelines on conflicts of interest
- Board of Directors' diversity targets

In financial reporting, Finnair applies the rules relating to listed companies as well as international financial reporting standards. Most of Finnair's operational activities are based on official regulations and are subject to official supervision. Within the group, the legality and acceptability of operations is monitored as part of Finnair's general control and audit processes. The responsibility for regulatory compliance in flight operations lies with the persons defined and approved by the authorities. Finnair is also subject to supervision relating to finances and, safety and security.

Internal control and audit roles and responsibilities are compliant with the Finnish Companies Act, the Finnish Corporate Governance Code for Listed Companies and the regulations governing the aviation industry.

Finnair's governance model, control environment and activities, internal audit and the roles and responsibilities related to these are described in detail in Finnair's Corporate Governance Statement on pages 94–105.

Corporate Responsibility at Finnair concerns everyone and our aim is to incorporate the corporate responsibility aspects equally in all our processes and product design. The Corporate Responsibility function is headed by the Senior Vice President for Communications and Corporate Responsibility, who is also a Member of the Finnair Executive Board. Reports and all key principles and policies will be discussed by the Finnair Board of Directors. The development, coordination and reporting is managed by the corporate responsibility function with the support of the steering groups for other key functions.

Responsible Finnair

Finnair's corporate responsibility is reflected in its strategy, vision and values of commitment to care, simplicity and courage. Responsibility is integral to all Finnair operations. The purpose of the responsibility strategy is to reduce the environmental impact and increase the financial and social return for society.

The key areas of corporate responsibility and sustainability strategy fall under the following themes: cleaner, caring and collaborative. For a more detailed description of these themes and the pertinent indicators, please refer to the GRI section.

Finnair is committed to complying with international and national legislation in its operations, as well as the ethical operating principles laid out in the Code of Conduct. The previous Code from 2012 was updated in 2016. Related training continued in 2017.

In 2014, the Group Executive Board approved additional group-wide guidelines to supplement the Code of Conduct with regard to the prevention of bribery and topics including hospitality, conflicts of interest and compliance with anti-competition regulations. Compliance with the guidelines has been promoted by communicating their content and organising training events. Furthermore, an internal whistleblowing channel was launched in 2015.

The corporate responsibility aspects that are defined as material for Finnair are provided in the Materiality Assessment and the GRI content index. Finnair's operations and services involve a number of financial, social and environmental considerations. These have been described in more detail in the following sections.

Public affairs and lobbying

Aviation is a strictly regulated industry. Therefore, it is important for Finnair to participate in discussions and decision-making regarding its operating conditions. It is part of the company's growth strategy to aim towards securing adequate traffic rights.

Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and expertise. The company does not pressurise or support political decision-makers in any way in pursuing its interests. The legality and ethicality of lobbying activities is controlled as part of the company's general supervision and audit processes.

The aim of Finnair's lobbying activities is to maintain relationships concerning relevant policy and to participate in relevant negotiations and the operations of advocacy organisations. When lobbying on various civil aviation and industry regulation issues, Finnair typically cooperates with various organisations and chambers of commerce. Finnair is an active member of various aviation industry organisations, such as A4E and IATA, but also in the Confederation of Finnish Industries (EK), and its sub-associations and in several chambers of commerce.

Communications

Finnair aims at open, honest and timely communications. In line with these principles, Finnair's communications are also in compliance with regulations governing listed companies and limited liability companies, as well as the obligations of the Finnish Act on Cooperation within Undertakings and the communications guidelines of the State Ownership Steering Department.

Finnair takes different perspectives into consideration and respects all stakeholders' views of our operations. Finnair's internal communications are based on reciprocity. Every employee has the duty to communicate matters related to their area of responsibility to the relevant target groups. Those in supervisory roles have a further duty to communicate goals, operations and results to their own work community and create a work environment that enables genuine constructive discussion. The company systematically develops its communication channels to enable more efficient communications and to facilitate constructive discussion.

Economic responsibility

Finnair as a whole has substantial direct and indirect financial implications on Finland's both national and local economies.

Aviation is a significant industry for Finnish society and the national economy. The accessibility created by airline traffic is a necessity for Finland's global competitiveness and its economic impact is considerable; aviation is estimated to account for 3–5 per cent of GDP, employment and tax revenue. Finnair's effective Asian strategy is a key element of the GDP contribution of aviation and its impact is estimated at 1–2 billion euros.

Finnair's objective is to create sustainable economic added value by producing flight services profitably, cost-competitively and in harmony with the needs of the environment and society. Responsible operations are the cornerstone of profitable business activity, and Finnair takes into account the effects of its operations on society. These effects are identified and assessed by the company's corporate responsibility and risk management organisations, which work under the delegated authority of the CEO.

Finnair's Board of Directors has set the company's financial targets, which are provided in information material for investors. As a public limited company, Finnair is committed to earning a profit for its shareholders. The company's profit distribution principles are expressed in Finnair's dividend policy. Finnair's financial reporting aims to transparently provide information about Finnair's financial position and development.

Purchasing practices

As provided in Finnair's Code of Conduct, its procurement operations are entirely based on the fair treatment of suppliers. The persons who make procurement decisions at Finnair must always be independent of the business partners concerned. A Finnair employee must declare himself/herself disqualified due to bias whenever they are required to make a decision pertaining to a contract or business relationship involving family relationships, ownership in the company concerned (with the exception of a reasonable share of ownership in a listed company) or any other business or debt relationship external to Finnair. Finnair does not accept corruption in any form and requires that its personnel and partners comply with the principles of the UN's Universal Declaration of Human Rights.

The procurement steering group operating under Finnair's management is responsible for the steering of the Group's procurement activity. The management of the Procurement unit has the duty to ensure that the personnel carrying out purchasing has access to valid purchasing guidelines and that the guidelines are observed. Audits are performed in certain product and service groups. Auditing focuses on quality and safety factors.

Many of the company's procurement categories are subject to regulation, requiring that the suppliers are approved by the authorities. This includes all procurement relating to flight safety. The sustainability of the supply chain is of major importance for airlines. which are using partners and service providers to an increasing degree. Conforming with the UN's Universal Declaration of Human Rights and all applicable laws and statutes is a minimum requirement. Finnair requires that its suppliers comply with essentially similar ethical standards as the company in its own operations. Finnair's Supplier Code of Conduct provides clear principles to ensure ethical purchasing.

Responsibility aspects are considered in cooperation with the corporate responsibility unit. Finnair launched human rights assessments in autumn 2015, which were extended to the supply chain in spring 2016. Finnair has a process and guidelines for continuous improvement in supply chain responsibility and for handling non-compliances. Finnair aspires to continuously develop practices that ensure that negative impact, including human rights violations, can be mitigated and that responsible sourcing is favoured when possible.

Environmental responsibility

The biggest environmental impact of an airline is its engine emissions. Modern aircraft are always more efficient than previous-generation aircraft, and hence Finnair's most significant environmental action is to invest in a modern fleet.

Aircraft noise also has an impact on the areas surrounding airports and under takeoff and approach flight paths. Advances in aerodynamics and engine technology help mitigate aircraft noise. The noise level of the Finnair fleet has been significantly reduced thanks to the on-going fleet modernisation and noise attenuation systems installed in older-generation aircraft.

In addition, other normal operations, including running business and office premises and the fuel of ground vehicles, produce their share of emissions and environmental impact. These are all managed under Finnair's IEnvA environmental system.

Finnair's goal is to be a leading airline in the field of environmental responsibility. The company is committed to the common goal of the aviation industry to achieve carbon neutral growth by 2020 and to cut the emissions of our flight operations by half by 2050 from the 2005 level. We comply with current environmental legislation, but our environmental work aims at exceeding statutory requirements and being a pioneer in evaluating, reporting and reducing environmental impacts.

Finnair participates actively in civil aviation environmental committees as well as in industry workgroups in Finland and the Nordic countries, promoting the reduction of the aviation sector's environmental load. An open dialogue with different stakeholders and continuous development of operations according to the latest available information are prerequisites for environmental responsibility. We report on our environmental impacts regularly in annual reports and as a part of the Carbon Disclosure Project (CDP). In addition, we communicate directly with various parties about our operations and gladly answer any questions from our stakeholders or private customers.

Environmental responsibility is managed as part of Finnair's environmental policy and environmental management system. Finnair Environment and Energy Policy described the goals of the company's environmental management. In 2014, Finnair became the first European airline to receive IATA Environmental Assessment (IEnvA) Stage 2 certification for its environmental management systems. IEnvA is an environmental management system developed by IATA for airlines, which we apply to make use of the best practices in the industry. Our environmental management system has been assessed by third-party auditors authorised by IATA who are qualified to perform audits of environmental management systems. To improve its performance, Finnair has identified the most significant environmental factors relevant to its operations and defined targets for them.

Finnair takes into account environmental considerations in all its flight and ground operations. Besides energy solutions that reduce the environmental load, Finnair's environmental strategy also includes the preservation and promotion of natural diversity, known as biodiversity thinking. In addition, among other things, Finnair has actively supported a rain forest reforestation project in Madagascar in collaboration with the Finnish Association for Nature Conservation for several years.

Finnair signed the United for Wildlife (UFW) Buckingham Palace declaration of the Duke of Cambridge to prevent the illegal smuggling of wild animals. As a signatory, the company has undertaken to promote the awareness of different stakeholders about this topic.

Social responsibility

Finnair is a company in a complex, highly technical business. The company has operations and supply chain partners in dozens of different countries, each with varying laws and practices. The most important social responsibility areas concern safety, personnel, the supply chain and customers.

Human rights

Finnair's own operations involve no significant human rights risks or impacts. However, indirect risks and implications may exist in relation to the supply chains and outsourced operations.

In order to improve the monitoring of its own operations and those of its entire supply chain, Finnair continued to develop assessment of the realisation of social responsibility and human rights in 2017. In order to improve supply chain risk management, traceability and the assessment of social impact, Finnair relies on the SEDEX system together with the **one**world alliance.

Finnair's human rights management is described in the Finnair Code of Conduct, Supplier Code of Conduct and the company's personnel management principles. Finnair respects the UN Universal Declaration on Human Rights and the core conventions of the International Labour Organisation (ILO).

Finnair signed in 2013 the United Nation's Global Compact initiative and undertook to comply with the Global Compact's ten principles of corporate responsibility. As required by the Global Compact principles endorsed by Finnair, the company aims to prevent any violations of human rights and the use of forced labour both within its own operations and its supply chain.

Personnel

A major aspect of social responsibility is to do with personnel and their working conditions at Finnair. Personnel management policies cover all aspects of social responsibility that have been identified as material. The impacts affecting the personnel and the working conditions are managed as based on the HR guidelines and Finnair HR policy.

Management, development, training and employee wellbeing

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

Finnair does not condone harassment in the work community. Reporting infractions is every employee's right and the company is determined to take steps to intervene in all cases brought to its knowledge. It is the duty of every group employee to act so that no one is accorded unequal status.

Finnair offers equal opportunities to everyone with regard to recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act and gives both men and women equal opportunities for balancing work and family life. In 2011, Finnair signed the United Nations Women's Empowerment Principles, which give guidance on the empowerment of women in the workplace, marketplace and community.

Finnair complies with procedures jointly agreed by the employer and employees for the prevention of harassment, inappropriate conduct, and conflicts. Finnair has also promoted the prevention culture and processes of easily accessible services. The procedures are based on the Finnish Act on Occupational Safety and Health and complies with the model recommended by the Finnish Ministry of Social Affairs and Health.

Leadership and competencies are developed on an individual, team, unit and organisation level. Learning and development solutions are typically either adopted by the entire personnel or tailored for specific development needs within a unit. They may also be aimed at developing professional skills, based on official requirements or in support of personal development. Leadership development was one of Finnair's key focus areas for 2016, and the efforts continued in 2017. Development needs in teams and the organisation are identified and the wellbeing and commitment of the personnel are regularly monitored through a personnel survey.

Occupational health and wellbeing at work

The target group for the wellbeing at work programme, which Finnair launched in 2011, is aimed at the entire personnel. The aim of the programme is to promote the effectiveness and functionality of the work community through various annually launched projects and to ensure the wellbeing of personnel through all career stages. The programme also contributes to employee productivity, the company's competitiveness and attractiveness as an employer as well as the implementation of the social component of corporate responsibility.

In 2017, Finnair started building the management system for occupational health and safety, whereby the best practices of each unit are brought together within Finnair's unified ERP system. The system is based on the Dupont's 12 element model and covers all Finnair's operations, premises and workplace principles. The management system for occupational health and safety also strengthens more than before the integration of occupational health care as part of a unified management system for wellbeing at work.

At Finnair, the Finnair Health Services unit is responsible for occupational health care services. Finnair Health Services focus on preventive care. The model of early caring and the occupational ability risk management system are examples of the guidelines governing preventive health care.

Finnair Health Services and the Finnair Aeromedical Centre FAeMC coordinate and are responsible for the implementation of occupational health care in the entire Finnair group. The operational and service quality of Finnair Health Services is based on the European Foundation for Quality Management's EFQM Excellence Model. The quality system is used to ensure that Finnair Health Services meets the requirements for good occupational health care practice in both aviation health care and aviation medicine services. The occupational health care and aviation medical services are described in a quality manual.

Freedom of association and collective negotiation

Freedom of association and the collective right to negotiate on occupational issues are recognised as fundamental rights in Finland. There is a long tradition of trade union activity in the company. Labour market culture in the company has been constructed in such a way that the organisation of workers and collective negotiations between the company and employee groups are part of normal practice. All Finnair employees have the right and opportunity to agree on terms of employment collectively. The terms of employment of management employees are agreed on locally. Personnel and management remuneration principles are described on page 111.

Management of customer experience

The aviation industry consists of a strictly regulated value chain comprised of multiple suppliers of products and services. As an airline and service company at the top of this value chain, Finnair creates added value for its customers by providing them with a comprehensive and high-quality service product in collaboration with its partners. Finnair is responsible for transporting customers and their baggage to their destinations safely, smoothly and punctually. The most significant product responsibility aspects in the Finnair Group's operations are flight safety, food safety, responsibility for individual customers, and responsibility for the cargo carried.

At Finnair, situations that deviate from the norm are prepared for in advance. The group has developed processes for various unexpected situations and these are continually updated and maintained. Customers must be able to trust in the fact that they will be cared for throughout the entire service chain. Finnair has responsibility towards its customers for the overall quality of their experience, regardless of the fact that some services are produced by Finnair's partners rather than the company itself. Therefore, Finnair pays increased attention to the selection of its partners and the partners are required to comply with Finnair's quality assurance policies and ethical guidelines.

Flight safety

Safety is at the core of all Finnair's operations. Flight safety and giving priority to it are part of all decision-making at every stage. Finnair maintains and develops the principles of ongoing development by adhering to its Safety Management System (SMS). It covers all aspects of flight safety: safety policy, flight safety risk management, safety training and communications for the entire personnel and subcontractor chain, continual auditing of operations and the assessment of the potential impact of new factors in the operating environment. Official regulations and standards set the minimum standards for Finnair's safety management, which the company aims to exceed in all areas.

One of the central elements in Finnair's safety system is the safety reporting concerning the entire staff. The company encourages its personnel and subcontractors to actively report any processes or elements they come across that could potentially compromise safety. Each report is analysed and assessed for risk, followed by necessary corrective actions based on this, and the person submitting the report will be notified of the outcome of the investigation. Alongside subjective observations, Finnair extensively monitors and analyses objective indicators, such as flight data. Ongoing monitoring and analysis enable a transparent risk level in all areas, which in turn enables prompt action on any indication of altered safety level.

Events that seriously jeopardise safety are extremely rare and almost without exception an impartial safety investigation is launched on each event. Safety investigations are coordinated by public officials (Safety Investigation Authority) or, if the authorities elect not to investigate the event, Finnair will conduct its own internal safety investigation. The safety investigators always carry out the investigation independently and the company's management has no opportunity to influence the investigation.

A strong safety culture, objective monitoring of the company's own operations, ongoing development and carrying out corrective measures as well as open dialogue with the authorities governing Finnair's operations guarantee safe and high-quality airline operations.

Customer care

For exceptional situations, Finnair has its own separate unit. All flight traffic irregularities are handled centrally from Helsinki, thereby gathering the necessary information into one place. In this way, a more detailed overall picture of the multiplier effects and costs of the irregularities is obtained, and efforts are made to minimise inconvenience to the customer.

Monitoring and supervision of customer service activity is based on regular auditing, customer feedback and customer satisfaction surveys, as well as external measurements. Our partners' operations are also continually evaluated. Monitoring is systematic and is used to set targets and check that they are being met. Staff expertise is ensured through training.

Customer data

Finnair respects the privacy of its customers and is committed to ensuring that personal details and other customer information are processed appropriately. We do our best to guarantee the confidentiality, security and accuracy of customer data under all circumstances. The company processes personal details at all stages of travel in compliance with the legislation on personal data and regulations issued by the authorities in the countries in which we operate.

Cargo and ground handling

In cargo transport, Finnair and its subsidiary Finnair Cargo are responsible for transporting customers' cargo in the condition in which it has been entrusted to us, and in compliance with Finnair Cargo's General Conditions of Carriage (http://www.finnaircargo.com/en/cargo/generaltransportation- terms.html) as well as international and national regulations. The aim is to offer cargo customers efficient logistics services. This means, among other things, that cargo entrusted to Finnair Cargo for transport is delivered to its destination exactly as agreed with the customer.

Finnair's Ground Operations unit is responsible for the acquisition, quality criteria and quality control of ground handling services required at airports. The unit's task is to ensure that the ground services used by Finnair fulfil the requirements set for them, both in terms of quality and in respect of safety and official regulations.

To deliver on their service promises, both Finnair Cargo and the Ground Operations unit apply a systematic evaluation process when selecting subcontractors and partners. Partners are required, for example, to ensure and maintain the expertise of their personnel, and also to ensure that vehicles, equipment and premises are appropriate. In addition to quality audits at airports, Finnair also regularly performs quality inspections that continually monitor both its own and subcontractors' work. Finnair Cargo and Ground Operations are responsible for maintaining and updating their own quality systems and ensuring that operations comply with requirements.

Ground Operations also has an area manager, responsible for airport operations, who has a significant role in monitoring the compliance of operations with regulations. If some activity does not to some extent comply with the operations manual or prevailing legislation, the deviation is documented and corrective measures effected immediately.

More information about IATA safety and quality audits: http://www.iata.org.

ECONOMIC RESPONSIBILITY

Finnair's objective is to create sustainable economic added value by producing flight services profitably, cost-competitively and in harmony with the needs of the environment and society. Responsible operations are the cornerstone of profitable business activity, and Finnair takes into account the effects of its operations on society.

Finnair's Board of Directors has set the company's financial targets, which are provided in information material for investors. As a public limited company, Finnair is committed to earning a profit for its shareholders. The company's profit distribution principles are expressed in Finnair's dividend policy. Finnair's financial reporting aims to transparently provide information about Finnair's financial position and development.

Finnair's economic responsibility in 2017

Finnair's tax footprint report is presented on page 91. Finnair seeks to make its financial statements easier to read and understand by various specific measures: firstly, the notes are presented as business-based combinations including related accounting principles, critical accounting estimates and sources of uncertainty. Secondly, particularly interesting figures are highlighted with a circle and explained in a text box marked with a star. Thirdly, illustrating charts are used in various sections of the financial statements to facilitate the understanding of the figures.

Indicators of economic responsibility

EC1 Direct economic value generated and distributed

EUR mill.	2017	2016	2015	2014
Direct economic value generated				
Consolidated turnover	2,568.4	2,316.8	2,254.5	2,284.5
Other operating income	77.0	75.5	85.2	18.3
Financial income	-0.3	1.0	1.3	3.5
Total	**2,645.2**	**2,393.3**	**2,341.0**	**2,306.3**
Economic value distributed				
Cash paid outside the company, materials and services, other operating expenses	1,901.4	1,939.0	1,802.3	1,905.4
Payments to personnel*	374.0	341.6	335.6	344.3
Payments made to shareholders and loan providers				
Dividend**	12.8	0	0	0
Interest and other financial expenses	13.4	11.5	9.7	26.9
Payments to governments***	7.5	8.1	9.6	7.6
Donations and other charitable payments	n/a	n/a	n/a	n/a
Distributed, total	**2,309.0**	**2,300.2**	**2,157.2**	**2,284.3**
Economic value retained for operational development	**336.1**	**93.1**	**183.7**	**22.0**
Investments in tangible and intangible assets as well as acquisitions of subsidiaries	511.5	516.9	329.7	82.4
Comparable operating result	170.4	55.2	23.7	-36.5
Return on capital employed (ROCE), %	13.6	8.9	12.2	-6.5

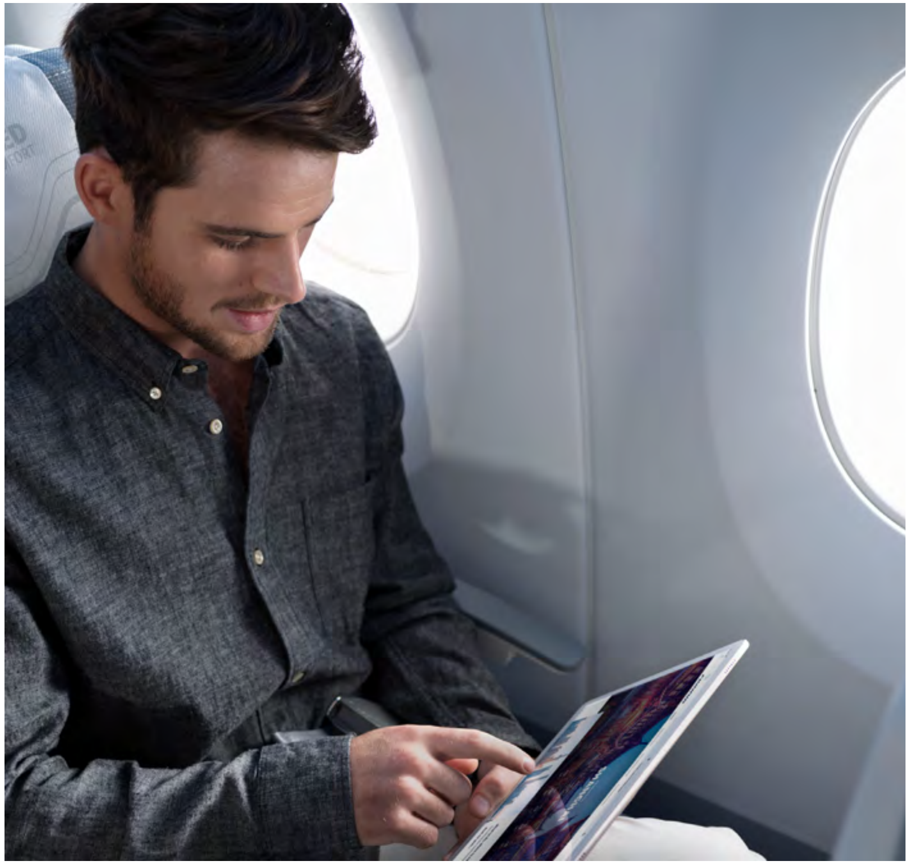
[1] http://www.finnwatch.org/fi/blogi/365-ruusuja-finnairin-veroraportille (in Finnish)

* Payments to personnel include wages and salaries and paid contributions related to pension plans. More information on payments to personnel is available in Finnair's 2017 Remuneration Statement on page 111 of the annual report.

** The Board of Directors proposes to the Annual General Meeting 2017 that a dividend of 0.30 euro per share be paid for 2017. 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.

*** Includes paid income taxes, social security payments and taxes on property. Taxes and charges comparable to taxes paid by Finnair have been discussed also in Finnair's Tax Footprint Report for 2015 on page 91 of the annual report.

Note! Payments to governments do not include payments to Finavia, which is an airport operator 100% owned by the Finnish government. Finnair paid traffic charges and rents totalling 60 million euros in 2016 and 55 million euros in 2015 to Finavia. Of these expenses, approximately 26 million euros (25) were related to air traffic control. In addition, Finnair passed levied passenger charges, totalling approximately 70 million euros in 2016 and 65 million euros in 2015, on to Finavia.



IN COMBATING CLIMATE CHANGE, THE MAIN MEASURES ARE DIRECTED AT REDUCING THE COMBUSTION OF FOSSIL FUELS.

G4-EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change

In combating climate change, the main measures are directed at reducing the combustion of fossil fuels. The jet fuel used by Finnair is fossil fuel and fuel costs are Finnair's single most significant cost item. Therefore, all the factors influencing the price of jet fuel similarly influence Finnair's operating costs. The need to reduce fuel consumption and the resultant carbon dioxide emissions has a significant impact on the company's business operations. In 2017, fuel made up approximately one fifth of Finnair's operational expenses; therefore efficiency has a material impact on the development of shareholder value.

In order to reduce its fuel consumption, Finnair follows a strategy comprised of four elements: technological development, improvement of operational efficiency, development of infrastructure and support of a global market-based measure to offset CO_2 emissions. Finnair operates a modern fleet and invests from 2015 onward in fuel-efficient next-generation aircraft to maintain its competitive advantage. In 2017, the first stage of fleet renewal was accomplished.

For several years now, Finnair has voiced its support for a global market-based measure for offsetting greenhouse gas emissions that would complement the industry's technological, operational and infrastructural efforts to reduce emissions. In 2017, Finnair participated in the European Union's Emissions Trading Scheme (EU-ETS), which concerned only Intra-European flights. The direct costs incurred by Finnair from emissions trading totalled 3.6 million euros in 2017. The direct costs of market based emission reduction schemes in the coming years are difficult to estimate due to open details of the systems and accepted carbon credits.

Finnair is a leading airline in carbon dioxide emissions reporting and reducing emissions. The risks, opportunities, financial effects and management methods related to climate change are described in detail in Finnair's responses to the Carbon Disclosure Project (CDP) report. In 2017, the Carbon Disclosure Project (CDP) recognised Finnair as on the Management level B, with the industry's average level C. Organisations qualified by rankings on the management level are recognised as efficient in reducing their carbon footprint and in integrating environmental issues in their operations.

G4-EC3 Coverage of the organisation's defined benefit plan obligations

All Finnair employees are covered by pension security in accordance with the Employee Pensions Act (TyEL). Pension contributions amounted to 17.9 per cent of salaries and 14.0 per cent of total personnel expenses in 2017. In addition, some employees are covered by an additional pension fund benefit and management by an additional benefit in accordance with their contracts. Of group personnel, around 32.7 per cent are covered by the additional pension fund benefit. Finnair's pension liability (Finnish Accounting Standards) in respect of its own pension fund was 341.8 million euros at the end of 2017. Pension liabilities are covered in full.

G4-EC4 Significant financial assistance received from government

The Finnish Government does not support Finnair's operations financially. The Finnair Aviation College constitutes an exception. The Finnair Aviation College, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). The Finnair Aviation College's task is to arrange further vocational training leading to a vocational or special vocational qualification as well as other further vocational training required for the practice of Finnair Plc's and its subsidiaries' operations (Further Vocational Training Arrangement Permit 551/530/2006, 13 December 2006). As a privately-owned educational establishment, the Finnair Aviation College funds its operations in accordance with government aid practices. In 2017, the Finnair Aviation College received a total of approximately 2.0 million euros.

G4-EC9 Proportion of spending on local suppliers at significant locations of operation

Finnair's home base is Helsinki Airport, where almost all Finnair flights depart or arrive. As measured by the number of passengers, every single other airport, or so-called outpost, constitutes less than 5 per cent. In addition, Finnair's corporate headquarters, the subsidiary for technical operations, and the catering division Finnair Kitchen are located in the immediate vicinity of Helsinki Airport. Therefore, the majority of Finnair's sourcing is concentrated around the Helsinki Airport area.

In 2017, 39 per cent of Finnair's goods and services procurement was made with Finnish suppliers.[1] Finnair's largest single procurement item is jet fuel. In jet fuel procurement, Finnair gives significant weight on financial factors and reliability of supply. Jet fuel is typically procured locally at each flight destination from some 50 different suppliers. In 2017, over half of Finnair's global fuel purchases were refined locally in Finland.

Finnair Group's subsidiary, package tour organiser Aurinkomatkat-Suntours Ltd uses primarily small and medium-sized hotels, which are, as a rule, locally owned. In addition, Aurinkomatkat has a local representative at each of its destinations, from whom the company purchases, among other things, ground transfers, tour arrangements and other operational services.

At the group level, Finnair collects and monitors spend data on purchases from all suppliers and from all regions. Finnair requires both locally and globally compliance with air operation laws and regulations. Attention is also paid to the appropriateness, supply reliability, price competitiveness and quality. The products purchased must be sustainable and as safe as possible for people and the environment. Many of the group's procurement categories are officially regulated, in which case possible suppliers must be approved by the authorities. For example, all purchases relating to flight safety are of this type. The company-wide Supplier Code of Conduct defines the overall policy on sustainability and ethics of Finnair procurement activities. In 2017, Finnair Group updated its Supplier Code of Conduct.

Finnair's business is by nature complex and in some respects highly technical. The company has operations and supply chain partners in dozens of different countries, each with varying laws and practices. The most important social responsibility areas concern safety, personnel, the supply chain and customers. Finnair developed cooperations in corporate responsibility aspects with domestic suppliers and partners in 2017 by sharing best practices in responsible sourcing. The aim of the cooperation was to improve the traceability of products and services purchased from domestic suppliers.

THE COMPANY-WIDE SUPPLIER CODE OF CONDUCT DEFINES THE OVERALL POLICY ON SUSTAINABILITY AND ETHICS OF FINNAIR PROCUREMENT ACTIVITIES.

[1] Finnish suppliers were defined based on the company's place of business. Finnair Kitchen Oy has been included since May 2017.

SOCIAL RESPONSIBILITY

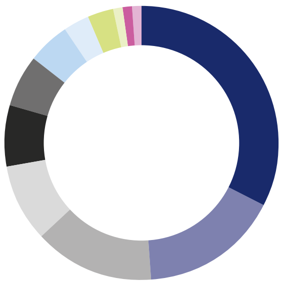
Finnair's operations are by nature very diverse and in a certain way highly technical. Our organisation and partners are present in dozens of countries around the globe and are subject to a wide range of laws and regulations. The core areas of our social responsibility include safety, care for our employees and customers, and supply chain management.

Finnair's social responsibility during 2017

- According to a research conducted by Sustainable Brand Index to identify the most sustainable and responsible Nordic brands, Aurinkomatkat-Suntours (a tour operator within Finnair Group) was perceived by Finnish consumers as Finland's most responsible tour operator. The survey was based on the ten principles of UN's Global Compact initiative.
- The Finnish Association for Fair Tourism supplied sustainability training for the staff of Aurinkomatkat-Suntours. The training gives solid knowledge on sustainable tourism and tools to respond to requirements of customers and other stakeholders.
- Finnair published its commitment to sustainability (Commitment 2050), which aligns its commitment to UN Sustainable Development Goals with the Finnish national programme. Finnair is committed to promote equality and non-discrimination in its own activities and in customer services.
- Finnair updated the ethical principles in its Supplier Code of Conduct in 2017
- Finnair renewed its customer service processes to promote non-discrimination. Finnair now offers inflight videos in sign language, while its booking engine has been improved to collect information about the type of assistance required by passengers.
- Finnair made an agreement with UN Media to include UN documentaries into its selection of inflight entertainment.
- The "Fit for Future" initiative, which was launched in 2015, has been successfully completed in 2017. Almost 300 Finnair employees took part in this year-long programme and more than a half of participants managed to make positive changes both in their physical shape and in their lifestyles. Based on a draw from the twenty top performers, two colleagues (with their person of choice) were awarded a trip to the Olympic Games in South Korea.
- According to the We Together @Finnair survey, the level of the job satisfaction was 3.78/5.0. In 2017, the survey also included questions about equal treatment (3.35) and non-discrimination (3.98).
- Finnair's employer brand image was stronger in 2017. According to the survey by Universum, business students considered Finnair the most attractive employer of the year.
- The German ESG rating company oekom Research AG updated its analysis of Finnair in 2017, Finnair was awarded the Prime designation with a rating C+, based on a review of a peer group of 69 companies in transportation and logistics.
- Finnair's Corporate Responsibility Policy was renewed in 2017

Employees by group

%



Responsibility for Personnel

A core part of Finnair's social responsibility involves taking care of its employees and their working conditions. In this respect, Finnair is a notable employer. The policies of personnel management cover all aspects of social responsibility that have been identified as material.

Finnair's strategic HR guidelines and HR policy cover all factors that may impact personnel and working conditions. Finnair's values –Commitment to Care, Simplicity and Courage– which serve as a guideline for everyone at Finnair are increasingly reflected in day-to-day operations according to Finnair's personnel. The survey We Together @Finnair helps the company determine what areas it has been successful in and what areas need improvement. The employee survey covers the following key themes: My Job, Managerial and Supervisory Work, Teamwork, and My Employer.

Leadership development continues to be one of Finnair's key HR focus areas. Finnair identifies regularly the needs for team and organisational development, and monitors the welfare and commitment of the personnel by an employee survey.

G4-10 Total number of employees by employment type, employment contract, region and gender

In 2017 Finnair's total number of employees increased significantly. At the end of 2017, the number of Finnair employees in active employment relationships was 5,918, which is 1080 more than during the previous year. A half of the increase in the personnel numbers is connected to the integration of the catering division into Finnair Group. A large majority of the personnel works in Finland, mostly at the Helsinki-Vantaa airport or in the neighbouring area.

On 31 December 2017, there were 550 Finnair employees in active employment relationships working outside

FINNAIR'S VALUES – COMMITMENT TO CARE, SIMPLICITY AND COURAGE – SERVE AS A GUIDELINE FOR EVERYONE AT FINNAIR.

Finland. Of these, 167 worked in financial management in the Baltic countries, 18 in travel agencies and tour operators based in the Baltic countries, and 78 as guides for Aurinkomatkat-Suntours' holiday destinations. The rest are employed in sales and customer service duties in Finnair's passenger and cargo traffic.

Full-time staff accounted for 94 per cent of Finnair employees in 2017, and 96 per cent of staff were employed on a permanent basis. The average age of employees was 42.7 years.

G4-11 Percentage of total employees covered by collective bargaining agreements

All Finnair employees in Finland have the right and opportunity to agree on their terms of employment through collective bargaining. Senior management constitutes an exception to this, as its terms of employment are agreed on locally or individually.

Finnair currently has employees abroad in 28 countries. The employment contracts and terms of employment are based on local legislation. Employees have the opportunity to agree on their terms of employment through collective bargaining in countries in which that is the local practice. Finnair does not limit its employees' rights to participate in trade union activities.

G4-12 Description of the organisation's supply chain

Our diverse supply chain is built around our route network. It includes suppliers regulated by the aviation industry, suppliers and service providers who specialise in airlines, as well as suppliers who make it possible for us to conduct our core business.

Our international supplier network enables us to operate at a world-class level, implement our growth strategy and provide new value-added services to customers.

THE SCORE OF WE TOGETHER @FINNAIR EMPLOYEE SURVEY WAS

3.78

FINNAIR PERSONNEL GREW BY

1,051

NEW EMPLOYEES IN 2017

G4-13 Significant changes during the reporting period regarding the organisation's size, structure, ownership or supply chain
During the reported period, LSG Sky Chefs Finland Oy was transferred under Finnair, becoming part of Finnair's Customer Experience unit, while the staff of LSG Finland moved to Finnair Kitchen services.

Finnair's own operations involve no significant direct social responsibility risks or impacts. However, indirect risks and implications may exist in relation to the supply chain and outsourced operations. In order to improve the monitoring of its own operations and those of its entire supply chain, Finnair continued the project it began in 2015 to assess the realisation of social responsibility and related risk assessment. Finnair makes use of the SEDEX system as part of its sourcing processes and operating methods to improve supply chain risk management, traceability and the assessment of social impacts. The system was implemented in cooperation with the **one**world alliance. Finnair is an active participant in the initiatives led by IOM (International Organization for Migration) and IATA (International Air Transport Association) in stopping and preventing human trafficking and in the promotion of human rights in aviation.

G4-LA1 Total number and rates of new employee hires and employee turnover
During 2017, Finnair hired 1,051 new employees, more than a half of the new recruits were flight personnel. At the same time, about 350 employees retired from Finnair. The employee turnover has been rather low in Finnair, less than 4%. Finnair's employer brand image has developed positively. According to the survey by Universum, business students considered Finnair the most attractive employer in 2017.

G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation
Finnair employees enjoy the same benefits irrespective of their type of employment. Some benefits are such that they enter into effect only after employment has lasted a certain period of time.

An exception is Finnair's Financial Services Office, which only serves permanent employees of Finnair Plc or its subsidiaries who are its members.

G4-LA4 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements
Significant operational changes in Finland are governed by the Finnish Act on Cooperation within undertakings. Depending on the matter in question, the minimum time period applied can range from one day to six weeks. The collective bargaining agreements that concern Finnair do not include provisions that run counter to these legislative provisions.

For redundancies and layoffs, the minimum notice period pursuant to the Act on Cooperation within Undertakings applies in addition to the statutory notice period for redundancies and layoffs prior to the termination of employment or payment of wages. The statutory notice period for layoffs is two weeks and the notice period for employees made redundant ranges from 14 days to six months depending on the duration of their employment. Some collective bargaining agreements contain provisions on notice periods for layoffs that are more advantageous to employees.

G4-LA5 Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advise on occupational health and safety programs

At Finnair, cooperation on occupational health and safety is organised in compliance with Finnish occupational health and safety legislation. Personnel have representation in official occupational health and safety committees at the company level or the business unit level. The occupational health and safety of Finnair's personnel abroad is also taken into consideration in the work of the committees. The occupational health and safety committees operate at the company level, representing various personnel groups. In large subsidiaries, employees are also represented by occupational health and safety delegates at the department level. Occupational health and safety delegates are selected via elections for two-year terms. Occupational health and safety elections were most recently arranged in November–December 2015, with the term of the elected delegates starting at the beginning of 2016 and concluding at the end of 2017. Employee health and safety issues are also handled by Finnair's Trust Forum. Members of the Executive Board, HR management, delegates and occupational health and safety organisations are invited to join the forum. The forum provides background information and discusses matters such as equality and non-discrimination, planning and changes pertaining to employees on a broad basis.

G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities

Work-related accidents comprise workplace accidents and business trip accidents. The table below shows all work related or business trip accidents that resulted in at least one day of sick leave.

LTIF= Loss time injury frequency refers to the number of workplace accidents per million of working hours.

Airline's ground personnel include Group management, support services, ground crew, and operative ground personnel.

G4-LA7 Workers with high incidence or high risk of diseases related to their occupation

Medical examinations pertaining to exposure at work include examinations concentrating on the effects of carcinogenic substances, solvents and other chemicals, noise, vibration and working night shifts. To prevent/minimize exposure to such work-related health hazards, the primary focus is on implementing working methods and procedures that involve minimal exposure to hazards.

Cosmic radiation assessments were conducted for a total of 10 pregnant members of flight personnel in 2017. Finnair Health Services has monitored the radiation exposure of all flight personnel on a quarterly basis. Radiation exposure levels have not exceeded the annual maximum level (6 mSv). All flight personnel can check their cumulative radiation exposure by accessing a browser-based system that provides information on actual hours of flight duty performed and a mathematical calculation of cosmic radiation exposure based on the routes flown.

G4-LA8 Health and safety topics covered in formal agreements with trade unions

Finnair's primary occupational safety forums are the joint occupational health and safety committees of the personnel and the employer. The development of occupational safety and health has been included into the action plan for occupational safety and health, and its focus areas are updated annually.

		Medical check-ups at Finnair in 2017
Finnair Group		1,550/4,415
Customer Experience		
	Helsinki Airport Customer Service	134 /251
	Cabin crew	744/1,805
Operations		
	Cockpit	344/906
	Cargo	16/120
	Finnair Flight Academy	8/31
	Technics	291/667

	Work-related accidents	Workplace accidents	Loss time injury frequency	Business trip accidents
2017				
Airline's flight personnel	71	60	21	11
Airline's ground personnel*	39	27	23	12
Finnair Technical Service Oy	20	16	15	4
Finnair Cargo Oy	2	1	6	1
Finnair Flight Academy Oy	0	0	0	0
Aurinkomatkat Oy	5	0	0	5
Total*	**137**	**104**	**14**	**33**

*Note. The data for 2017 include Finnair Kitchen (the entire 2017)
During 2017 no suspected occupational diseases

IN 2017 FINNAIR ORGANISED REGULAR TRAINING ON OCCUPATIONAL SAFETY AND HEALTH, INCLUDING ON PREVENTION. THE PLANNING OF THE TRAINING ON PREVENTION OF UNPROFESSIONAL CONDUCT AND INTERFERENCE ALSO BEGAN IN 2017.

The focus areas in 2017 were:

- Development of the Occupational Safety and Health System
- Development of the mobile reporting tool
- A double increase in the observations of safety and health issues compared to the previous year
- An update of risk assessments
- A campaign for the entire staff about workplace bullying
- Development of the safety culture through the training in the preventive direction
- Integration of safety discussions in performance assessments

Finnair has achieved progress in all focus areas: the accident frequency decreased slightly from the previous year. The level of seriousness of the accidents has also decreased compared to the previous year. The data for 2017 now also includes the new Finnair Kitchen unit.

The number of work-related safety observations doubled in 2017. This strengthens the focus of activities even more towards proactive measures. In 2018, the safety observations can be reported via mobiles, which will strengthen the safety and health observation culture.

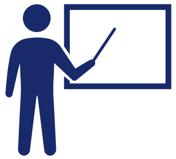
In 2017, a central place on occupational safety and health agenda belonged to the development of a system to manage occupational safety. The system will help systematise the processes and methods in use across Finnair Group. The system will be developed further in 2018.

In 2017, Finnair organised regular trainings on occupational safety and health, including on prevention. The planning of the training on prevention of unprofessional conduct and interference also began in 2017.

The development of shared occupational safety practices for workplaces continued in 2017. Finnair took the convening role in cooperation meetings between the companies that work in and around aircraft during turnarounds. In addition, Finavia convened a cooperation forum concerning the entire airport, with Finnair's representatives also participating in the forum. As an aviation industry employer, Finnair has also participated in the development of the occupational safety of its employees in cooperation with representatives of labour market organisations in a transport and logistics group coordinated by the Centre of Occupational Safety.

G4-LA10 Programs for skills management

Maintaining employee competence has a significant effect on the implementation of strategy. Competence development needs are surveyed by unit and by individual in conjunction with performance reviews. As the only airline company in Finland, it is particularly critical that Finnair maintains an appropriate level of aviation-specific competencies.



TRAINING HOURS IN TOTAL

322,580

HOURS

TRAINING HOURS PER EMPLOYEE

57

HOURS

G4-LA9 Average hours of training

				Employees 31.12.2017 (only active employees)				Training hours per employee			
	Women	Men	Total		Women	Men	Total		Women	Men	Weighted average
Employees	6,074	9,271	15,345	Employees	506	687	1,193	Employees	12	13	13
Office staff	9,309	13,517	22,826	Office staff	718	745	1,463	Office staff	13	18	16
Cabin	138,463	19,969	158,432	Cabin	1,620	191	1,811	Cabin	85	105	87
Pilots			123,425	Pilots	24	877	901	Pilots			137
Management	885	1,667	2,552	Management	27	49	76	Management	33	34	34
Total			**322,580**	**Total**	**2,895**	**2,549**	**5,444**	**Total**			**57**

The strategic development of competencies requires cooperation with various parties. Learning and development solutions are built at the company, unit, team and individual levels. In addition to traditional classroom teaching, competence is developed by a variety of methods, including learning on the job, online learning, workshops, coaching, shadowing, and mentoring. On-the-job learning is an exemplary method of professional development, especially in the context of digitalisation and continuously changing working tools and practices that require self-guided learning. Mapping competence development areas was made a part of strategic personnel planning processes and My Journey, a new concept of individual performance assessment.

The professional training for flight personnel is conducted in cooperation with Finnair Flight Academy, while Finnair's technical services unit handles its own professional technical training. The People Development unit is responsible for strategic competence development.

Development areas in 2017 included the following:

A. Development of managerial and supervisory work
- Fit for Growth – development program for management team
- My Leadership Lab – the program to support individual development of managers
- Inflight Supervisors Master Class – the program to support the customer service management
- Flight Operations Master Class to support the development of pilots' leadership skills
- Two new Talent programs: Finnair Transformers and Customer Service Future Leaders
- Continuing with Finnair's Leadership Forum
- Continuing with MOVE onboard; a coaching program for new supervisors
- Coaching for project managers
- Programs and events across units to support development of supervisors

B. Customised personnel development solutions
- Experience Manager Master Class for internal experts in customer experience development
- Ground and Crew-staff (UNCE)- Service-days, aiming at securing the high quality of customer experience
- Training towards the transformation of cargo operations and the implementation of Skychain
- Professional technical training for pilots in connection to growth strategy and new education for pilots
- Training to support the integration of new working tools: O365, Sky Pay payment solutions, Line Maintenance app, new application in digital services
- Commercial Development Program in Commercial unit, including Commercial Exchange Program
- Master Class with People and Culture-unit
- Digital Runway – webpages for self-guided learning and digitalization awareness

C. Team development and coaching
- Individual coaching programs for key individuals continued
- Group coaching programs for different target groups continued

D. Professional competence development and induction training
- #JoinFinnair induction training for all new employees
- Safety training for all employees, with targeted training for special groups
- General competence development, including the development of competencies related to systems, languages and purchasing
- Open House sessions (i.e. Airline Economics, Analytics)

Permanent themes include occupational safety and health in aviation, work induction, occupational safety and health awareness for supervisors, and occupational safety card training.

Other professional training organised in 2017 included outstation training, first aid and emergency training, basic and recurrent training, systems training and cooperation with various educational institutions.

The Finnair Aviation Academy, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). Its task is to arrange further vocational training leading to a vocational or special vocational qualification as well as other further vocational training required

BY THE END OF 2017
55.5%
OF FINNAIR STAFF WERE WOMEN

THE AVERAGE AGE OF FINNAIR'S PERSONNEL IN 2017 WAS
42.7
YEARS

for the practice of Finnair Plc's and its subsidiaries' operations (Further Vocational Training Arrangement Permit 551/530/2006, 13 December 2006). As a privately-owned educational establishment, the Aviation Academy funds its operations in accordance with government aid practices and it is a member of Business Education Establishments ELO (Elinkeinoelämän oppilaitokset Elo ry).

G4-LA11 Percentage of employees receiving regular performance and career development reviews

Performance and career development reviews cover all Finnair personnel. The PD process (Performance Dialogue) is a management tool based on biannual discussions that guide the setting and achievement of targets, the evaluation of performance and management, and development.

G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

At the end of 2017, 55.5 per cent of Finnair's employees were women and 44,5 per cent were men. Three of the seven members of Finnair's Board of Directors are women. The average age of Finnair's personnel in 2017 was 42.7 years. Of the personnel, 27 per cent were over 50 years of age, while 13 per cent were under 30 years of age. Finnair does not maintain statistics based on ethnicity.

G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

The base salaries of female employees were, on average, 10 per cent lower than the corresponding base salaries of males in personnel groups (management and white collar employees) falling within the scope of position evaluation (Mercer). The total number of personnel included in the comparison was 935, of which 440 (47%) were female.

Wage-setting for other personnel groups is based on payscale salaries and raises based on the number of years in service, which leads to equal levels of remuneration between men and women.

G4-HR9 Total number and percentage of operations that have been subject to human rights reviews or impact assessments

Finnair continued the project it began in the previous year to develop the realisation of social responsibility, human rights reviews, and related risk assessment. The current policies and procedures were reviewed against the UN Declaration of Human Rights as well as guidelines and best practices for businesses. Risks related to human rights violations in Finnair's own operations, the operations of Aurinkomatkat-Suntours and the supply chain were also assessed.

Finnair implements the SEDEX system to improve risk management, the evaluation of social impacts and traceability in the supply chain. The implementation of the SEDEX system is carried out in cooperation with the **one**world alliance. Assessment of the direct geographical and industry-specific social responsibility risk of all suppliers that are significant regarding customer experience are made using a risk assessment tool. Finnair aims at including all new suppliers in the SEDEX system starting from the bidding phase.

THE SUSTAINABILITY OF THE SUPPLY CHAIN IS OF MAJOR IMPORTANCE FOR THE AIRLINE AS FINNAIR USES PARTNERS AND SERVICE PROVIDERS TO AN INCREASING DEGREE AS IT EXPANDS ITS INTERNATIONAL ROUTE NETWORK

G4-HR10 Percentage of new suppliers that were screened using human rights criteria

Finnair has its own ethical guidelines for suppliers (Supplier Code of Conduct) and subcontractors, and all suppliers are required to comply with them. All partners and subcontractors, moreover, are obliged to comply with the principles of the UN Universal Declaration of Human Rights as well as local legislation.

Finnair continues to rely on the SEDEX system to improve supply chain risk management, traceability and the assessment of human rights impacts in cooperation with the **one**world alliance.

Society

Aviation is a strictly regulated industry. As such, it is important for Finnair to participate in discussions and decision-making regarding its operating conditions. It is part of the company's growth strategy to aim at securing adequate traffic rights.

Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and expertise. The company does not pressurise or support political decision-makers in any way in pursuing its interests. The legality and ethics of lobbying activities is controlled as part of the company's general supervision and audit processes. Finnair is committed to complying with international and national legislation in its operations, as well as the ethical operating principles laid out in the Code of Conduct. In 2014, the Group Executive Board approved additional group-wide guidelines to supplement the Code of Conduct regarding the prevention of bribery and topics including hospitality, conflicts of interest and compliance with anti-competition regulations.

G4-HR11 Significant actual and potential negative human rights impacts in the supply chain and actions taken

The sustainability of the supply chain is of major importance for the airline as Finnair uses partners and service providers to an increasing degree as it expands its international route network. Conforming with the UN's Universal Declaration of Human Rights and all applicable laws and statutes is a minimum requirement for suppliers. Finnair requires that its suppliers comply with similar ethical standards as the company does in its own operations. Finnair's Supplier Code of Conduct was updated in 2017 and it provides clear principles to ensure ethical purchasing. Responsibility aspects are considered in cooperation with the social responsibility unit.

SEDEX system was used to evaluate all suppliers that are significant from the perspective of operations and customer experience. The need to audit the implementation of responsibility of suppliers is evaluated among other things by the system's risk assessment tools, adjusted to each of the operational fields.

Finnair is aware of the risks related to environment and human rights in geographical and industry-specific areas and aims at continuous improvement of preventive actions. The dialogue with the suppliers is continuous via themed supplier events.

G4-SO3 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified

The identification and assessment of risks related to corruption are part of the general risk assessment of the company and its business units, and Finnair's business units conduct an analysis of risks related to corruption as part of the company's general risk survey.

G4-SO4 Communication and training on anti-corruption policies and procedures

Finnair's Code of Conduct includes an anti-corruption section, and the receiving and giving of bribes is strictly prohibited. Preventing corruption is the responsibility of everyone at Finnair, including the heads of business operations and the internal audit.

Certain job descriptions at Finnair are such that they are considered to have a higher than normal risk of corruption associated with them. All those handling such tasks are offered the opportunity to participate in anti-corruption training in business units and subsidiaries. Finnair's

Code of Conduct and Guidelines for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials are also communicated to the employees handling such tasks. The Group's Guidelines for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials specify more detailed guidelines concerning bribery and hospitality, and the Group's Conflict of Interest Guidelines cover the identification and avoidance of conflicts of interest and related conduct.

G4-SO6 Total value of political contributions by country and recipient/beneficiary
Finnair does not support any political parties or persons.

Product responsibility

The aviation industry consists of a strictly regulated value chain comprised of multiple suppliers of products and services. As an airline and service company at the top of this value chain, Finnair creates added value for its customers by providing them with a comprehensive and high-quality service product in collaboration with its partners. We are responsible for transporting customers and their baggage to their destinations safely, smoothly and punctually.

The most significant product responsibility aspects in the Finnair Group's operations are flight safety, food safety, responsibility for individual customers, and responsibility for the cargo carried.

G4-PR3 Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant products and service categories subject to such information requirements
Finnair's operations are regulated by numerous official regulations and international agreements. For the customer, the most important product information issues relate to the conditions of carriage and customer's rights.

The duty to disclose relating to the conditions of carriage is based on the Montreal Convention, and the content of the Convention has also been codified in official regulations.

Finnair's General Conditions of Carriage are enclosed with travel and cargo documents, and are also available on the company website. The special conditions for package tours are based on the EU Directive 90/314/EEC. The conditions relating to package tours provided by Finnair are to be found in the tour operators' travel documents, travel brochures and websites.

The airline has a duty to communicate the passenger's rights if a passenger is denied access to a flight, the passenger's flight is cancelled or the flight is delayed. This duty is based on EC Regulation 261/2004. At the same time, the airline must inform customers with whom they can file a complaint. Finnair complies with these regulations in its customer service operations.

A customer's protection of privacy is prescribed by the Finnish Personal Data Act 22.4.1999/523. During 2017, Finnair has prepared for the enforcement of EU's GDPR (General Data Protection Regulation), scheduled for 25.5.2018, and has updated its data protection guidelines and revised its processes from the point of view of personal data protection.

G4-PR5 Results of surveys measuring customer satisfaction
Finnair monitors the customer feedback it receives and reports on the feedback to the unit concerned at least once per month. In urgent matters, the feedback is forwarded immediately. In 2017, customer feedback was utilised in monitoring customer reactions to product and

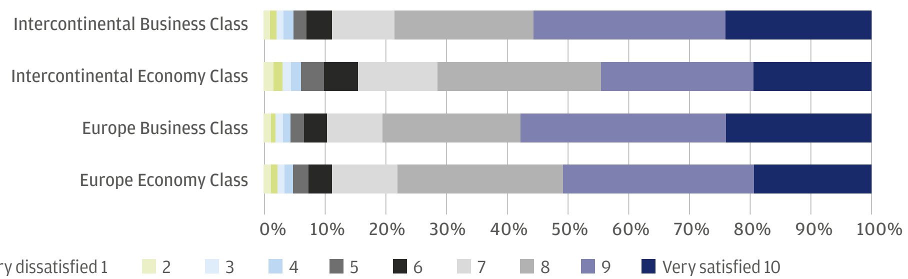
DURING 2017, FINNAIR HAS PREPARED FOR THE ENFORCEMENT OF EU'S GDPR (GENERAL DATA PROTECTION REGULATION), AND HAS UPDATED ITS DATA PROTECTION GUIDELINES AND REVISED ITS PROCESSES FROM THE POINT OF VIEW OF PERSONAL DATA PROTECTION.

service renewals. Based on feedback, we have developed the customer experience at the airports and in the cabin, with development efforts focused on areas including check-in, lounge services, inflight entertainment and inflight meal and beverage services. Proactive customer compensation in airport services has also been developed further.

Customer feedback helps improve the overall customer experience, and feedback is also important for motivating customer service personnel.

In addition to spontaneous customer feedback, customer perceptions of the service experience are monitored by using questionnaires on scheduled flights, and the results are reported monthly. Finnair's customer satisfaction survey covers all scheduled traffic destinations operated by Finnair and Norra. The survey is conducted using e-mail questionnaires based on partial random sampling, performed 1–7 days following the flight. The survey's key indicators are the general rating of the flight experience as well as ratings of various elements such as booking, airport services and in-flight services. On its Asian and European routes, Finnair also participates in IATA's Airs@t competitor monitoring surveys, which track the quality of service experienced by the customer in comparison to the most important competitors.

Finnair's customer satisfaction with flight as a whole in 2017



Survey-based data plays an important role in the development of the customer experience. In 2017, Finnair's overall customer satisfaction was close to the level seen in recent years. Of all customers completing the survey in 2017, 77 per cent rated their experience between 8 and 10 on a scale of 1–10 (76 per cent in 2016). Finnair's Net Promoter Score, which measures customers' likelihood of recommending Finnair's services, was higher than in 2016 almost all through the year, with the score reaching a new record (54) under the current measurement principles in August 2017. The NPS for the full year (47) was four percentage points higher than in 2016.

The strengths of Finnair's service included efficient and smooth ground services and effective transfers at Helsinki Airport. Customers also appreciate Finnair's cabin environments – with the new A350 aircraft receiving particularly high scores – and friendly inflight service. Development areas highlighted previously in customer feedback include inflight entertainment and meals. Finnair placed a particular focus on these areas last year, which was reflected in higher scores.

In addition to customer satisfaction surveys at the Group level, Finnair's subsidiaries also commission their own customer satisfaction surveys.

Links

Finnair's General Conditions of Carriage
http://www.finnair.com/INT/GB/info/conditions-of-carriage

Finnair Notice on Passenger Rights
https://www.finnair.com/go/2015.9-58/documents/PDFs/Finnair-Notice-on-Passenger-Rights-2012.pdf

Cargo guidelines and conditions of carriage
http://www.finnaircargo.com/en/cargo/guidelines.html

http://www.aurinkomatkat.fi/matkaehdot
(Aurinkomatkat general conditions of travel, in Finnish)

Montreal Convention
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX-:22001A0718(01):FI:HTML

EU Package Travel Directive
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX-:31990L0314:FI:HTML

Minimum Air Transport Passenger Rights when passengers are denied boarding against their will or a flight is cancelled or delayed
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX-:32004R0261:FI:HTML

Finnish Personal Data Act
http://www.finlex.fi/fi/laki/ajantasa/1999/19990523?search%5B-type%5D=pika&search%5Bpika%5D=henkil%C3%B6tieto

The General Data Protection Regulation
http://eur-lex.europa.eu/legal-content/FI/TXT/?uri=CE-LEX:32016R0679

ENVIRONMENTAL RESPONSIBILITY

Finnair's environmental responsibility management is based on the principle of continuous improvement. Environmental responsibility is managed with the help of the company's environmental policy and system. The environmental and energy policy lays out the targets for environmental management.

In 2014, Finnair became the first European airline to receive IATA Environmental Assessment (IEnvA) Stage 2 certification for its environmental management systems. IEnvA is an environmental management system developed by IATA for airlines, which is consistent with ISO 14001:2005 standard. In this, Finnair makes use of the best practices in its industry.

Finnair's environmental management system is assessed by third-party auditors authorised by IATA who are qualified to perform audits of environmental management systems. To improve performance, Finnair has identified the key environmental aspects of its operations, their impacts and risks involved, and set targets related to them.

Finnair's key environmental aspects are:

- Emissions from the use of jet fuel
- Flight noise
- The energy consumption of properties
- Cabin waste

Finnair's environmental responsibility in 2017

- Finnair continued the replacement of its Airbus A340 wide-body aircraft with next-generation Airbus A350 XWB aircraft that are on average 25 per cent more fuel-efficient than their predecessors. At the end of 2017, Finnair's fleet included eleven Airbus A350XWB aircraft.
- CO_2 emissions from flight operations increased by 5.4 per cent from the previous year, while available tonne kilometres (ATK) increased by 9.9 per cent over the same period.
- Measured by the unit-specific CO_2 emissions of revenue tonne kilometres, emissions decreased by 6.7 per cent from the previous year.
- The volume of waste increased by approximately 5 per cent from the previous year.
- Since 2016, Finnair has been a part of the energy efficiency pact of the Confederation of Finnish Industries, Ministry of Economic Affairs and Employment and the sectoral business organisations. The pact requires a reduction of 4.5 per cent in properties' energy consumption by 2020 from the level of 2017 and ultimately 7 per cent by 2025.
- During summer 2017, Finnair's new cargo terminal activated 1,200 solar panels with the potential of generating 254 MWh electricity per year.
- Finnair's energy usage in facilities increased by 7 per cent.
- The Carbon Disclosure Project (CDP), the independent international not-for-profit for promoting environmental reporting, awarded Finnair with the score B, which refers to the Management level.
- The German ESG rating company oekom research AG updated its analysis of Finnair. The analysis looks into the sustainability efforts by companies in the investment universe extensively, covering environmental and social responsibility as well as corporate governance. Finnair's peer group in the review comprises globally 69 companies in the transportation and logistics sector, including major airlines. Finnair was awarded the rating C+, along with the designation "Prime".

G4-EN3 Energy consumption within the organisation

Finnair's primary energy consumption consists of the use of transport fuels. Aviation is very energy-intensive and Finnair's largest environmental load arises from flying and particularly from the use of fossil jet fuel.

Fuel consumption

Finnair's total consumption of jet fuel comprises flights operated by Finnair itself, flights operated by Norra on Finnair's behalf as well as so-called wetlease flights leased on a short-term basis from other operators due to lack of fleet or crew. In addition, jet fuel is consumed on transfer and training flights as well as test runs by technical services.

In 2017, Finnair's jet fuel consumption increased by 47 million kilogrammes or approximately 5.4 per cent compared to the previous year. The higher total consumption of fuel was primarily due to traffic growth. The breakdown of total consumption in 2017 is presented in the adjacent chart.

Energy and heating consumption of properties

In 2017, the energy consumption of Finnair's properties amounted to 73,754 MWh. Of this amount, electricity consumption accounted for 31,615 MWh, while heating energy accounted for 42,139 MWh. Finnair's operations centre (TOKE) is not included in year 2015 figures, when its energy consumption was 2,300 MWh.

G4-EN5 Energy intensity

Fuel efficiency of Finnair fleet

Finnair's target is to reduce the CO_2 emissions from its flight operations relative to revenue tonne kilometres (RTK) by 17 per cent by 2020, using 2013 as the baseline.

Finnair's measures to improve its fuel efficiency focus primarily on flights operated by the company itself.

Finnair monitors the fuel efficiency of its flights primarily by the payload indicator (RTK), which accounts for the passenger load factor, the volume of cargo transported and the distance between the origin and destination. The following chart and table illustrate the fuel efficiency of all Finnair flights in 2013-2017 (including Norra flights starting as of 4/2015 and all wet lease flights). Finnair's

Finnair's Fuel efficiency 2013–2017

	2017	2016	2015	2014	2013
g/RPK	30.0	32.3	32.6	32.6	32.8
g/ASK	25.0	25.8	26.2	26.4	26.3
g/RTK	247.6	265.3	271.2	270.7	273.5
g/ATK	167.0	174.1	180.1	180.9	180.0

RPK = revenue passenger kilometres ASK = available seat kilometres RTK = revenue tonne kilometres, i.e. capacity use according to payload weight ATK = available tonne kilometres, i.e. capacity according to payload weight
RPK and ASK describe passenger traffic performance and RTK and ATK describe performance according to payload capacity (passengers+cargo)

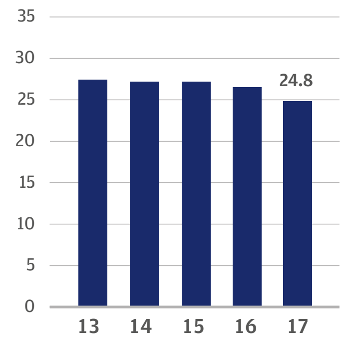
Finnair's fuel consumption in 2013–2017

Jet fuel	2017	2016	2015
Jet fuel (Jet A-1), kg	921,519,796*	874,148,241*	833,294,028**
MWh	11,058,238	10,489,779	9,999,528
GJ	39,809,655	37,763,204	35,998,302
Change %	5.4	4.9	13.2
Ground vehicles			
Petrol, Diesel and Fuel Oil I	232,351	71,164	53,317.69
MWh	2,313	703	525
GJ	8,326	2,530	1,890
Change %	226.5	33.5	-3.1
Total			
MWh	11,060,550	10,490,482	10,000,053
GJ	39,817,981	37,765,734	36,000,192
Change %	5.4	4.9	12.9

*These figures are externally assured.
**NoRRA's fuel consumption is included as of 4/2015.

Developments in Finnair's fuel efficiency 2013–2017

fuel kg/100RTK

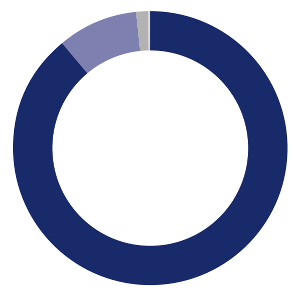


RTK = revenue tonne kilometres, i.e. capacity use according to payload weight

Flights operated by Finnair and NoRRA (Norra as of 4/2015)

Total jet fuel consumption

tonnes



- Finnair 820,604 tonnes
- NoRRa 85,697 tonnes
- Wet Lease 13,251 tonnes
- Other* 1,967 tonnes

*Other consumption = cargo flights

opportunities to have an impact on the fuel efficiency of flight operations leased from NoRRA and other cooperation partners are mainly limited to route planning, fleet utilisation and load factor optimisation.

Energy efficiency of Finnair's properties

The properties owned and leased by Finnair are mainly located in the Helsinki Airport area. The combined size in cubic metres of these properties was 2,5 million m^3 in 2017, and the energy efficiency was 27 KWh/m^3. Energy consumption figures are not available for Finnair's offices (sales etc.) abroad, as their energy consumption is typically invoiced as a fixed part of rent.

G4-EN6 Reduction of energy consumption

Owing to the energy-intensive nature of its operations and the resulting costs, Finnair naturally has a strong aspiration to make its operations more energy efficient, particularly by striving to reduce jet fuel consumption. Airlines with an environmentally friendly mindset, such as Finnair, strive to operate a modern fleet.

The average age of the fleet operated by Finnair was approximately 9 years at the end of 2017. Next-generation aircraft consume approximately 25 per cent less fuel than their predecessors. The CO_2 emissions of the aircraft have also declined by a corresponding amount. In addition to Airbus A35 XWB aircraft, Finnair added seven new Airbus A321 to its fleet in 2017.

By the end of 2017, Finnair had eleven next-generation Airbus A350 XWB wide-body aircraft. The last Airbus A340 aircraft as taken out of service in 2017. In addition to providing a first-class travel experience, the new Airbus A350 XWB aircraft offer 20 per cent more cargo and passenger capacity than their predecessors.

Energy consumption of Finnair's properties 2015–2017

Energy	GJ/MWh	2017*	2016*	2015**
Electricity	MWh	31,615	33,253	34,294
	GJ	113,814	119,711	123,459
Change %		-4.9	-3.0	-13.9
Heat	MWh	42,139	35,890	26,182
	GJ	151,700	129,204	94,257
Change %		17	37.1	-48.6
Total	MWh	73,754	69,143	60,477
	GJ	265,514	248,915	217,716
Change %		7	14.3	-33.4

* These figures are externally assured.
**2015 figure does not include Finnair flight operations building (TOKE).

NEXT-GENERATION AIRCRAFT CONSUME APPROXIMATELY
25%
LESS FUEL THAN THEIR PREDECESSORS.

FINNAIR'S CO_2 EMISSIONS DECREASED BY
6.7%
/RTK

The fleet investment, which was the most significant in the company's history, will see Finnair take delivery of a total of 19 Airbus A350 XWB aircraft. They support the company's pursuit of the target of reducing CO_2 emissions by 17 per RTK flown by the end of 2020, using 2013 as the baseline.

In addition to fleet modernisation, Finnair strives to improve fuel efficiency by other means. The ongoing fuel conservation program has achieved a reduction of several per cent in jet fuel consumption in recent years. A 2 per cent increase in fuel efficiency in Finnair's traffic corresponds to approximately 15 million kilogrammes of fuel, which in turn corresponds to a reduction of nearly 50 million kilogrammes of CO_2.

Finnair's initiatives to improve the efficiency of fuel cover all activities within operations, from flight planning to continuous descent approaches (CDA). Operational punctuality and fuel efficiency are the main focus areas in flight planning. Due to the flexible deployment of our Airbus fleet, it is easily possible to allocate an optimal aircraft type to each particular route on any given day of the year. During the operation stage, every flight is provided with an optimal flight path, based on payload, weather forecast, and capacity of airspace.

Besides weather factors, fuel consumption is affected by the weight of the aircraft and its load. The weight of the aircraft is followed up on regular basis, as well as the efficiency of water uplift and refuelling of the aircraft. Aircraft engines go through a special wash treatment regularly to improve their fuel efficiency.

In 2016, Finnair Facilities Management joined a nation-wide energy efficiency agreement in the service sector, which is part of the implementation of Finland's long-term energy and climate strategy and the framework decision of the Council of State on energy

efficiency measures. The agreement obliges Finnair to reduce its properties' energy consumption by 7 per cent from the 2016 level by 2025.

In March 2017, Finnair participated in the international Earth Hour for the ninth time by switching off its advertising lights at the airport and in various properties for a whole weekend and informing personnel of ways to conserve energy when at work as well as when on duty.

Together with local partners, Finnair is evaluating the possibility of establishing a biofuel hub at Helsinki Airport. The company is part of a project led by the Finnish Ministry of Transport and Communications that also includes Finavia and Neste as partners. Finland is very well positioned to be among the first countries in the world to introduce biofuels in broader and continuous use in aviation. Renewable bio-based diesel is considered a potential alternative to biokerosene due to its lower investments required for continuous production, and therefore lower costs. Renewable bio-based diesel has not yet received international approval for use as aviation fuel, but the approval process is underway. Finnair wants to find an ecologically, financially and socially sustainable fuel solution. The projects that are currently underway play a significant role in achieving this objective.

Finnair is an active member of the Nordic Initiative for Sustainable Aviation working group comprised of Nordic airlines, airport operators and government ministries who are working together with aircraft manufacturers to expedite the development of biofuel in the aviation industry.

G4-EN7 Reductions in energy requirements of products and services

During 2017, Finnair offered digital newspapers and magazines on its long haul flights. The ability to offer breaking news for the passengers and less fuel consumption for each operated flight.

The main service process reform in 2016 was the standardising of the loading process. As a result, the entire fleet adopted a single service trolley standard, which enables the cross-use of the new-generation light trolleys. This generates savings in material cost and fuel costs due to weight savings and considerable improvement in work ergonomics.

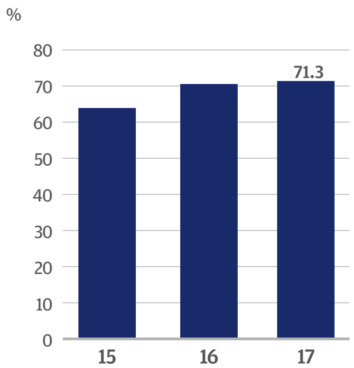
During 2017, Finnair commenced a re-configuration process for its narrow-body fleet. The modification of cabin interiors resulted in a reduction of the stowage areas. Additionally, noticeable weight savings can be achieved by the optimisation of the galley load.

Flight noise

One typical adverse environmental effect of air transport is noise. The noise produced by aircraft is mainly engine noise and aerodynamic noise. The level of engine noise is greater in take-offs, while the level of aerodynamic noise grows during approaches.

Finnair has reduced noise by modernising its fleet and by scheduling take-offs and landings at less undesirable times from a noise perspective. However, Finnair also operates flights in the evenings and at night, at which times noise is perceived to be more disruptive. The use of the continuous descent approach (CDA) also helps reduce flight noise within 10 kilometres of the airport. However, the use of CDA requires uncongested airspace and good weather conditions. During the busiest afternoon hours at Helsinki Airport, for example, when there are a lot of parallel approaches, using CDA is not possible. Finnair aims at increasing the annual amount of CDA landings in Helsinki by one per cent during 2018–2020.

CDA-approaches to Helsinki 2015–2017*



* The criteria for Continuous Descent Approach (CDA): At any stage of approach below 1,800 metres the aircraft does not maintain level flight more than 30 seconds.

The International Civil Aviation Organisation (ICAO) has specified noise certification limits for aircraft and their engines. Over 90 per cent of Finnair's fleet is compliant with the specifications for Chapter 4, which is the newest and quietest ICAO noise category. The remaining below 10 per cent of Finnair's aircraft are categorised in Chapter 3.

Other products and services

G4-EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

Finnair takes environmental aspects into consideration on the ground and in the air. Besides energy solutions that reduce the environmental load, Finnair's environmental strategy also includes the preservation and promotion of natural diversity, known as biodiversity thinking. Finnair has assessed the ecosystem services, or benefits provided to people by nature, that are most relevant to its business, as well as its most significant impacts on them.

Of the different categories of ecosystem services, cultural services and regulating services are the most relevant to Finnair's business. Cultural services include tourism, spiritual value and aesthetic value. Regulating services include the regulation of air quality and climate, disease control, pest control and pollination. Finnair's core business and key product areas benefit ecosystem services in various ways. Cultural services are particularly important for travel services. Accordingly, Finnair's travel agency, Aurinkomatkat-Suntours, has participated in various local projects to maintain biodiversity at various destinations for several years.

In planning its destination programs, Aurinkomatka Suntours carefully evaluates their potential effects on the environment and biodiversity. The operations aim to avoid excursions to sites where visits could pose a threat to biodiversity. Customers are informed at destinations on appropriate conduct to preserve biodiversity.

For several years, Finnair has also actively supported a rain forest reforestation project in Madagascar in collaboration with the Finnish Association for Nature Conservation, although the company does not operate any flights to the area.

In the airline business, Finnair supported both cultural and regulating services by prohibiting the transportation of hunting trophies or memorabilia originating from endangered species or their parts in its cargo network. Furthermore, Finnair signed the United for Wildlife (UFW) Buckingham Palace declaration of the Duke of Cambridge to prevent the illegal smuggling of wild animals. As a signatory, the company has undertaken to promote the awareness of different stakeholders about this topic.

The significance of biodiversity in Finnair's airline business will be highlighted further in the coming years through climate change mitigation measures. When biofuels replace fossil fuels in the future, the company wants to ensure that the primary production of raw

materials for renewable energy sources is used in line with the principles of sustainable development and does not compromise ecosystem services. For example, in the manufacturing of biofuel, measures must be taken not to indirectly lead to changes in land use (ILUC). The objective is to ensure that arable land used for growing food crops is not used to produce raw material for biofuel, which would result in either the clearing of forests or wetlands to create space for food production or a decline in food production.

Regulating services have a significant impact on both the airline business and travel services. The local decline of biodiversity erodes the operating conditions of the tourism industry and increases the risk of infectious diseases.

Climate change can lead to an increase or exacerbation of extreme weather phenomena, which in turn could restrict aviation or, in the worst case, prevent it entirely in some regions.

G4-EN15 Direct greenhouse gas (GHG) emissions (Scope 1)

Nearly all of Finnair Group's greenhouse gas emissions arise from flight operations. Flying primarily causes two kinds of direct greenhouse gas emissions: carbon dioxide and water vapour. Water vapour is the most important greenhouse gas in the atmosphere, but it is not generally examined directly as a human-derived greenhouse gas emission, because the water vapour in the atmosphere is mainly the result of natural evaporation. Air transport is in a special position in this respect because the water vapour generated by the engines is released high in the atmosphere, which increases the atmosphere's H_2O content above the cloud layer. However, not much is yet known about the potential impacts of water vapour emissions from aviation.

In 2017, the greenhouse gas emissions of Finnair's traffic amounted to approximately 2,902,787 tonnes of carbon dioxide. This figure covers Finnair's total fuel consumption (see table on fuel usage in 2015–2017).

G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)

In Finland, the energy consumption of buildings accounts for more than a third of total greenhouse gas emissions. Finnair uses means such as repairs and alterations, as well as user training, to ensure the energy efficiency of its business premises in order to mitigate the greenhouse gas emissions arising from the energy consumption of its buildings.

Of the district heating and electrical energy used by Finnair, 17 per cent was produced by natural gas, 43 per cent by coal, and 40 per cent by mixed waste. In 2017, the CO_2 emissions arising from the production of heating energy amounted to 11,040 tCO_2, calculated according to the emission factor reported by the heating energy supplier (262 kg CO_2/kWh). The location-based emissions of heat consumption amounted to 7,417 tCO_2. Calculated based on the average emission factor for Finnish district heating joint generation areas 176 g CO_2/kWh).

The CO_2 emissions attributable to the production of electrical energy in 2017 were 5,722 tCO_2, calculated according to the emission factor for average electricity purchasing in Finland (181 g CO_2/kWh) and 8,252 tCO_2, according to the supplier-specific emission factors (262 g and 198 g CO_2/kWh).

Finnair's direct greenhouse gas emissions 2015–2017

CO_2 tn	2017	2016	2015
Flying, AY	2,902,787*	2,753,567*	2,624,876
Ground equipment, AY	621	186	143
Total	**2,903,408**	**2,753,753**	**2,625,019,**
Change %	5.4	4.9	13.2

*These figures are externally assured. Calculated from p. 147 total consumption table.

Finnair's indirect greenhouse gas emissions 2015–2017

CO_2 tn	2017*	2016*	2015**
Electricity	8,252	8,843	7,544
Heat	11,040	9,583	6,415
Total	**19,292**	**18,425**	**13,959**
Change %	4.7	32.0	-40.1

*These figures as well as location based CO2 emissions are externally assured.
**2015 figure does not include Finnair flight operations building (TOKE).

G4-EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)

The greenhouse gas emissions arising from the production of jet fuel constitute a significant proportion of Finnair's indirect greenhouse gas emissions balance. More than 55 per cent of the jet fuel used by Finnair and Norra is produced at the Neste refinery in Porvoo's Kilpilahti district. The greenhouse gas emissions arising from the production and transport of jet fuel amounted to an estimated 632,974 tonnes of CO_2 in 2017 (externally assured).

The purchases of Airbus A350 XWB wide-body aircraft and Airbus A321 narrow-body aircraft represented Finnair's most significant investment in 2017. The indirect greenhouse gas emissions arising from the manufacture of seven A321 and four A350XWB aircraft represent an estimated 13,077 tonnes of CO_2 on Finnair's emissions balance.

At the end of 2017, Finnair had a total of 683 leasing cars. Their combined emissions amounted to 1,557 tonnes of CO_2, which is 6 per cent higher than in the previous year. The average CO_2 emission per leasing car amounted to 108 g CO_2/km, which is 6 per cent less than a year earlier.

Business travel by Finnair employees primarily involves the company's own flights, the emissions of which are reported under Scope 1. Commuting by Finnair employees caused an estimated 6,847 tonnes of CO_2 emissions in 2017.

The CO_2 emissions caused by crew transportation at Helsinki airport station level amounted to slightly more than one tonne in 2017.

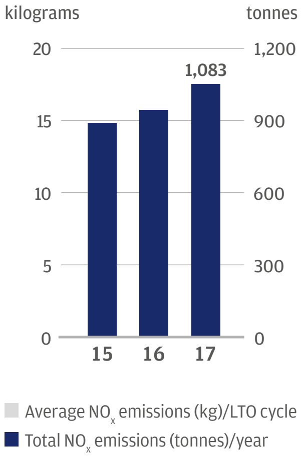
Finnair's indirect CO_2 balance also includes the capacity purchased from other operators by Finnair Cargo. In

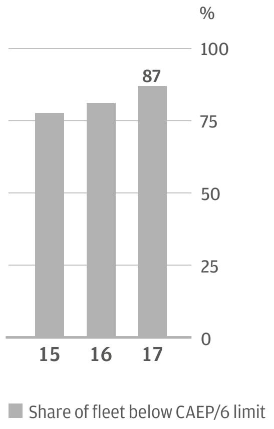
FINNAIR'S LONG TERM TARGET IS TO REDUCE THE CARBON EMISSIONS OF ITS FLIGHT OPERATIONS RELATIVE TO THE REVENUE TONNE KILOMETRES (RTK) BY

17%

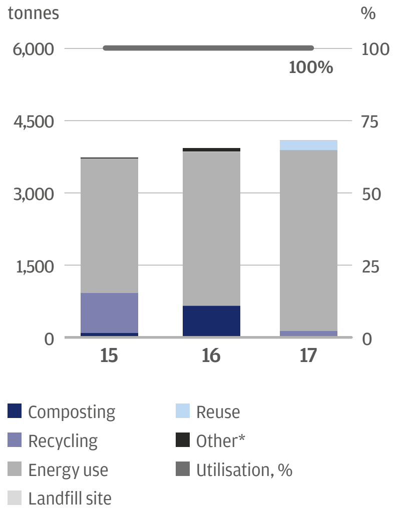
FROM THE LEVEL OF 2013 BY 2020.

Fleet's NO_x emissions 2015–2017





Amounts of waste and utilisation percentage 2015–2017



2017, this cargo capacity produced approximately 9,893 tonnes of CO_2 in total. The amount includes cargo flights that were operated solely due to Finnair Cargo.

In addition, significant material flows are also generated by Finnair Kitchen (previously Finnair's subcontractor LSG Sky Chefs Finland Oy), which provides catering for the flights that depart from Helsinki. The emissions arising from these materials, such as food and beverages served on flights, were not reported in 2017. The greenhouse impacts of the material flows could not be estimated.

Information on truck transport by Finnair Cargo is absent from this report. Finnair Cargo purchases transport services from truck companies, and the statistical practices of these companies do not allow actual emissions to be calculated at present. Finnair Cargo's main partners in truck traffic use vehicles classified as EURO 4 at a minimum.

When there is humidity in the air and the temperature is close to or below freezing, airlines use de-icing and anti-icing to ensure the safety of their operations. De-icing involves cleaning impurities on the exterior of the aircraft, while anti-icing involves spraying the exterior with a protective substance, propylene glycol (hereafter referred to as glycol), to prevent ice from accumulating on it. In 2017, the total consumption of glycol was 1,042,253 litres, and the water mixed with glycol amounted to 1,764,613 litres. The number of de-icing and anti-icing treatments during the year was 5,052. The greenhouse impact of glycol could not be estimated, since no emission factor is available for it.

G4-EN18 Greenhouse gas (GHG) emissions intensity

The emissions intensity of an aircraft goes hand in hand with its energy intensity. In other words, as the energy consumption of the aircraft increases, its emissions increase.

The ratios for jet fuel and the energy consumption of properties are reported under EN5 Energy intensity.

G4-EN19 Reduction of greenhouse gas (GHG) emissions

Finnair's long term target is to reduce the carbon emissions in its flight operations relative to the revenue tonne kilometres (RTK) by 17 per cent from the level of 2013 by 2020. The ongoing fleet renewal plays the most significant role in achieving this target. In addition, Finnair has deployed a new digital application that enables more precise monitoring of flight and aircraft type specific jet fuel consumption. Finnair uses RTK (revenue tonne kilometres) to measure its carbon emissions, since it measures fuel consumption and emissions in relation to the distance travelled and the volume of passengers.

G4-EN21 NO_x, SO_x, and other significant air emissions

Besides carbon dioxide, nitrogen oxides (NO_x) are the most significant air emission of flying. NO_x emissions arise in combustion processes that take place at high temperatures.

Nitrogen oxides contribute to the formation of ozone in the lower atmosphere, but destroy methane, which is a powerful greenhouse gas, in the atmosphere. The impact of nitrogen oxides is complex and in many respects still not fully understood.

The basis of the calculation of NO_x emissions produced by the engines of Finnair aircraft is the aircraft engine-specific emission database compiled by the UN International Civil Aviation Organisation (ICAO). The database covers the NO_x emissions of different engine types during one internationally defined landing-take-off cycle (LTO) up to the altitude of 915 metres (3,000 feet). ICAO has set a CAEP/6 target level for NO_x emissions, and Finnair monitors the achievement of this target by using the percentage indicator "Proportion of the fleet represented by aircraft that are under the CAEP/6 limit". The calculation covers Finnair's own fleet and does not account for emissions by external flight operators in Finnair's purchased traffic (such as wet leases involving Finnair leasing an aircraft and its crew).

In addition to NOx emissions, Finnair's operations give rise to volatile organic compound (VOC) emissions. VOC emissions are harmful to the environment by, for example, contributing to the formation of ozone in the lower atmosphere. Lower-atmosphere ozone, moreover, is harmful to both human and animal health and flora.

Technical Operations (FTO) holds an environmental permit granted by the environmental protection authorities, which regulates the use of volatile solvents and specifies limits for emissions. In 2017, FTO's VOC emissions totalled 4,24 tonnes. Slight increase from previous year is due to increased production and temporary change in engine washing method.

G4-EN23 Total weight of waste by type and disposal method

The total amount of waste generated by Finnair increased by approximately 5 per cent, or over 209,7 tonnes, from the previous year. The increase/reduction in the total weight of waste is primarily attributable to traffic growth.

The company placed even more focus on waste recovery and sorting. Finnair has set waste management objectives of increasing waste recovery, cost efficiency and safety, as well as reducing the volume of waste. In practice, this means that waste will be utilised as either energy or material.

Waste generated by Finnair's operations is no longer disposed of in landfills in Finland. The combination of mixed waste and energy waste is made possible by the thermic processing of waste at Fortum's power plants in Riihimäki. Following a change in applicable regulations, food waste originating from outside of the EU that is subject to the EU by-products Regulation can now be directed to thermic processing, allowing it to be utilised with other waste in generating district heating and electricity.

G4-EN24 Total number and volume of significant spills

In 2017, Finnair had no significant spills burdening the environment.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Finnair was not subject to any fines or other sanctions for noncompliance with environmental laws and regulations during the reporting period.

WASTE GENERATED BY FINNAIR'S OPERATIONS IS NO LONGER DISPOSED OF IN LANDFILLS IN FINLAND.

GLOBAL COMPACT INDEX

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Human Rights		**Location**
Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and	p. 3-4; 18-19; 31-34; 127-132; 136-145
Principle 2:	make sure that they are not complicit in human rights abuses.	p. 18; 31-34; 127-132; 136-145
Labour		
Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	p. 31-34; 127-132; 136-145
Principle 4:	the elimination of all forms of forced and compulsory labour;	p. 31-34; 127-132; 136-145
Principle 5:	the effective abolition of child labour; and	p. 31-34; 127-132; 136-145
Principle 6:	the elimination of discrimination in respect of employment and occupation.	p. 3-4; 31-34; 127-132; 136-145
Environment		
Principle 7:	Businesses should support a precautionary approach to environmental challenges;	p. 31-34; 127-132; 146-154
Principle 8:	undertake initiatives to promote greater environmental responsibility; and	p. 3-4; 31-34; 127-132; 146-154
Principle 9:	encourage the development and diffusion of environmentally friendly technologies	p. 31-34; 127-132; 146-154
Anti-Corruption		
Principle 10:	Businesses should work against all forms of corruption, including extortion and bribery.	p. 31-34; 127-132; 136-145

GRI G4 CONTENT INDEX

Code	GRI content	Location	Further information
General standard disclosures			
	Strategy and analysis		
G4-1	Statement from the CEO	p. 3-4	
G4-2	Description of key impacts, risks, and opportunities	p. 7-16; 20; 24-36; 101-110	
	Organisational profile		
G4-3	Name of the organisation	Finnair Group Plc	
G4-4	Primary brands, products and services	p. 8; 11-16; 27-28	
G4-5	Location of the organisation's headquarters	Tietotie 9 , 01053 Finnair	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	p. 8-16; 123-126	
G4-7	Nature of ownership and legal form	p. 29-31	
G4-8	Markets served	p. 8-16; 27-28	
G4-9	Scale of reporting organisation	p. 8-16; 22-23	
G4-10	Total number of employees and breakdown by employment type, employment contract, region and gender	p. 137	
G4-11	Percentage of total employees covered by collective bargaining agreements	p. 137-138	
G4-12	Description of the organisation's supply chain	p. 8-9; 11-16; 138	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	p. 11-16; 24-31	
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	p. 94-111; 122-132	
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	p. 3-4; 17-19; 127-132	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation is active	p. 17-19; 127-132	
	Identified material aspects and boundaries		
G4-17	Entities included in the organisation's consolidated financial statements	p. 125-126	
G4-18	Process for defining the report content and the aspect boundaries	p. 123-124	
G4-19	Material aspects identified	p. 123-124	
G4-20	Aspect boundary within the organisation for each material aspect	p. 123-126	
G4-21	Aspect boundary outside the organisation for each material aspect	p. 123-126	
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements	p. 123-126	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	p. 123-126	
	Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organisation	p. 17	
G4-25	Basis for identification and selection of stakeholders with whom to engage	p. 17; 123-124	
G4-26	Organisation's approach to stakeholder engagement	p. 17	
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organisation has responded to them	p. 17	

Code	GRI content	Location	Further information
	Report profile		
G4-28	Reporting period for information provided	1.1.2017-31.12.2017	
G4-29	Date of most recent previous report	Mar-16	
G4-30	Reporting cycle	Annually	
G4-31	Contact point for questions regarding the report or its content	Communications, Finnair Plc Tietotie 9, 01053 Finnair. comms(a) finnair.com	
G4-32	GRI content index	p. 156-159	
G4-33	Policy and current practice with regard to seeking external assurance for the report		Some of the indicators externally verified
	Governance		
	Governance structure and composition		
G4-34	Governance structure of the organisation, including committees of the highest governance body	p. 94-105	
	Ethics and integrity		
G4-56	Description of the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	p. 3-4; 8-20; 127-132	

Specific standard disclosures

Code	GRI content	Location	Further information
	Disclosures on management approach		
DMA	General disclosure on management approach	p. 127-132	
	Economic indicators		
	Economic performance		
G4-EC1	Direct economic value generated and distributed	p. 133	
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	p. 134	
G4-EC3	Coverage of the organisation's defined benefit plan obligations	p. 134	
G4-EC4	Financial assistance received from government	p. 134-135	
	Indirect economic impacts		
G4-EC8	Significant indirect economic impacts, including the extent of impacts	p. 11-16; 22	
	Procurement practices		
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	p. 135	
	Environmental indicators		
	Energy		
G4-EN3	Energy consumption within the organisation	p. 147-148	
G4-EN5	Energy intensity	p. 147-148	
G4-EN6	Reduction of energy consumption	p. 148-150	
G4-EN7	Reductions in energy requirements of products and services	p. 150	
	Biodiversity		
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	p. 150-151	

Code	GRI content	Location	Further information
	Emissions		
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	p. 152	
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	p. 152	
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	p. 152-153	
G4-EN18	Greenhouse gas (GHG) emissions intensity	p. 147-148; 153	
G4-EN19	Reduction of greenhouse gas (GHG) emissions	p. 153	
G4-EN21	NOx, SOx and other significant air emissions	p. 153-154	
	Effluents and waste		
G4-EN23	Total weight of waste by type and disposal method	p. 154	
G4-EN24	Total number and volume of significant spills	p. 154	
	Compliance		
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	p. 154	
	Social indicators		
	Labor practices and decent work		
	Employment		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	p. 138	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	p. 138	
	Labor/management relations		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	p. 139	
	Occupational health and safety		
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	p. 139	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and gender	p. 139	
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	p. 139	
G4-LA8	Health and safety topics covered in formal agreements with trade unions	p. 139-140	
	Training and education		
G4-LA9	Average hours of training per year per employee by gender and by employee category	p. 140	
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p. 140-142	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	p. 142	
	Diversity and equal opportunity		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	p. 142	
	Equal remuneration for women and men		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	p. 142	

Code	GRI content	Location	Further information
	Human rights		
	Assessment		
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	p. 142	
	Supplier human rights assessment		
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	p. 142	
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	p. 143	
	Society		
	Anti-corruption		
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	p. 143	
G4-SO4	Communication and training on anti-corruption policies and procedures	p. 143-144	
G4-SO5	Confirmed incidents of corruption and actions taken		No incidents
	Public policy		
G4-SO6	Total value of political contributions by country and recipient/beneficiary	p. 144	
	Anti-competitive behaviour		
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes		No incidents
	Compliance		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No incidents
	Product responsibility		
	Customer health and safety		
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	70%	
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		No incidents
	Product and service labeling		
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	p. 144	
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes		No incidents
G4-PR5	Results of surveys measuring customer satisfaction	p. 144-145	
	Marketing communications		
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes		No incidents
	Customer privacy		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		One incident
	Compliance		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		No incidents
OMA	Punctuality	p. 32	

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT

To the Management of Finnair Plc

We have been engaged by the Management of Finnair Plc (hereinafter also the Company) to perform a limited assurance engagement on selected environmental performance indicators (hereinafter the Selected environmental information) for the reporting period 1 January 2017 to 31 December 2017, to be disclosed in the Sustainability section of Finnair Plc's Annual Report 2017.

Selected environmental information

The Selected environmental information consists of the following performance indicators:

1. Fuel consumed by all flights under the Finnair Plc's callsign.
2. Energy consumed in Finnair Plc's properties.
3. Heating consumed in Finnair Plc's properties.
4. CO_2 emissions originating from the consumption referred to in point 1.
5. CO_2 emissions originating from the consumption referred to in points 2 and 3.
6. CO_2 emissions in Scope 3 category 3 (Fuel- and energy-related activities).

Management's responsibility

The Management of Finnair Plc is responsible for preparing the Selected environmental information in accordance with the Reporting criteria as follows:

For items 1 and 4 of the scope above:

- Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2017).

For items 2, 3 and 5 of the scope above:

- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.
- Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2017).

For item 6 of the scope above:

- The Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard as applicable.
- Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2017).

The Management of Finnair Plc is also responsible for such internal control as the management determines is necessary to enable the preparation of a Selected environmental information that is free from material misstatement, whether due to fraud or error.

Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Selected environmental information based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Finnair Plc for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3410 "Assurance Engagements on Greenhouse Gas Statements". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Selected environmental information is free from material misstatement.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Selected environmental information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Selected environmental information.

Our work consisted of, amongst others, the following procedures:

- Interviewing employees responsible for collecting and reporting the Selected environmental information
- Assessing how Group employees apply the Company's reporting instructions and procedures
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Finnair Plc's Selected environmental information for the reporting period ended 31 December 2017 is not properly prepared, in all material respects, in accordance with the Reporting criteria. When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Helsinki, 9 February 2018

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

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