

# Profitability clearly improved in first half of the year

## Summary of January–June key figures

- Turnover rose 1.3% to 955.0 million euros (943.1)
- Passenger traffic overall declined by 4.1% from the previous year, scheduled traffic grew 5.5%; passenger load factor rose from the previous year by 3.2 percentage points to 76.9% (73.7)
- The operational result, i.e. EBIT excluding non-recurring items, capital gains and changes in the fair value of derivatives, was a loss of 39.9 million euros (100.5 loss)
- The result before taxes was a loss of 67.3 million euros (56.4 loss)
- Net operational cash flow was 1.6 million euros (–114.8)
- Gearing adjusted for leasing liabilities was 98.1% (122.4)
- Balance sheet cash and cash equivalents at the end of June totalled 568.9 million euros (266.0).
- Equity ratio 32.2% (33.2)
- Equity per share 6.32 euros (5.64)
- Earnings per share –0.42 euros (–0.33)

## Summary of second quarter key figures

- Turnover rose by 10.8% to 473.5 million euros (427.4)
- Passenger traffic overall fell by 2.1% from the previous year; scheduled traffic rose by 3.8%
- The arrival punctuality of flights in April–June was 88.6% (91.7).
- Unit revenues from flight operations per revenue tonne kilometre rose by 3.0%, unit costs fell by 6.4%
- The operational result was a loss of 13.6 million euros (53.2 loss), including a negative impact of approx. 30 million euros from the ash crisis
- Net operational cash flow was 19.5 million euros (–41.4)

In this interim report, figures for 2009 are presented in brackets after the 2010 figures.

## President & CEO Mika Vehviläinen on the interim result:

Despite the many uncertainty factors in the world economy, the sector has clearly moved into the recovery phase. This is evident in strengthening passenger and cargo demand as well as in recovering profitability, even though airlines are still reporting loss-making interim results. Air traffic in Europe is recovering more slowly than in the rest of the world. In the second quarter, the situation was further exacerbated by a week-long stoppage of air traffic due to the volcanic ash cloud.

In Finnair we have focused above all on traffic between Asia and Europe, where demand comes primarily from outside Finland. Growth of business travel demand now comes mainly from Scandinavia, Central Europe and the Asian market.

When I started as Finnair's President & CEO in February I set three priorities: restoring finances to good shape, assessing the strategy, and developing personnel and the corporate culture. We have set finances on a better course by improving our cost competitiveness. The change in the market, of course, has also helped us significantly.

During the spring we have examined Finnair's strategy and refocused our objectives and priorities. We wish to be the number one airline in the northern skies in terms of traffic volume, operational and service quality, and profitability. In transit traffic between Asia and Europe we seek to be among the three largest operators. Finnair's main strategy will be excellently supported through cooperation with the German airline Air Berlin from the end of this year, at which time numerous new, fast connections via Helsinki to Asia will be established from the market with the highest purchasing power in Europe.

We are also building an inspiring management model and developing a corporate culture that will motivate personnel to quality performances. The participation of personnel is essential for the company's objectives to be achieved.

Strengthening demand, recovering load factors and clearly improved unit revenues have restored profitability to a positive course. It is also positive that our operational cash flow has returned to black figures. However, it is clear that we cannot be satisfied with a loss-making result, but the trend in profitability is encouraging.

We are continuing to implement a 200 million euro profitability improvement programme, the fruits of which are apparent in the result. Some of the savings still depend on how well elements improving our cost competitiveness can be incorporated into collective agreements currently being negotiated.

## **Market and General Review**

European airlines have performed better during the early part of the year in both passenger and cargo traffic. Only in April were significant minus figures perceptible in the world's air traffic – and particularly with respect to European airlines. One third of the world's air traffic was halted by the ash cloud caused by a volcanic eruption in Iceland.

Otherwise recovering demand has also had a positive influence on Finnair's first half of the year. In March the level of Finnair's scheduled traffic revenue passenger kilometres grew by one fifth, which was clearly above the European average. The strong growth figures continued in May and June.

Already in March, turnover in the Airline Business segment rose for the first time since the beginning of the economic downturn. After a weak start, unit revenues in passenger and cargo traffic clearly began to improve during the second quarter.

The main economies of Asia have grown faster than the rest of the world. The strong emphasis of Asia in Finnair's strategy will therefore have a positive impact on the company's business development. Finnair has increased its market share compared with its competitors.

Cargo demand is also picking up strongly. In May, Finnair began regular cargo aircraft flights from Helsinki to Hong Kong and Seoul, and the service has made a promising start.

Despite strong growth in scheduled traffic, Finnair's overall traffic performance in the early part of the year has been below the level of last year due to leisure flights' performance being around 30% lower than last year.

The trend of unit revenues in terms of passenger kilometres remained clearly negative in the first quarter, as was the case the previous year. As the market situation changed, unit revenues rose significantly, mainly due to a recovery in business travel in markets outside Finland. Ordinary business class demand has also grown in the second quarter, particularly on Asian flights, but also in European traffic.

Changes in unit revenues have been reflected in the development of turnover. In the first quarter, turnover fell nearly 7% short of last year and in the second quarter, turnover grew by over 10% compared with the previous year.

The early part of the year was marked by numerous operational challenges resulting from exceptional weather conditions and ground handling problems arising from outsourcing, and these were reflected in baggage handling. The punctuality of Finnair flights has improved towards the middle of the year.

Due to the ash cloud that troubled European air traffic, Finnair had to cancel more than 1,700 flights over the course of a week, which affected more than 140,000 bookings.

The EU Commission and the airlines had strongly differing views on the obligation to compensate additional costs incurred by passengers from the stoppage of air traffic. Negotiations between Finnair and the Finnish Consumer Agency led to a compromise, however, according to which Finnair will reimburse customers for additional costs within certain limits. The ash cloud crisis incurred approximately 30 million euro losses to Finnair's result in the second quarter.

## **Financial Result, 1 January – 30 June 2010**

In January–June, the Finnair Group's turnover was 955.0 million euros (943.1), which is 1.3% higher than the previous year. The Group's operational result, i.e. EBIT excluding non-recurring items, capital gains and changes in the fair value of derivatives, was a loss of 39.9 million euros (100.5 loss), including a negative impact of approx. 30 million euros from the ash crisis. The result before taxes was a loss of 67.3 million euros (56.4 loss).

Changes in the fair value of derivatives had a 6.4 million euro weakening effect on the result reported for the first six months. The corresponding item the previous year improved the reported result by 47.6 million euros.

In January–June, Finnair's passenger traffic capacity contracted by 8.1% and the level of revenue passenger kilometres fell by 4.1%. Asian traffic grew by 12.7%. The passenger load factor for all traffic rose by 3.2 percentage points to 76.9%. The amount of cargo carried grew from last year by 33.9%. In January–June, Finnair carried a total of 3.5 million passengers.

In Group passenger traffic, total unit revenues per passenger kilometre fell by 0.7%. Yield per passenger fell by 3.5%. Unit revenues per tonne kilometre for cargo traffic rose by 14.1%. Weighted unit revenues for passenger and cargo traffic fell by 2.9%.

In January–June, euro-denominated operating expenses, excluding non-recurring items, capital gains and changes in the fair value of derivatives, fell during by 4.7%. Unit costs for flight operations per revenue tonne kilometre fell by 8.4%.

The impact of efficiency measures is evident in significant cost items. An item of around 15 million euros was transferred from personnel expenses as part of ground handling and catering costs arising from the outsourcing of baggage handling and cargo warehousing activities.

Net operational cash flow for the review period was 1.6 million euros (-114.8). Earnings per share for January–June amounted to -0.42 euros (-0.33).

## **Financial Result, 1 April – 30 June 2010**

Turnover rose in the second quarter by 10.8% to 473.5 million euros (427.4). The Group's operational result, i.e. EBIT excluding non-recurring items, capital gains and changes in the fair value of derivatives, was a loss of 13.6 million euros (53.2 loss), including a negative impact of approx. 30 million euros from the ash crisis. Adjusted operating profit margin was -2.9% (-12.4). The result before taxes was a loss of 37.9 million euros (31.6 loss).

A 6.8 million euro item weakening the second quarter result has been recognised for changes in the fair value of derivatives. The corresponding item last year improved the reported result by 24.2 million euros. The strong volatility is due to fluctuations in the market price of fuel. Changes in the fair value of derivatives have no effect on cash flow.

In April–June, Finnair's passenger traffic capacity contracted by 4.0% and the level of revenue passenger kilometres fell by 2.1%. Asian traffic grew by 15.7%. The passenger load factor for traffic overall rose by 1.5 percentage points from the previous year to 73.4%. The amount of cargo carried rose by 44.3%.

Total unit revenues per passenger kilometre from scheduled and charter flight traffic rose in the second quarter by 6.9% due to a positive change in the structure of demand. Business class travel grew significantly during the quarter. Yield per

passenger rose by 14.0%. Unit revenues per tonne kilometre for cargo traffic rose by 32.7%. Weighted unit revenues for passenger and cargo traffic rose by 0.8%.

Euro-denominated operating expenses, excluding non-recurring items, capital gains and changes in the fair value of derivatives, rose by 2.2% from the previous year. Unit costs for flight operations per revenue tonne kilometre fell by 6.4%.

Traffic charges rose by 18% due to increased traffic and higher Russian overflight fees. Personnel and fuel costs, on the other hand, fell significantly, both absolutely and relative to performance. 'Other lease payments' rose by 18%, mainly due to the sale and leaseback of airport properties.

'Fleet overhaul and material purchases' rose by 38%. The rise is due to a change in the engine overhaul provision for leased aircraft, aircraft pre-delivery related extra costs and the impact of the euro-dollar exchange rate on the overhaul expenses.

Net operational cash flow for the review period was 19.5 million euros (-41.4).

The overall impact of the ash cloud crisis on Finnair's second quarter result was a loss of around 30 million euros. The additional costs and revenue losses are included in the operational result and are not presented as a non-recurring item.

## **Investment, Financing and Risk Management**

At the end of June, balance sheet cash and cash equivalents totalled 568.9 million euros (266.0). Gearing stood at 36.1% (45.2). Gearing adjusted for leasing liabilities was 98.1% (122.4). The equity ratio was 32.2% (33.2). Finnair's solidity is good in comparison with the sector.

Investments in January-June totalled 143.5 million euros (327.5) and the projection for the full year is just over 200 million euros.

Last year Finnair made a finance leasing arrangement of around 165 million euros to finance three Airbus aircraft. This was backed by the export credit institutions of the Airbus owner states. Within the framework of the financing arrangement, Finnair acquired one wide-bodied aircraft in December last year and two at the beginning of this year. The second aircraft was delivered to Finnair in the first quarter and the third aircraft in April.

Finnair has the option of a loan-back of employment pension fund reserves from Ilmarinen Mutual Pension Insurance Company amounting to around 330 million euros, the withdrawal of which requires a bank guarantee.

In addition, Finnair renewed in June a 200 million euro syndicated credit facility, intended as reserve financing, which has not been used to date. Financial flexibility is also achieved through a 200 million euro short-term commercial paper programme, of which 46 million euros was in use at the end of June.

According to the financial risk management policy approved by Finnair's Board of Directors, the company has hedged 74% of scheduled traffic's jet fuel purchases

during the next six months and thereafter for the following 21 months with a decreasing level of hedging. In Finnair's charter traffic, fuel consumption is price hedged in accordance with a traffic programme agreed with tour operators within the framework of the hedging policy. Derivatives linked to jet fuel and gasoil prices are mainly used as the fuel price hedging instruments.

The change during the review period in the fair value of derivatives that mature in future as well as in the foreign exchange rate level of engine overhaul provisions is recognised in the Finnair income statement. The change in question is a valuation result in accordance with IFRS reporting practice which has not been realised. It has no cash-flow impact, nor is it included in the operational result. In January–June, the change in the fair value of derivatives was -6.4 million euros (+47.6) and the change of the foreign exchange rate level of engine overhaul provisions -14.0 million euros.

The operational result for January–June includes realised losses of 15.7 million euros (loss of 91.0) on derivatives resulting from fuel price hedging, which appear in the fuel item of the income statement. The figure includes both foreign exchange and fuel derivatives. The second quarter operational result accounts for 4.1 million euros of the realised losses.

Shareholders' equity includes a fair value fund related to hedge accounting, the value of which is affected by changes in the oil price and foreign exchange rates. The size of the item on the end of June was 9.1 million euros (-62.0), after deferred taxes, which includes foreign exchange and fuel derivatives as well as, to lesser degree, other financial items.

A strengthening of the US dollar in relation to the euro is negative for Finnair, but owing to a high degree of hedging the impact in January–June on the operational result has not been significant. At the end of June, the hedge ratio for a dollar basket over the next 12 months was 68%. A significant proportion of Finnair's sales takes place in currencies other than euros, i.e. a weakening of the euro generally has a positive impact on these revenues.

## **Shares**

Finnair's market value at the end of June on the NASDAQ OMX Helsinki Stock Exchange was 512.5 million euros (481.8) and the closing price of the Finnair Plc share was 4.00 euros (3.76). During January–June, the highest price for the Finnair Plc share was 4.78 euros (5.24), while the lowest price was 3.61 euros (3.52) and the average price 4.16 euros (4.36). Some 16.5 million (6.8) of the company's shares, with a value of 68.4 million (29.8), were traded.

The number of shares recorded in Finnair's Trade Register entry was 128,136,115 at the end of June. The Finnish State owned 55.8% (55.8) of Finnair's shares, while 16.0% (18.3) were held by foreign investors or in the name of a nominee.

On 30 June 2010, Finnair held 387,429 of its own shares, representing 0.3% of the company's total share capital. In January–June, the company did not acquire nor dispose of any of its own shares.

## **Management Changes**

Finnair's Senior Vice President, Human Resources Anssi Komulainen transferred to became the company's Senior Vice President, Customer Service as of 10 May 2010. Timo Riihimäki, who preceded Komulainen as Senior Vice President Customer Service, resigned from service of the company.

Manne Tiensuu has been appointed Senior Vice President, Human Resources. Tiensuu will take up his post on 1 September 2010.

Managing Director Jukka Hämäläinen of ground handling company Northport Oy left the company on 31 July 2010. Ari Kuutschin, currently of the Finnair's Group's Human Resources Administration, became Northport Oy's new Managing Director as of 1 August 2010.

Finnair's Executive Board will be restructured as of 1 September 2010. Deputy CEO Lasse Heinonen will continue to deputise for Finnair Plc's President & CEO and he will have line responsibility for Finnair's cargo operations, technical services, catering business, ground handling and facilities management.

Erno Hildén, currently Senior Vice President Operations, will become the Group's Chief Financial Officer. He will also be responsible for Group's fleet management company, Finnair Aircraft Finance. Ville Iho will move to become Senior Vice President Operations and, for the time being, continues as head of Resources Management.

Moreover, the Finnair Group's Board of Management was expanded from the beginning of June. In addition to the current members, Vice President Sales Petri Schaaf, Vice President Flight Operations Markku Malmipuro and Vice President Cabin Service Department Kati Lehesmaa were also appointed as members. In addition, representatives of all personnel organisations became permanent members of the Board of Management. Previously, membership of personnel representatives on the Board of Management had alternated between the various personnel organisations.

Appointments made by Annual General Meeting were presented in the January-March interim report.

## **Personnel**

During January-June, the Finnair Group had an average of 7,621 employees, which was 16.2% fewer than a year before. The Airline Business segment had 3,566 employees. The total number of personnel in technical, catering and ground handling services was 2,681 and in travel services 1,141. A total of 233 people were employed in other functions.

During spring 2010, Group management and personnel representatives have endeavoured to identify suitable working practices to improve the operating culture and implement Finnair's strategy. Bilateral discussions between employees and management have been promoted by the Forward Together [Nokka nousuun] campaign.

The collective agreement of the Finnair Flight Attendants' Association (SLSY) expired on 30 April 2010. Negotiations will continue in August after a summer break. The agreement with the Finnish Aviation Union (IAU), which represents ground handling and technical services employees, expires on 31 August 2010 and negotiations towards a new agreement will begin in mid-August.

In June, one-year agreements valid until 31 May 2011 were reached with the Finnair Engineers' Association (FIRY) and the Finnair White-Collar Employees' Association (FYT). In June a two-year agreement valid until 31 May 2012 was also reached with the Finnair Technical Employees' Association.

The collective agreement of the Finnish Aviation Employees Association (SLV) is valid until 30 April 2011 and the agreement of the Finnish Airline Pilots' Association (SLL) is valid until 31 December 2011.

## **Fleet Changes**

The Finnair Group's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of June, the Finnair Group had a total of 61 aircraft in its own flight operations. The average age of Finnair's entire fleet is just over six years, making it one of the most modern fleets in the world.

In the first quarter, one new Airbus A330-300 aircraft joined Finnair's wide-bodied fleet and in April one more. In addition, this year one additional new Airbus A330 aircraft will be acquired, which will arrive in the final quarter. In passenger traffic Finnair currently operates a total of 12 long-haul aircraft, all of which are manufactured by Airbus.

Finnair will lease two 272-seat Airbus A340-300 wide-bodied aircraft to meet its growing Asian traffic needs. The aircraft will be acquired on flexible lease agreements of approximately four years' duration. The aircraft will join the Finnair fleet in late 2010 and early 2011.

As part of the harmonisation of its fleet structure, Finnair withdrew from service three leased leisure-traffic Boeing 757-200 aircraft, ordered five new Airbus A321ER aircraft and extended the lease period of its four remaining Boeing 757. The remaining four Boeing 757s will be withdrawn in connection with the arrival of the new A321ERs in 2013 and 2014. Finnair was the first airline to order the version equipped with wing-tip sharklets. In connection with the order, the orders for two long-haul aircraft planned for 2012-2013 will not take place in the anticipated form.

The last long-haul traffic Boeing MD-11 aircraft was withdrawn from Finnair's passenger traffic in February. The company still owns two MD-11 aircraft, of which one has been converted into a cargo aircraft. Cargo operations from Helsinki to Hong Kong and Seoul were initiated with this aircraft in May. The second MD-11 aircraft will be converted into a cargo aircraft in the autumn. Both aircraft have been sold in an advance purchase deal to a private capital investor. Ownership will be transferred at the beginning of next year. Finnair is negotiating the possible leaseback of the aircraft for cargo traffic operations.

Finnair Aircraft Finance also increased the number of Embraer E170 aircraft leased out from the Group from two to four by leasing in May two E170 aircraft to Kenya Airways on a four-year agreement.

## **Environment**

Finnair wishes to be the first choice of the quality and environmentally conscious passengers. That's why Finnair takes environmental aspects into consideration in all of its actions and decisions.

Finnair participates actively in corporate responsibility work and discussions with its interest groups. Finnair has reported its sustainable development principles and indicators in accordance with the international Global Reporting Initiative (GRI) guidelines for two years now. The 2009 report was ranked in the best category, Class A. This year, Finnair also reported for the fourth time the environmental impact of its operations in the Carbon Disclosure Project (CDP).

Finnair has been systematically modernising its fleet since 1999. The long-haul traffic fleet modernisation has been completed and Finnair currently flies with one of the world's most modern fleets. In addition, emissions as well as energy consumption and materials are minimised through operational measures both on the ground and in the air.

This spring, Finnair published new substantial emissions targets for 2017. The objective is to reduce emissions by 24% from their 2009 level.

Air transport emissions trading will begin in European Union in 2012. The scheme will apply to all flights arriving and departing from EU airports. In EU emissions trading, the level of rights to be allocated free of charge as well as Finnair's share arising from this remain open. Moreover, the rules for the second emissions trading period 2013–2020 have not yet been finally determined, which is adversely affecting preparations for emissions trading in the company. Finnair has delivered an acceptable authentication plan to the authorities.

In cooperation with various actors in the sector, Finnair' endorses the establishment of a worldwide emissions trading scheme, which will not distort competition in the sector.

## **Business Area Development**

The primary segment reporting of the Finnair Group's financial statements is based on business areas. The reporting business areas are Airline Business, Aviation Services and Travel Services.

### **Airline Business**

This business area is responsible for scheduled passenger and charter traffic as well as cargo sales, service concepts, flight operations and activity connected with the procurement and financing of aircraft. The Airline Business segment comprises the Sales & Marketing, Operations, Customer Service and Resource Management units as

well as the subsidiaries Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy, Finnair Aircraft Finance Oy and, from the beginning of 2010, Finnair Flight Academy Oy.

Turnover rose in January–June by 3.9% to 818.8 million euros (788.2). The operational loss was 35.2 million euros (91.2 loss). In the second quarter, turnover rose by 14.6%. The key factors in the change of turnover were increased demand and improved unit revenues.

In January–June, the number of passengers carried on scheduled flights was 3.1 million, which is 0.9% less than the previous year. In scheduled traffic, revenue passenger kilometres, on the other hand, rose by 5.5% as capacity contracted by 1%, which improved the passenger load factor from the previous year by 4.6 percentage points to 74.3%. In the second quarter, scheduled traffic grew by 3.8%.

In January–June, scheduled passenger traffic unit revenue declined by 0.7% and in the second quarter it improved by 5.8%. Changes in unit revenues were impacted by the fact that growth in business travel demand took place mainly towards the end of the period. In the second quarter, business travel demand strengthened rapidly. Business class demand has been clearly stronger than overall demand. The proportion of business travellers in scheduled traffic is 7%, in Asian traffic 12%. Growth in demand is coming mainly from outside Finland.

Cargo revenues account for more than 10% of the Airline Business segment's total revenues. In January–June, cargo unit revenues in scheduled traffic rose by 14.1% and in the second quarter by 32.7%. The amount of cargo carried on Finnair flights rose in January–June by 33.9% and in the second quarter by 44.3% from the previous year. Cargo operations have moved clearly into profit in the early part of the year, whereas last year they were loss-making.

In international scheduled passenger traffic, Finnair's market share is about 50% in flights departing from Finland. The market share of Asian flights in particular has grown compared with Finnair's main competitors. In domestic traffic, Finnair's market share has fallen, primarily due to the discontinuation of short routes. This has, however, improved the passenger load factor and profitability.

Due to major traffic irregularities at the beginning of the year, the arrival punctuality of scheduled flights weakened in January–June from the previous year by 9.8 percentage points to 79.7% (89.5). After the difficulties of the turn of year, the punctuality trend has clearly improved. In the second quarter, punctuality was 88.6%, which is 3.1 percentage points lower than the previous year.

In January–June, Finnair's charter flights carried 446,200 passengers, which is 27.9% fewer than the previous year. In January–June, the level of available passenger kilometres on leisure flights fell by 31.3%. Performance in revenue passenger kilometres fell in January–June by 29.5% from the previous year. The passenger load factor of charter flights improved by 2.3 percentage points to 88.9%.

Finnair's market share in charter flight traffic has fallen, because a number of tour operators have begun to use their own Group's airlines.

## Aviation Services

This business area comprises aircraft maintenance services, ground handling and the Group's catering operations. In addition, most of the Group's property holdings, the procurement of office services, and the management and maintenance of properties related to the Group's operational activities also belong to the Aviation Services business area. Aviation Services' business consists mainly of intra-Group service provision. Of the business area's turnover, one quarter consists of business outside of the Group.

In January–June, Aviation Services' turnover fell 0.9% to 212.5 million euros (214.4). The operational result improved, however, from the previous year and was 3.9 million euros (2.1). In the second quarter, turnover improved slightly and the operating profit was 2.3 million euros (0.2 loss).

Catering operations are divided into meal production and related logistics as well as travel retail functions, which include inflight sales, preorder services and airport shops in Helsinki, Tampere and Turku.

Finnair Catering's turnover has fallen due to changes in service concepts; profitability has, however, remained on a reasonable level. The unit has implemented adjustment measures by scaling personnel numbers to the level of demand for meals. The reduction in travel retail turnover has been due partly to conversion work at Helsinki-Vantaa Airport, which has temporarily reduced the sales area.

Finnair Technical Services was divided at the beginning of 2010 into two subsidiaries, Finnair Technical Services Oy and Finnair Engine Services Oy.

Finnair Technical Services' operational result was loss-making in January–June, but better than a year before. The loss was mainly due to extra costs in relation to pre-delivery overhauls of MD-11 and Boeing 757 aircraft. The proportion of turnover outside the Finnair Group is just over 20%.

Finnair Technical Services has entered into a component support service agreement with the Swedish charter operator Nova Airlines AB (Novair) for three Airbus A320 aircraft and with the global component supplier AJ Walter for MD-11 aircraft.

A multi-year maintenance agreement covering heavy maintenance and line maintenance of Boeing 757 and 767 has also been agreed with the Swedish charter operator TUIfly Nordic.

Finnair Engine Services, on the other hand, has signed agreements with a number of operators in Russia and elsewhere in Europe covering A320 fleet engine and APU overhauls.

Northport Oy, which provides ground handling services, recorded a loss in January–June, but profitability improved slightly compared to previous year.

## Travel Services (tour operators and travel agencies)

The business area consists of the Group's tour operators, i.e. Aurinkomatkat-Suntours as well as its Estonian subsidiary Horizon Travel and the subsidiary Calypso, operating in St. Petersburg, as well as the travel agencies Matkatoimisto Area, Finland Travel Bureau (FTB) and its subsidiary Estravel, operating in the Baltic states. In addition, the business area includes Amadeus Finland Oy, which integrates travel agency systems and sells travel reservation systems.

Travel Services' turnover in January–June fell by 12.5% to 163.4 million euros (186.7). The operational loss fell, however, from the previous year's 5.1 million euros to 1.2 million euros. The improvement in profitability was due to production adjustments and efficiency measures implemented the previous year.

In the second quarter, the volcanic eruption in Iceland caused revenue losses and extra costs to the business area's units. Due to the flight ban, Aurinkomatkat-Suntours had to cancel flights and travel agencies many package tours over the course of a week. Significant costs arose from the obligation to care for customers at tourist destinations as well as from the repatriation of customers.

Aurinkomatkat-Suntours is Finland's leading tour operator, with a market share of 37%. Demand for package tours declined in Finland last winter by around 20% from the previous year. Aurinkomatkat cut its production correspondingly. Summer 2010 production was also reduced slightly. All destinations are served by Finnair's own fleet. Greece and Turkey are among the most popular destinations. A new destination for next winter is Columbia, and Sri Lanka will return to the programme.

In Estonia the package market collapsed last year and no recovery is yet perceptible. One local tour operator has filed for bankruptcy. Horizon Travel has succeeded, however, in difficult circumstances to adjust its operations to correspond with the demand situation.

The building of Aurinkomatkat in Russia continued with a long-term perspective. Customer satisfaction is excellent, but Aurinkomatkat-Suntours cut its package tour production due to the strong weakening of the Russian economy. The recent strengthening of the rouble has been reflected in a recovery in demand for package tours. The summer 2010 programme includes ten Mediterranean destinations.

Finland Travel Bureau (FTB) and Area are Finland's leading travel agencies, and Estravel is one of the leading travel agencies in the Baltic states. In May, domestic business travel showed slight signs of growth for the first time since the economic downturn that began in 2008. The companies have had significant successes in competitive tenders arranged by major customers.

As part of strategic restructuring, the current leisure functions in Travel Agency Area and Finnish Travel Bureau will be transferred to Finnair's new business unit for independent travel and leisure groups. The unit, which will start its operations during this autumn, will be the biggest provider of these services in Finland.

## Air Traffic Services and Products

In the summer season, Finnair has a total of 60 direct flights per week from Helsinki to nine Asian destinations. Finnair's Asian destinations are Bangkok, Delhi, Hong Kong, Nagoya, Osaka, Beijing, Shanghai, Seoul and Tokyo. Finnair has a total of 20 flights per week to three Japanese destinations. The number of weekly flights to Hong Kong will be increased from the present 7 to 12 in June next year. Also in June next year, a direct route to Singapore will be reopened. The route will be served by daily flights.

Flights covering 40 European and 12 domestic destinations connect into Finnair's Asian network. At the same time, a wide selection of direct connections is offered from Finland to the rest of Europe. In August, Finnair opens a new connection from Helsinki to Bromma Airport in Stockholm. The route from Helsinki to Stuttgart, served by ten flights per week, will also reopen in August.

Flight passengers chose Finnair as Northern Europe's best airline in a survey by the independent Skytrax research centre. Skytrax published the results in May. Around 18 million flight passengers from 100 countries participated in the Skytrax survey. The **oneworld** alliance, to which Finnair belongs, was ranked in the survey as the world's best airline alliance for the seventh time.

In May, Finnair received an award from Brussels Airport for being the most punctual airline operating from Brussels in European internal traffic in 2009.

The Finnair Plus frequent-flyer programme has been updated to enable more versatile use of points. To help customers take advantage of this, last summer Finnair opened a web shop where customers can pay for their purchases with a combination of points and money.

In connection with the update, the points limits of the frequent-flyer programme tiers changed. Customers now move onto a higher tier with a smaller number of points than before. On the other hand, points expire more quickly. Flexibility is also increased by offering the possibility to transfer points among family members.

In the early part of the year, service on Finnair flights was revamped. On flights to Asia and the United States, the economy class main meal is more generous than before. On longer scheduled flights in European economy class, passengers are offered a substantial deli-type bread item or salad with coffee, tea or a soft drink. In Finnair's short-haul traffic within Finland, the Nordic countries and the Baltic area, as well as on flights to Poland and St. Petersburg, coffee, tea and juice are served. In addition, there is a selection of snacks for sale.

Baggage guidelines were also revised at the beginning of September. Economy class passengers can take one bag weighing up to 23 kilos to be carried in the hold instead of the earlier 20 kilos. Business class customers, Finnair Plus Platinum, Gold and Silver members, **oneworld** tier members and buyers of the most expensive economy class tickets can take two bags, each weighing up to 23 kilos. The previous weight limit for bags was 30 kilos.

In March, Finnair opened its Facebook pages, which have attracted nearly 20,000 friends. The pages have proved to be an efficient, interactive customer communications channel in exceptional circumstances, for example.

In winter season 2009–2010, Finnair has used in leisure flight traffic its long-haul Airbus A330-300 aircraft in addition to its Boeing 757 aircraft.

The **oneworld** alliance, of which Finnair has been a member for over 10 years, received approval in July for its North Atlantic cooperation from both the EU Commission and the US Department of Transport. The approval means that Finnair, American Airlines, British Airways, Iberia and Royal Jordanian can extend their cooperation in flights across the North Atlantic. The decision is significant particularly in terms of competition between airline alliances, because corresponding rights had already been granted to some other alliances.

The Indian Kingfisher Airlines' joining of the **oneworld** alliance will expand Finnair's network India. Kingfisher will become a member of the alliance member next year, and brings to **oneworld** 56 new Indian destinations.

The **oneworld** airline alliance and Air Berlin, Germany's second largest airline, and have agreed that the airline will become a member of the alliance. Air Berlin is expected to join the alliance at the beginning of 2012. Finnair and Air Berlin have also reached a code share agreement, within which the companies plan to cooperate commercially in traffic between Germany and Finland, and later in Finnair's Asian traffic.

## **Short-term Risks and Uncertainty Factors**

Globally, the airline industry is one of the sectors most sensitive to cyclical changes in economic conditions. The development of GDP, investment and international trade has a strong impact on air transport passenger and cargo demand.

Due to the short booking horizon in passenger and cargo traffic, it is difficult to forecast demand far into the future. Unexpected external shocks such as the ash cloud crisis can rapidly affect the development of air transport demand.

A change of one percentage point in the passenger load factor affects the Group's operating profit by nearly 15 million euros. A change of one per cent in the average yield of passenger traffic services also affects the Group's operating result by nearly 15 million euros.

Fuel costs constitute around one fifth of the Group's costs and are one of the most significant uncertainty factors where costs are concerned. Foreign exchange rate changes also represent a risk. Finnair provides against fuel price and foreign exchange rate volatility by entering into option and future contracts. The rising cost of hedging arrangements also poses a risk.

A 10% change in the world market price of fuel affects Finnair's operating result on an annual basis by around 20 million euros after hedging. A 10% change in the euro-dollar exchange rate affects Finnair's operating result on an annual basis by around

18 million euros after hedging. The market price of fuel in euros has risen from the second quarter of last year by more than 40%.

The hedging policy practised by Finnair dampens fuel price fluctuations. Finnair's relative competitive position in terms of costs is also influenced by competitors' fuel price hedging policies. The company's main competitors adhere to the same principles as Finnair in their hedging policies.

### **Events after the review period**

Due to unclarity regarding the future cooperation possibilities with Finnair's long-term feeder traffic partner Finncomm Airlines, Finnair intends to strengthen its domestic feeder traffic network by entering into a cooperation agreement with the airline Flybe, Europe's largest regional airline. Operations covered by the agreement include, among others, the Tampere, Turku and Tallinn routes.

Cooperation will begin at the end of October with three turboprop aircraft based at Helsinki airport, and the agreement may be extended, if necessary. Flybe is a potential partner as Finnair strengthens its position in Scandinavia and in the Baltic Sea area.

### **Outlook**

Air travel demand has clearly picked up and unit revenues are improving. Business travel is expected to strengthen, particularly outside Finland. The challenge is to regulate the balance between pricing and passenger load factor to deliver the best overall yield.

Due to controlled growth of capacity, passenger load factors are expected to remain on a good level in the second half of the year. Conditions of overcapacity are expected to moderate due to world-wide growth in demand. Demand for holiday packages is expected to be at last year's level.

Air cargo demand has clearly started to rise. Particularly in the Asian market, cargo demand has strengthened, which is also improving prospects for Finnair's cargo operations. The objective is to expand cargo flight operations slightly from their present level.

The targets and means of previous efficiency programmes have been identified. Implementation is expected to improve Finnair's profitability towards the end of the year.

Finnair's fuel costs are expected to be lower during the current year than last year due to the improved fuel economy of aircraft. At the present price level and hedging policy, fuel costs this year are expected to be more than 21% of Finnair's turnover.

Finnair's passenger traffic capacity on the second half of the year is expected to increase by nearly 5% from last year. The level of passenger kilometres in scheduled traffic is expected to grow and leisure flight capacity is expected to fall slightly.

The profitability is expected to improve as turnover rises, due to improving unit revenues and growing demand. Also the efficiency measures will be firmly continued. The result for the second half of the year is expected to be profitable.

FINNAIR PLC  
Board of Directors

**Press conference**

Finnair will hold briefings on 6 August 2010 for the media at 11 a.m. and for analysts at 12.30 p.m. The location is Toimistotorni, Lentäjäntie 3, at Helsinki-Vantaa Airport. Further information and registrations: Marjo Kalliola, tel. +358 9 818 4972 or [marjo.kalliola@finnair.fi](mailto:marjo.kalliola@finnair.fi).

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<http://www.finnair.com/group>

# FINNAIR GROUP INTERIM REPORT FOR JANUARY 1 – JUNE 30, 2010

## KEY FIGURES

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
Turnover	473.5	427.4	10.8	955.0	943.1	1.3	1 837.7
Profit before depreciation and lease payments, EBITDAR *	32.5	-4.9	-	52.5	-6.2	-	21.0
Lease payments for aircraft	17.0	18.9	-10.1	35.3	38.2	-7.6	74.4
Operational profit, EBIT*	-13.6	-53.2	-	-39.9	-100.5	-60.3	-171.1
Fair value changes of derivatives and changes of exchange rates in fleet overhauls	-20.8	24.2	-	-20.4	47.6	-	55.5
Capital gains	-1.1	0.2	-	-1.1	0.0	-	0.7
Operating profit, EBIT	-33.3	-28.8	-	-59.2	-52.9	11.9	-114.9
Profit for the period (share attributable to shareholders of parent company)	-28.2	-23.4	-	-50.0	-41.8	19.6	-95.3
Operating profit, EBIT % of turnover *	-2.9	-12.4	-	-4.2	-10.7	-	-9.3
EBITDAR, % of turnover *	6.9	-1.1	-	5.5	-0.7	-	1.1
Unit revenues of flight operations c/RTK *	73.3	71.1	3.0	69.0	70.5	-2.1	67.2
Unit costs of flight operations c/RTK *	75.3	80.4	-6.4	72.1	78.7	-8.4	74.7
Unit costs of flight operations c/ATK *	48.1	44.2	7.8	46.7	43.4	7.7	43.8
Earnings per share EUR (basic) **	-0.23	-0.18	-	-0.42	-0.33	-	-0.76
Earnings per share EUR (diluted) **	-0.23	-0.18	-	-0.42	-0.33	-	-0.76
Equity per share EUR	6.32	5.64	12.1	6.32	5.64	12.1	6.45
Gross investment EUR mill.	74.8	199.3	-	143.5	327.5	-	347.6
Gross investment, % of turnover	15.8	46.6	-	15.0	34.7	-	18.9
Equity ratio %				32.2	33.2		34.2
Gearing %				36.1	45.2		26.8
Adjusted gearing %				98.1	122.4		90.0
Rolling 12-month ROCE %				-7.8	-9.3		-7.8
Rolling 12-month ROE %				-13.7	-11.9		-12.1

\* Excluding capital gains, non-recurring items and fair value changes of derivatives.

Unit revenues on flight operations c/RTK = Revenues of flight operations/flight operations RTK.

Unit costs on flight operations c/RTK = Operating expenses of flight operations/flight operations RTK.

Unit costs on flight operations c/ATK = Operating expenses of flight operations/flight operations ATK.

\*\* Includes the interest of Hybrid Bond.

## CALCULATION OF KEY RATIOS

### Earnings / share:

Profit for the period

Average number of shares at the end of the financial year, adjusted for share issues

### Equity / share:

Shareholders' equity

Number of shares at the end of the financial year, adjusted for share issues

### Gearing %:

Net interest-bearing liabilities \*100

Shareholders' equity + non-controlling interest

### Operational profit, EBIT :

Operating profit excluding capital gains, fair value changes of derivatives and non-recurring items

Shareholders equity = To equity holders of the parent

The figures of interim report have not been audited.

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

Profit before taxes + interest and other financial expenses \*100

Balance sheet total - non-interest-bearing liabilities (average)

### Net interest bearing liabilities:

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

### Equity ratio, %:

Shareholders' equity + non-controlling interest \*100

Balance sheet total - advances received

### Return on equity %: (ROE)

Result \*100

Equity + non-controlling interest (average)

## CONSOLIDATED INCOME STATEMENT

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
<b>Turnover</b>	<b>473.5</b>	<b>427.4</b>	<b>10.8</b>	<b>955.0</b>	<b>943.1</b>	<b>1.3</b>	<b>1 837.7</b>
Work used for own purposes and capitalized	3.3	0.5	560.0	3.8	0.9	322.2	4.7
Other operating income	5.4	4.0	35.0	8.2	7.9	3.8	14.9
Capital gains *	1.6	0.2	-	1.6	0.0	-	32.9
<b>Operating income</b>	<b>483.8</b>	<b>432.1</b>	<b>12.0</b>	<b>968.6</b>	<b>951.9</b>	<b>1.8</b>	<b>1 890.2</b>
<b>Operating expenses</b>							
Staff costs	105.9	116.6	-9.2	217.8	251.8	-13.5	482.3
Fuel	103.1	109.3	-5.7	208.4	241.1	-13.6	450.3
Lease payment for aircraft	17.0	18.9	-10.1	35.3	38.2	-7.6	74.4
Other rental payments	21.3	18.1	17.7	40.1	44.8	-10.5	81.4
Fleet materials and overhauls	29.5	21.4	37.9	57.5	47.5	21.1	92.5
Traffic charges	49.8	42.2	18.0	94.3	87.2	8.1	171.1
Ground handling and catering expenses	41.6	30.1	38.2	82.6	63.5	30.1	130.2
Expenses for tour operations	22.3	25.3	-11.9	60.2	70.8	-15.0	131.1
Sales and marketing expenses	21.6	20.1	7.5	41.5	40.5	2.5	77.2
Depreciation	29.1	29.4	-1.0	57.1	56.1	1.8	117.9
Other expenses	54.6	53.7	1.7	112.1	110.9	1.1	220.0
<b>Operational expenses total</b>	<b>495.8</b>	<b>485.1</b>	<b>2.2</b>	<b>1 006.9</b>	<b>1 052.4</b>	<b>-4.3</b>	<b>2 028.4</b>
<b>Operational profit, EBIT</b>	<b>-13.6</b>	<b>-53.2</b>	<b>-74.4</b>	<b>-39.9</b>	<b>-100.5</b>	<b>-60.3</b>	<b>-171.1</b>
Fair value changes of derivatives and changes of exchange rates in fleet overhauls	-20.8	24.2	-	-20.4	47.6	-	55.5
Non-recurring items	-0.5	0.0	-	-0.5	0.0	-	-32.2
<b>Total expenses</b>	<b>517.1</b>	<b>460.9</b>	<b>12.2</b>	<b>1 027.8</b>	<b>1 004.8</b>	<b>2.3</b>	<b>2 005.1</b>
<b>Operating profit EBIT</b>	<b>-33.3</b>	<b>-28.8</b>	<b>15.6</b>	<b>-59.2</b>	<b>-52.9</b>	<b>11.9</b>	<b>-114.9</b>
Financial income	1.0	0.9	11.1	3.5	4.0	-12.5	8.9
Financial expenses	-5.7	-3.7	54.1	-11.7	-7.5	56.0	-18.7
Share of result in associates	0.1	0.0	-	0.1	0.0	-	0.1
<b>Profit before taxes</b>	<b>-37.9</b>	<b>-31.6</b>	<b>-</b>	<b>-67.3</b>	<b>-56.4</b>	<b>19.3</b>	<b>-124.6</b>
Direct taxes	10.1	8.3	-	17.8	14.7	21.1	29.4
<b>Profit for the period</b>	<b>-27.8</b>	<b>-23.3</b>	<b>-</b>	<b>-49.5</b>	<b>-41.7</b>	<b>18.7</b>	<b>-95.2</b>

Earnings per share to shareholders of the parent company profit of the period	-28.2	-23.4		-50.0	-41.8		-95.3
Non-controlling interest	0.4	0.1		0.5	0.1		0.1
<b>Earnings per share calculated from profit of the period attributable to shareholders of the parent company</b>							
Earnings per share EUR (basic)	-0.23	-0.18		-0.42	-0.33		-0.76
Earnings per share EUR (diluted)	-0.23	-0.18		-0.42	-0.33		-0.76

\* Is not included in the operational profit. EBIT.

## CONSOLIDATED BALANCE SHEET

EUR mill.	30 June 2010	30 June 2009	31 Dec 2009	1 Jan 2009
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	41.8	46.9	46.1	48.1
Tangible assets	1 481.0	1 524.0	1 469.0	1 272.1
Investments in associates	7.9	5.8	8.3	6.1
Financial assets	15.9	21.3	20.5	21.5
Deferred tax receivables	61.8	75.1	52.1	70.2
Total	1 608.4	1 673.1	1 596.0	1 418.0
<b>Short-term receivables</b>				
Inventories	47.7	37.4	36.8	35.1
Trade receivables and other receivables	303.7	222.1	197.5	231.8
Other financial assets	542.7	249.5	598.2	373.8
Cash and bank equivalents	26.2	16.5	9.2	18.3
Total	920.3	525.5	841.7	659.0
Non-current Assets held for sale	19.4	19.4	19.4	19.4
<b>Assets total</b>	<b>2 548.1</b>	<b>2 218.0</b>	<b>2 457.1</b>	<b>2 096.4</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to equity holders of the parent company</b>				
Shareholders' equity	75.4	75.4	75.4	75.4
Other equity	731.5	645.5	748.3	638.4
Total	806.9	720.9	823.7	713.8
Non-controlling interest	1.0	0.7	0.9	1.1
Equity, total	807.9	721.6	824.6	714.9
<b>Long-term liabilities</b>				
Deferred tax liability	98.4	121.6	99.1	120.6
Financial liabilities	738.6	421.1	637.4	261.1
Pension obligations	0.0	0.0	0.0	6.1
Total	837.0	542.7	736.5	387.8
<b>Short-term liabilities</b>				
Current income tax liabilities	0.0	0.0	0.0	1.5
Reserves	111.2	104.4	112.0	109.6
Financial liabilities	133.6	181.4	201.8	48.5
Trade payables and other liabilities	658.4	667.9	582.2	834.1
Total	903.2	953.7	896.0	993.7
Liabilities total	1 740.2	1 496.4	1 632.5	1 381.5
<b>Shareholders' equity and liabilities, total</b>	<b>2 548.1</b>	<b>2 218.0</b>	<b>2 457.1</b>	<b>2 096.4</b>

## CONSOLIDATED CASH FLOW STATEMENT

EUR mill.	1 Jan – 30 June 2010	1 Jan – 30 June 2009
<b>Cash flow from operating activities</b>		
Profit for the period	-49.5	-41.7
Operations for which a payment is not included 1)	46.8	-4.5
Interest and other financial expenses	11.7	7.5
Interest income	-2.8	-3.8
Other financial income	-0.6	-0.1
Dividend income	-0.1	-0.1
Taxes	-17.8	-14.7
Changes in working capital:		
Change in trade and other receivables	-71.2	13.2
Change in inventories	5.5	-2.3
Change in accounts payables and other liabilities	87.6	-64.1
Interest paid	-8.8	-5.9
Paid financial expenses	-1.1	-0.4
Received interest	1.9	4.5
Received financial income	0.0	0.1
Taxes paid	0.0	-2.5
<b>Net cash flow from operating activities</b>	<b>1.6</b>	<b>-114.8</b>
<b>Cash flow from investing activities</b>		
Acquisitions of subsidiaries	-0.1	0.0
Investments in intangible assets	-1.0	-3.9
Investments in tangible assets *	53.2	-300.9
Net change of financial interest bearing assets at fair value through profit and loss	203.3	39.6
Net change of shares classified as available for sale	1.4	6.3
Sales of tangible fixed assets	1.3	0.3
Received dividends	0.1	0.1
Change in non-current receivable	4.6	0.2
<b>Net cash flow from investing activities</b>	<b>262.8</b>	<b>-258.3</b>
<b>Cash flow from financing activities</b>		
Loan withdrawals	47.7	308.0
Loan repayments and changes	-144.8	-15.1
Hybrid Bond	0.0	0.0
Purchase of own shares	0.0	0.0
Dividends paid	0.0	0.0
<b>Net cash flow from financing activities</b>	<b>-97.1</b>	<b>292.9</b>
<b>Change in cash flows</b>	<b>167.3</b>	<b>-80.2</b>
<b>Change in liquid funds</b>		
Liquid funds. at beginning	262.9	343.4
Change in cash flows	167.3	-80.2
<b>Liquid funds, in the end</b>	<b>430.2</b>	<b>263.2</b>

\* The A330 aircraft leasing arrangement is not included.

## CONSOLIDATED CASH FLOW STATEMENT

EUR mill.	1 Jan – 30 June 2010	1 Jan – 30 June 2009
<b>Notes to consolidated cash flow statement</b>		
<b>1) Operations for which a payment is not included</b>		
Depreciation	57.1	56.1
Employee benefits	-2.8	-10.0
Fair value changes of derivatives and changes of exchange rates in fleet overhauls	20.4	-47.6
Other adjustments	-6.8	-3.0
Total	67.9	-4.5
Financial asset at fair value	542.7	249.5
Liquid funds	26.2	16.5
Short-term cash and cash equivalents in balance sheet	568.9	266.0
Maturing after more than 3 months	-115.4	0.0
Shares held to trading purposes	-23.3	-2.8
Total in cash flow statement	430.2	263.2

## SHAREHOLDERS' EQUITY

Equity attributable to shareholders of parent company											
EUR mill.	Share capital	Share premium account	Bonus issue	Hedging reserve	Unrestricted equity	Trans-lation diffe-rence	Retai-ned ear-nings	Total	Non-control-ling interest	Hybrid bond	Own equity total
<b>Share-holders' equity 1.1.2009</b>	75.4	20.4	147.7	-110.5	247.2	0.0	333.6	<b>713.8</b>	1.1	0.0	<b>714.9</b>
Dividend payment							0.0	0.0	-0.5	0.0	-0.5
<b>Share-holders equity related to owners 30.6.2009</b>	75.4	20.4	147.7	-110.5	247.2	0.0	333.6	<b>713.8</b>	<b>0.6</b>	<b>0.0</b>	<b>714.4</b>
Result for the period							-41.8	-41.8	0.0		-41.8
Statement of comprehensive income				48.5		0.4	0.0	48.9	0.1	0.0	49.0
Comprehensive income for the financial period	0.0	0.0	0.0	48.5	0.0	0.4	-41.8	7.1	0.1	0.0	7.2
<b>Share-holders' equity 30.6.2009</b>	75.4	20.4	147.7	-62.0	247.2	0.4	291.8	<b>720.9</b>	<b>0.7</b>	<b>0.0</b>	<b>721.6</b>

## SHAREHOLDERS' EQUITY

Equity attributable to shareholders of parent company											
EUR mill.	Share capital	Share premium account	Bonus issue	Hedging reserve	Unrestricted equity	Trans-lation diffe-rence	Retai-ned earn-ings	Total	Non-control-ling interest	Hybrid bond	Own equity total
<b>Shareholders' equity 1.1.2010</b>	75.4	20.4	147.7	-25.2	247.2	0.5	238.3	<b>704.3</b>	0.9	119.4	<b>824.6</b>
Dividend payment							0.0	0.0	-0.4	0.0	-0.4
<b>Shareholders' equity related to owners 30.6.2010</b>	75.4	20.4	147.7	-25.2	247.2	0.5	238.3	<b>704.3</b>	<b>0.5</b>	<b>119.4</b>	<b>824.2</b>
Hybrid Bond							0.0	0.0		0.0	0.0
Result for the period							-50.0	-50.0	0.0	0.0	-50.0
Statement of comprehensive income				34.3		-1.1	0.0	33.2	0.5	0.0	33.7
Comprehensive income for the financial period	0.0	0.0	0.0	34.3	0.0	-1.1	-50.0	-16.8	0.5	0.0	-16.3
<b>Shareholders' equity 30.6.2010</b>	75.4	20.4	147.7	9.1	247.2	-0.6	188.3	<b>687.5</b>	<b>1.0</b>	<b>119.4</b>	<b>807.9</b>

Equity attributable to shareholders of parent company											
EUR mill.	Share capital	Share premium account	Bonus issue	Hedging reserve	Unrestricted equity	Trans-lation diffe-rence	Retai-ned earn-ings	Total	Non-control-ling interest	Hybrid bond	Own equity total
<b>Shareholders' equity 1.1.2009</b>	75.4	20.4	147.7	-110.5	247.2	0.0	369.2	<b>749.4</b>	1.1	0.0	<b>750.5</b>
Change of accounting principle							-35.6	-35.6	0.0	0.0	-35.6
<b>Adjusted' equity 1.1.2009</b>	75.4	20.4	147.7	-110.5	247.2	0.0	333.6	<b>713.8</b>	<b>1.1</b>	<b>0.0</b>	<b>714.9</b>

# NOTES TO THE CONSOLIDATED INTERIM REPORT

## 1. BASIS OF PREPARATION

This consolidated interim report has been prepared. 9<sup>th</sup> February 2007, according to the International (IAS) Standard 34: Interim Financial Reporting which has been introduced in the EU.

## 2. ACCOUNTING PRINCIPLES

The accounting principles adhered to in the interim report are consistent with the principles adhered to in the 2009 consolidated financial statements apart from the new accounting praxis for engine performance restoration, which is presented in more detail in note 16.

The following new standards, changes to standards and the application of interpretations which are perceived to be essential for the Group have been introduced from the beginning of 2010:

- *IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations*. The amendment to clarify that IFRS 5. 'Non-current assets held for sale and discontinued operations', specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

- *IFRS 8 (Amendment) Operating Segments* Minor textual amendment to the standard. and amendment to the basis for conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker.

- *IAS 7 (Amendment) Statement of Cash Flows*. The amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.

- *IAS 17 (Amendment) Leases*. The amendment deletes specific guidance regarding classification of leases of land. so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17.

- *IAS 39 (Amendment) Financial Instruments: Recognition and Measurement* The amendment clarifies that pre-payment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk should be considered closely related to the host debt contract.

- *IAS 39 (Amendment) Financial Instruments: Recognition and Measurement* The amendment to the scope exemption in paragraph 2(g) of IAS 39 to clarify that: (a) it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquire at a future date; (b) the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (c) the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions.

- *IAS 39 (Amendment) Financial Instruments: Recognition and Measurement* The amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss.

The implementations of these standards have not had essential effect in this interim report.

The standards and interpretations published by the IASB to be introduced by the Group in 2011 and 2012 will be discussed in detail in the accounting principles of 2010 financial statements.

## 3. CRITICAL FINANCIAL STATEMENT ESTIMATES AND ASSUMPTIONS

The preparation of interim reports and the financial statements bulletin requires the company's management to make estimates and assumptions that influence the levels of reported assets and liabilities as well as of revenue and expenses. The estimates and assumptions are based on assumptions and factors of which Finnair's management are currently aware and on management's current decisions and plans. Although management believes that assumptions directed at the future are justified, there is no certainty that the said assumptions will prove to be correct. For this reason, results can be clearly distinguished from assumptions included in statements directed at the future, e.g. due to economic certainty.

## 4. SEGMENT INFORMATION

The business segments, Airline Business, Aviation Services and Travel Services, are the primary reporting format. The geographical segment Finland, Europe, Asia, North America and Others, are the secondary reporting format. Segment information will be based on the corresponding information reported in the financial statement.

### PRIMARY REPORTING FORMAT - BUSINESS SEGMENT DATA 1 January – 30 June 2010

	Airline Business	Aviation Services	Travel Services	Group eliminations	Unallocated items	Group
EUR mill.						
External turnover	742.0	50.5	162.5			955.0
Internal turnover	76.8	162.0	0.9	-239.7		0.0
Turnover	818.8	212.5	163.4	-239.7	0.0	955.0
Operating profit	-50.7	5.5	-1.2		-12.8	-59.2
Share of results of associated undertakings					0.1	0.1
Financial income					3.5	3.5
Financial expenses					-11.7	-11.7
Income tax					17.8	17.8
Non-controlling interest					-0.5	-0.5
Result for the period						-50.0
Other items						
Investments	138.9	4.5	0.1	0.0	0.0	143.5
Depreciation	47.6	8.2	0.7	0.0	0.6	57.1

### PRIMARY REPORTING FORMAT - BUSINESS SEGMENT DATA 1 January - 30 June 2009

	Airline Business	Aviation Services	Travel Services	Group eliminations	Unallocated items	Group
EUR mill.						
External turnover	705.0	52.4	185.7			943.1
Internal turnover	83.2	162.0	1.0	-246.2		0.0
Turnover	788.2	214.4	186.7	-246.2	0.0	943.1
Operating profit	-91.2	2.1	-5.1		41.3	-52.9
Share of results of associated undertakings					0.0	0.0
Financial income					4.0	4.0
Financial expenses					-7.5	-7.5
Income tax					14.7	14.7
Non-controlling interest					-0.1	-0.1
Result for the period						-41.8
Other items						
Investments	313.9	12.1	1.0	0.0	0.5	327.5
Depreciation	43.0	11.5	0.7	0.0	0.9	56.1

## TURNOVER

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
Airline Business	415.6	362.6	14.6	818.8	788.2	3.9	1 537.9
Aviation Services	101.8	101.6	0.2	212.5	214.4	-0.9	421.3
Travel Services	63.3	71.9	-12.0	163.4	186.7	-12.5	346.5
Group eliminations	-107.2	-108.7	-1.4	-239.7	-246.2	-2.6	-468.0
<b>Total</b>	<b>473.5</b>	<b>427.4</b>	<b>10.8</b>	<b>955.0</b>	<b>943.1</b>	<b>1.3</b>	<b>1 837.7</b>

## OPERATING PROFIT EXCLUDING THE DISPOSAL OF THE CAPITAL GAINS AND FAIR VALUE CHANGES OF DERIVATIVES AND NON-RECURRING ITEMS

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
Airline Business	-10.6	-47.4	-77.6	-35.2	-91.2	-61.4	-161.4
Aviation Services	2.3	-0.2	-	3.9	2.1	85.7	7.3
Travel Services	-1.6	-2.8	-42.9	-1.2	-5.1	-76.5	-4.3
Unallocated items	-3.7	-2.8	32.1	-7.4	-6.3	17.5	-12.7
<b>Total</b>	<b>-13.6</b>	<b>-53.2</b>	<b>-74.4</b>	<b>-39.9</b>	<b>-100.5</b>	<b>-60.3</b>	<b>-171.1</b>

## EMPLOYEES AVERAGE BY SEGMENT

	2010	2009	Change
	1 Jan-30 June	1 Jan-30 June	%
Airline Business	3 566	4 060	-12.2
Aviation Services	2 681	3 447	-22.2
Travel Services	1 141	1 360	-16.1
Other functions	233	231	0.9
<b>Finnair Group, Total</b>	<b>7 621</b>	<b>9 098</b>	<b>-16.2</b>

## SECONDARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

### TURNOVER OUTSIDE THE GROUP BY SALES DESTINATION

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
Finland	66.3	78.0	-15.0	140.8	193.8	-27.3	358.8
Europe	204.5	207.4	-1.4	394.5	398.6	-1.0	782.2
Asia	161.7	118.4	36.6	329.6	278.6	18.3	551.5
North America	17.9	14.1	27.0	30.8	24.9	23.7	55.9
Others	23.1	9.5	143.2	59.3	47.2	25.6	89.3
<b>Total</b>	<b>473.5</b>	<b>427.4</b>	<b>10.8</b>	<b>955.0</b>	<b>943.1</b>	<b>1.3</b>	<b>1 837.7</b>

## 5. MANAGEMENT OF FINANCIAL RISKS

No significant changes have been made to the Group's risk management principles in the reporting period. The objectives and principles of risk management are consistent with information presented in the Group's 2009 Annual Report.

The tables below present the nominal value or the amount and net fair value of derivative contracts used in the Group's hedge accounting.

## DERIVATIVE CONTRACTS

Derivative contracts	30 June 2010		30 June 2009		31 Dec 2009	
	Nominal value (EUR mill.)	Fair value (EUR mill.)	Nominal value (EUR mill.)	Fair value (EUR mill.)	Nominal value (EUR mill.)	Fair value (EUR mill.)
<b>Currency derivatives</b>						
Hedge accounting items						
Forward contracts. Jet Fuel currency hedging	314.2	37.8	329.1	1.8	299.1	-3.0
Forward contracts. Hedging of Aircraft purchase price						
Fair value hedging	281.1	35.1	503.4	11.8	491.0	7.1
Cash flow hedging	0.0	0.0	34.5	0.3	0.0	0.0
Forward contracts. Currency hedging of lease payments	27.0	3.1	29.4	0.5	36.2	-0.6
<b>Total</b>	<b>622.3</b>	<b>76.0</b>	<b>896.4</b>	<b>14.4</b>	<b>826.3</b>	<b>3.5</b>
Currency derivatives at fair value through profit or loss						
Operating cash flow hedging (forward contracts)	214.3	-1.6	40.8	1.4	214.8	0.9
Operational cash flow hedging (options)						
Call options	0.0	0.0	8.0	0.0	0.0	0.0
Put options	0.0	0.0	8.0	0.0	0.0	0.0
Balance sheet hedging (forward contracts)	103.4	2.9	90.4	-4.3	90.0	1.9
<b>Total</b>	<b>317.7</b>	<b>1.3</b>	<b>147.2</b>	<b>-2.9</b>	<b>304.8</b>	<b>2.8</b>
<b>Currency derivatives, total</b>	<b>940.0</b>	<b>77.3</b>	<b>1 043.7</b>	<b>11.5</b>	<b>1 131.1</b>	<b>6.3</b>
	30 June 2010		30 June 2009		31 Dec 2009	
	Nominal value (tonnes)	Fair value (EUR mill.)	Nominal value (tonnes)	Fair value (EUR mill.)	Nominal value (tonnes)	Fair value (EUR mill.)
<b>Commodity derivatives</b>						
Hedge accounting items						
Jet Fuel swaps	500 850	-31.9	542 600	-78.0	538 600	-34.7
Commodity derivatives at fair value through profit or loss						
Jet Fuel Forward contracts	96 250	-1.5	61 700	-7.5	48 400	0.7
Gasoil forward contracts	0	0.0	2 000	-0.4	0	0.0
Jet differential forward contracts	84 500	3.8	202 500	7.2	120 500	4.3
Options						
Jet Fuel call options	71 000	0.3	75 000	0.0	68 000	0.8
Jet Fuel put options	98 000	-1.0	89 500	-2.3	80 500	-0.4
Gasoil call options	0	0.0	0	0.0	0	0.0
Gasoil put options	0	0.0	0	0.0	0	0.0
<b>Total</b>		<b>-30.3</b>			<b>-81.0</b>	
	30 June 2010		30 June 2009		31 Dec 2009	
	Nominal value (EUR mill.)	Fair value (EUR mill.)	Nominal value (EUR mill.)	Fair value (EUR mill.)	Nominal value (EUR mill.)	Fair value (EUR mill.)
<b>Interest rate derivatives</b>						
<b>Cross currency Interest rate swaps</b>						
Hedge accounting items	1.2	-0.5	10.6	-5.2	6.9	-3.8
Cross currency interest rate swaps at fair value through profit or loss	5.4	-1.9	9.3	-4.8	4.7	-2.6
<b>Total</b>	<b>6.6</b>	<b>-2.4</b>	<b>19.9</b>	<b>-10.0</b>	<b>11.6</b>	<b>-6.4</b>
<b>Interest rate swaps</b>						
Hedge accounting items	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate swaps at fair value through profit or loss	45.0	-0.7	20.0	0.2	20.0	-0.2
<b>Total</b>	<b>45.0</b>	<b>-0.7</b>	<b>20.0</b>	<b>0.2</b>	<b>20.0</b>	<b>-0.2</b>

<b>Share derivatives</b>						
Shares						
Call options. share	0.0	0.0	0.0	0.0	0.0	0.0

## 6. COMPANY ACQUISITIONS AND SALES

Finnair Technical Services was divided at the beginning of financial year 2010 into two subsidiaries, Finnair Technical Services Oy and Finnair Engine Service Oy. This conversion into a separate companies will create structural flexibility from cooperation arrangements in the future. The both companies are part of Aviation Services segment.

Finnair's training centre operations were incorporated from the beginning of 2010 into a company Finnair Flight Academy Ltd. which is part of the Airline Business segment. The Finnair Flight Academy's task is to provide Finnair, its biggest customer, with top quality training and competence development services. The majority of the training services on offer will be for certification maintenance and aircraft type training for flight personnel. Flight training will also be sold to external customers.

The Group has sold the associated undertaking Kiinteistö Oy Lentäjäntie 3 and bought the Back Office Estonia OU in which the group ownership is 85.7%.

## 7. INCOME TAXES

Income taxes have been entered in the income statement using the tax rates that will be applied to the expected total profit for the year.

## 8. DIVIDEND PER SHARE

The Annual General Meeting on 31 March 2010 decided not to distribute a dividend for financial year 2009.

## 9. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

EUR mill.	<b>30 June 2010</b>	<b>30 June 2009</b>	<b>31 Dec 2009</b>
Carrying amount at beginning of period	1 534.5	1 339.6	1 339.6
Fixed asset investments	143.5	330.3	413.2
Change in advances	-61.1	-22.6	-22.2
Disposals	-1.1	-0.9	-63.3
Transfers	-16.5	-	-
Depreciation	-57.1	-56.1	-132.8
<b>Carrying amount at end of period</b>	<b>1 542.2</b>	<b>1 590.3</b>	<b>1 534.5</b>

Proportion of assets held for sale at beginning of period	19.4	19.4	19.4
Proportion of assets held for sale at end of period	19.4	19.4	19.4

## 10. INTEREST-BEARING LIABILITIES

The loan withdrawals were according to the loan withdrawals program. The rest of the loan transactions presented in the accounts relate to old secured loans, which owing to their exceptional agreement structure have a net repayment entered gross both as a withdrawal and a repayment.

## 11. CONTINGENT LIABILITIES

EUR mill.	<b>30 June 2010</b>	<b>30 June 2009</b>	<b>31 Dec 2009</b>
Pledges on own behalf	725.4	451.8	680.0
Guarantees on group undertakings	69.1	82.1	81.4
<b>Total</b>	<b>794.5</b>	<b>533.9</b>	<b>761.4</b>

Investment commitments for property, plant and equipment on 30 June 2010 totalled 1. 200.0 million euros (1. 200.0)

## 12. LIABILITIES

EUR mill.	<b>30 June 2010</b>	<b>30 June 2009</b>	<b>31 Dec 2009</b>
Fleet lease payment liabilities	202.9	245.1	226.5
Other liabilities	246.1	198.0	256.8
<b>Total</b>	<b>449.0</b>	<b>443.1</b>	<b>483.3</b>

### 13. RELATED PARTY TRANSACTIONS

Related party transactions are presented in Finnair's 2009 Annual Report. There have been no substantial changes after the closing date.

Transactions and open balances with associated undertakings were of very minor significance in the reporting period.

### 14. AIR TRAFFIC 1 January – 30 June 2010

	Total traffic	Europe	North America	Asia	Domestic	Scheduled Traffic Total	Leisure	Cargo
Passengers (1000)	3 519	1 730	71	606	666	3 073	446	
%-change	-5.4	-1.3	-1.6	11.8	-9.4	-0.9	-27.9	
Cargo and mail (tonnes)	54 534	10 053	4 059	35 395	1 134	50 641	809	54 534
%-change	33.9	12.8	38.5	35.7	-18.7	28.8	31.9	33.9
Available seat-kilometres mill	12 470	3 585	603	5 487	614	10 289	2 181	
%-change	-8.1	-5.7	0.2	3.5	-11.1	-1.0	-31.3	
Revenue passenger kilometres	9 588	2 389	470	4 425	365	7 648	1 939	
%-change	-4.1	-1.9	-1.6	12.7	-10.4	5.5	-29.5	
Passenger load factor %	76.9	66.6	77.9	80.6	59.4	74.3	88.9	
%-change	3.2	2.6	-1.5	6.6	0.5	4.6	2.3	
Available tonne-kilometres	1 829							444
%-change	-10.2							2.4
Revenue tonne-kilometres mill	1 186							327
%-change	5.6							43.5
Overall load factor %	64.8							73.7 *
%-change	9.7							21.1

\* Operational calculatory capacity

### 15. ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME

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

	2010	2009	Change	2010	2009	Change	2009
	1 Apr-30 June	1 Apr-30 June	%	1 Jan-30 June	1 Jan-30 June	%	1 Jan-31 Dec
EUR mill.							
<b>Profit for the period</b>	<b>-27.8</b>	<b>-23.3</b>	-	<b>-49.5</b>	<b>-41.7</b>	-	<b>-95.2</b>
<b>Other comprehensive income items</b>							
Translation differences	-0.4	-0.1	-	-1.1	0.4	-	0.5
Change of fair value in available-for-sale financial assets	-5.8	1.4		-0.7	2.7		12.0
Taxes	2.1	-0.6		0.3	-1.0		-4.2
Change of fair value in hedging instruments	13.1	34.8	-	35.0	45.8	-	73.3
Taxes	-4.6	-12.1		-12.3	-16.0		-25.7
<b>Other comprehensive income items, total</b>	<b>6.9</b>	<b>36.1</b>	-	<b>33.2</b>	<b>48.9</b>	-	<b>85.8</b>
<b>Comprehensive income for the financial period</b>	<b>-20.9</b>	<b>12.8</b>	-	<b>-16.3</b>	<b>7.2</b>	-	<b>-9.4</b>

Earnings per share to shareholders of the parent company of the comprehensive income statement	-21.3	12.7		-16.8	7.1		-9.5
Earnings per share to non-controlling interest of the comprehensive income statement	0.4	0.1		0.5	0.1		0.1

## 16. CHANGE OF ACCOUNTING PRINCIPLE

The company recognises the maintenance obligations related to leased engines as for the airframes. The changes for the 2009 figures are shown below.

	2009	2009	2009	2009	2009	2009	2009
EUR mill.	1 Jan - 31 Mar	1 Apr.- 30 June	1 Jan- 30 June	1 July- 30 Sep	1 Jan- 30 Sep	1 Oct- 31 Dec	1 Jan- 31 Dec
<b>Changes of Consolidated Income Statement</b>							
Fleet materials and overhauls	0.2	3.7	3.9	3.5	7.4	1.7	9.1
Operation profit (EBIT)	0.2	3.7	3.9	3.5	7.4	1.7	9.1
Direct taxes	0.0	-1.0	-1.0	-0.9	-1.9	-0,5	-2.4
Profit for the period	0.2	2.7	2.9	2.6	5.5	1.2	6.7

	31 Mar 2009		30 June 2009		30 Sep 2009		31 Dec 2009
EUR mill							
<b>Changes of Consolidated Balance Sheet</b>							
Deferred tax receivables, increase	12.5		11.5		10.6		10.1
Shareholder's equity	-35.4		-32.7		-30.1		-28,9
Provisions	47.9		44.2		40.7		39.0

## 17. EVENTS AFTER THE REVIEW PERIOD

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