ANNUAL REPORT 2013

# 2013

FINNAIR

oneworld

## About this report

The Finnair Group's main field of business is the provision of air transport and travel services. The purpose of the Annual Report – encompassing objectives of what were previously published as separate Financial and Sustainability Reports – is to measure and account for the financial, economic, social and environmental performance of this enterprise, and to identify and explain the strategic business ramifications of this performance. Shareholders, investors, analysts, media, customers, employees, other interested stakeholders and the general public at large comprise the report's intended audience.

Finnair sees sustainability as a critical and strategic aspect of business performance, thus the Annual Report embeds material sustainability disclosures in its annual reporting framework. The scope of the report is defined according to the Finnair Group's material activities in 2013 across all its units. For more information on how materiality is determined, see the materiality and stakeholder matrix on pages 12–13.

Finnair has a strong presence in social media, and we wanted to try a new form of engagement and image gathering. In this annual report we have crowdsourced images through Finnish mobile application Scoopshot. We asked the world's air travelers to show us what they find magical about air travel, what's the best part of the journey, and what delights them. The task was valid for two weeks, starting from December 10, 2013. The annual report includes also images from our employees, the cabin attendant Noora Kunttu and the pilot Tomi Tervo. They both have Instagram accounts: finnairnoora and finnairtomi.

CELEBRATING 90 YEARS
SINCE 1923

## CONTENTS

# CEO's review

**2013 – A year of improving competitiveness and reducing costs**

Like many recent years, 2013 was eventful for Finnair. For me, it was my first year at Finnair. Since the beginning of June, I have learned a great deal about the airline business and Finnair, and the significance of both to Finland. My meetings with our personnel, customers, business partners, shareholders and other stakeholders have made it clear that Finnair holds a very special position in the hearts of Finns.

There are strong links between the success of the company's Asian strategy and Finnish air connections, which in turn play a significant role in the lives of Finns and the Finnish business sector. Finnair offers connections from Finland to some 60 destinations in Europe and 13 destinations in Asia. The strong connections it provides promote the international success of Finnish industry, while also facilitating investment in Finland by foreign industry.
The link between the company's success and Finnish GDP is obvious. Helsinki Airport – our home – is Finland's second-largest hub of jobs. By being successful, we can create new jobs at Finnair and indirectly create new jobs in other areas of the airline business cluster.

Finnair has a very strong brand that we must continue to develop, grow and protect, even as the company undergoes what is perhaps the largest transformation in its history – a transformation that is also painful in certain ways. Our goal is to make Finnair a company that combines the best of its 90-year history with the courage to adapt and learn, allowing it to continue operating as a strong player in its industry through this period of consolidation. In recent years, the company has concluded many strategic partnerships in the area of aviation services, and entered joint businesses with other airlines. These have put Finnair on the right path toward improved operational quality and cost-efficiency.

The customer is at the heart of what we do. Recognising this, we began a strategic development effort in 2013 aimed at improving our service in order to respond to customer needs even better than before, thereby increasing sales. More information on the results of these efforts will become available in 2014.

Financially, 2013 did not live up to our expectations. Our turnover fell by two per cent from 2012, totalling 2.4 billion euros. The main factor slowing down turnover growth was the fall in euro-denominated revenue due to the substantial depreciation of the Japanese yen, but in the second half of the year the weaker-than-expected development of cargo and leisure traffic also contributed to the decrease in turnover for the full year. Our operating profit was -4.8 million euros. This is unsatisfactory, as our target was to record a profit for the year. Our result was also affected by tight competition and the continued high price of fuel. In the fourth quarter, our result was also negatively affected by measures taken to look after our customers in preparation for labour action. Cancelled flights resulted in additional expenses. These costs led to our operating result showing a loss for the full year.

Nevertheless, our goal is to make Finnair a sustainably profitable and growing company. Profitable growth is our most important objective. However, we will not be able to grow – or be profitable – unless we improve our cost structure and competitiveness.

The year 2013 was encouraging in this respect: we achieved the targeted permanent annual cost reduction of 140 million euros set in August 2011 ahead of schedule. Cost reductions have been systematically sought in several different categories, including fleet, aviation service, catering, sales, distribution and personnel costs. Our progress in the first cost-reduction program shows that, by examining things with an open mind, operations can be optimised, competitiveness can be improved and the necessary cost reductions can be achieved.

In the collective labour agreements concluded with cabin crew, pilots and the Finnish Aviation Union IAU, it was agreed that negotiations on cost reductions be postponed until the first half of 2014. The sought cost reductions primarily involve personnel-related costs in all personnel groups. Our previously set cost reduction targets remain unchanged.

Many of our structures associated with wages and working hours originate from the era of closed markets. Renegotiating these structures to match current labour market practices is challenging, but we are determined to move forward with Finnair's structural changes and cost reductions in cooperation with personnel and their representatives. I hope we will reach company-specific agreements on the cost reductions necessary for Finnair and its personnel well ahead of the deadline set for the negotiations. However, at the same time, we must assess other options to prepare for the contingency that, despite our best efforts, the necessary agreements on cost reductions are not reached through negotiations. I nevertheless remain confident that we can work together through the ongoing negotiations to achieve the best possible outcome for the future of Finnair and its personnel.

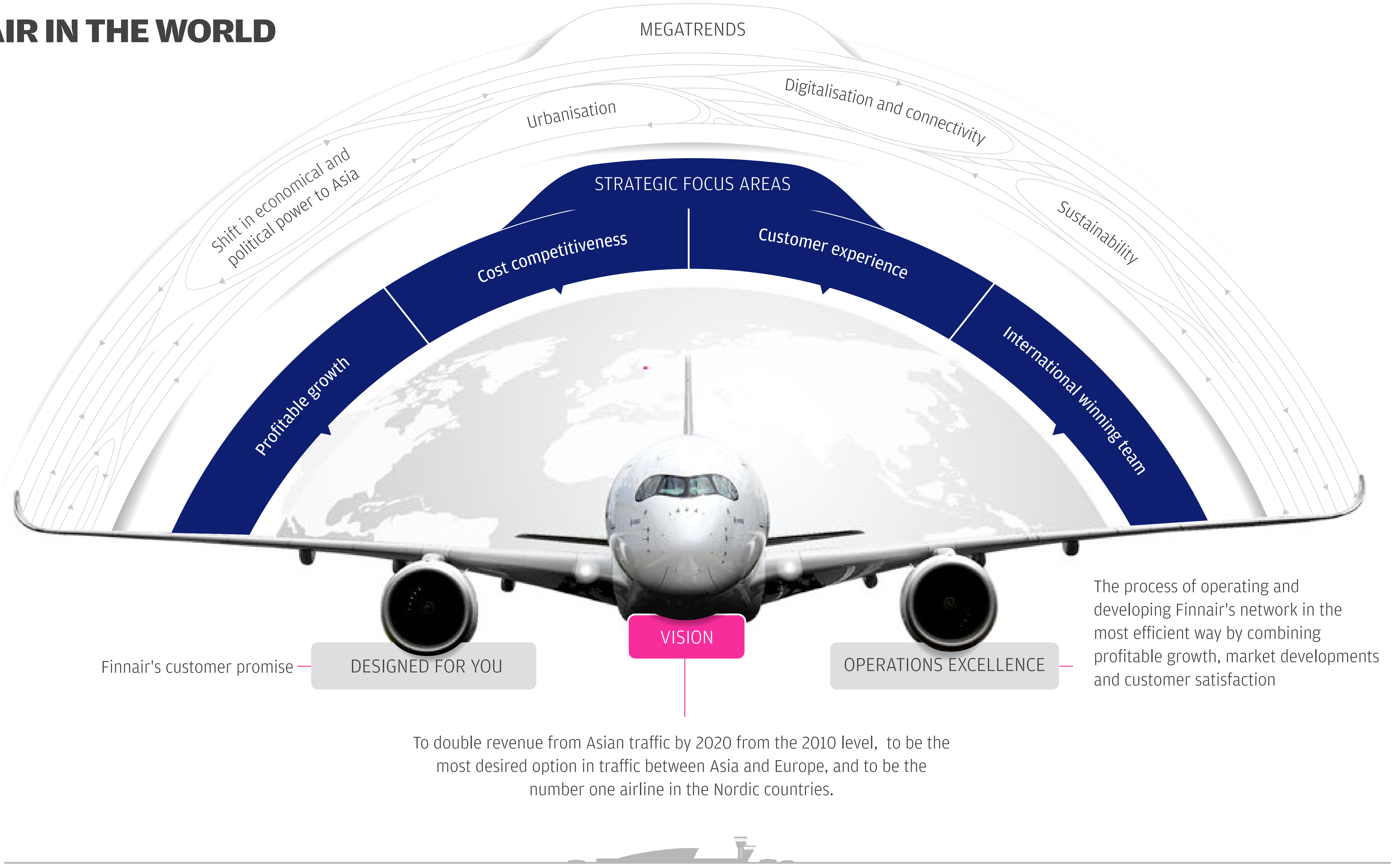
Finnair is currently preparing for two significant waves of investment: In 2015, we will take delivery of the first of our new Airbus 350 long-haul aircraft, and in the coming two years we must also make decisions on the renewal of our European fleet to ensure future competitiveness and energy efficiency. These investments are essential for our future, and Finnair must be a strong player in its industry in order to finance the required capital expenditure. We are convinced that this is possible if we do the right things, at the right time, and in the right way, with courage and an open mind. We have decided that we will be winners in our industry.

I would like to extend my warmest thanks to all Finnair personnel for the year 2013 and their contribution to achieving our shared goals. I also wish to thank our customers, business partners and shareholders for their trust in the company.

Pekka Vauramo

# Strategy

## FINNAIR IN THE WORLD



# STRATEGY

The core of Finnair's strategy is taking advantage of the growing demand for traffic between Europe and Asia. The strategy is based on the growing markets in Asia, the fastest connections between Europe and Asia, high-quality service, and cost-efficient, punctual operations. Helsinki's geographical location provides Finnair with a natural competitive advantage, as the fastest routes between many destinations in Europe and megacities in Asia go through Helsinki. In implementing its strategy, Finnair is committed to creating added value for its customers and shareholders.

## Finnair's vision is to

- Double its revenue from Asian traffic by 2020 compared with the level of 2010.
- Be the most desired option in traffic between Asia and Europe and among the three largest airlines on routes between Asia and Europe that do not have a direct flight connection.
- Be the number one airline in the Nordic countries and grow in this home market.

## A growing and competitive industry

The implementation of Finnair's strategy and the development of its operations are affected by global megatrends, such as the shift in economic and political focus to Asia, accelerating urbanisation, technological development and an increasing emphasis on social and environmental responsibility in business. These megatrends and their significance to aviation and Finnair are discussed in more detail on pages 9–10.

Finnair is pursuing business and leisure travellers as well as cargo customers in the fast growing Asian economies, Finland and particularly those European cities that do not provide direct connections to Asia. Approximately 26 million people travel annually between Finnair's current Asian and European destinations, and an estimated 65 per cent of these are transfer passengers without direct connections to their final destination.* Asian traffic already represents approximately half of Finnair's passenger traffic, and Japan is currently Finnair's second-largest market after Finland. In the future, the share of traffic represented by China in particular is expected to grow. According to a forecast by Airbus**, air traffic between Asia and Western Europe will grow at an average rate of 4.3 per cent annually during the next 20 years, which will provide Finnair with substantial opportunities for growth.

While the growth prospects in aviation are good, airlines face a challenging outlook. The airline business is a highly competitive and capital-intensive industry with on average small margins. Decisions on significant fleet investments must be made several years before price-conscious travellers make their purchase decisions, and the industry is very sensitive to global economic cycles and other external factors. European network carriers, Finnair included, have revised their operating models and adjusted their cost base in recent years in response to competition from low-cost airlines and airlines based in the Middle East. At the same time, the continuing high price of jet fuel necessitates greater fuel efficiency and investments in a modern, cost-efficient fleet. Intense competition has led to increased consolidation, alliances and joint ventures in the industry, with the aim of improving capacity discipline and profitability.

* Finnair estimate.
** Source: Airbus' Global Market Forecast for 2013-2032.

## Focus areas in strategy implementation

Finnair's four focus areas in the implementation of the company's strategy are:

- Profitable growth
- Cost competitiveness
- Customer experience
- International winning team

Guided by these focus areas, Finnair has gone through a substantial structural change over the past three years. This has shaped Finnair into an airline that is focused on its core business and has entered into partnerships for aviation support services and European feeder traffic. These strategic partnerships have allowed Finnair to simultaneously improve the quality of its operations and achieve cost reductions important for its competitiveness. At the same time, Finnair's capacity to adapt to changes in the market has improved, although the company must still develop its competitiveness further.

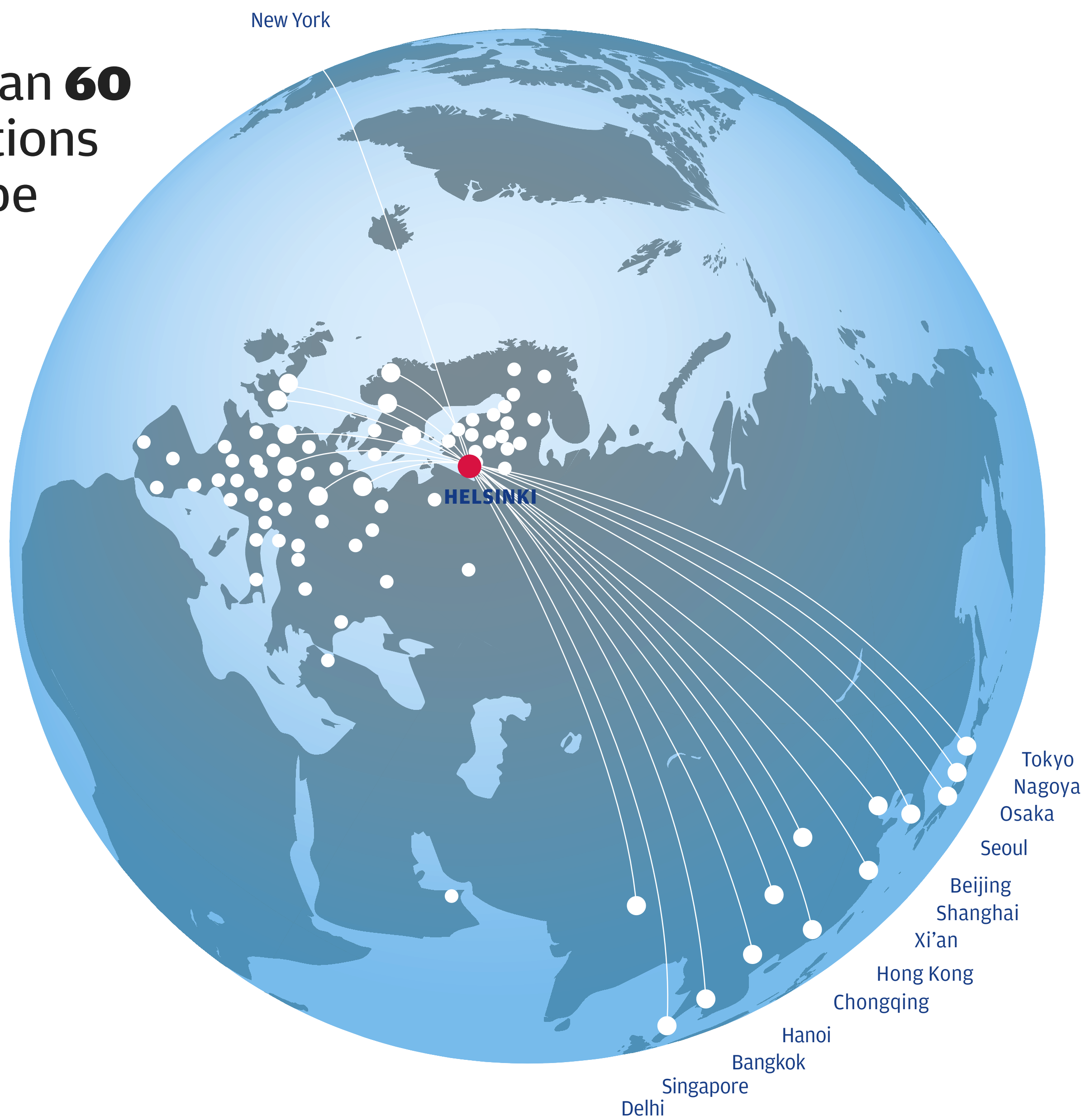
Finnair is investing in not only charting new market possibilities and improving profitability, but also in developing customer service and leadership, as satisfied customers and a competent, well-managed staff are key requirements for growth. In addition to optimisation of its supply chain, Finnair wants to be a competent and active partner that produces value to its partners. Finnair holds a strong position in the **one**world alliance – chosen as the highest-quality airline alliance*** – as an expert in traffic between Asia and Europe. In 2013, Finnair increased its cooperation within **one**world by entering a joint business for North Atlantic traffic and in 2014 it will join a similar joint business on flights between Europe and Japan.

*** Source: Skytrax World Airline Awards report published in summer 2013.

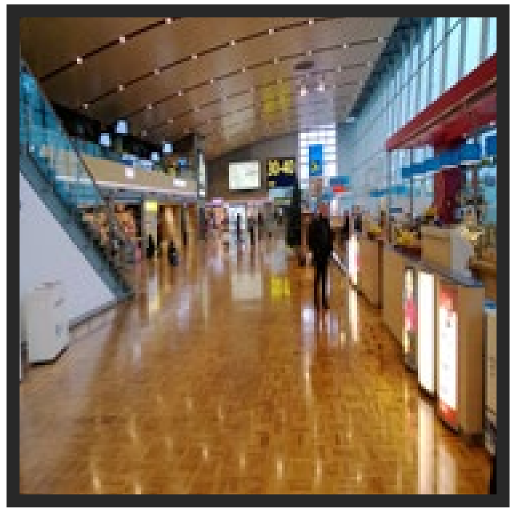
**Finnair offers the fastest routes between Northern Asia and Europe**

More than **60** destinations in Europe

**13** Asian megacities



Finnair has taken steps to prepare for the opportunities presented by the growth of Asian traffic by placing an order in the last decade for eleven Airbus 350 XWB aircraft, the deliveries of which will begin in the second half of 2015. In addition to this, Finnair also has options for the delivery of eight more A350 aircraft. Upgrades to the long-haul fleet will increase capacity and significantly improve travelling comfort. The improved fuel efficiency and lower emissions of the new fleet also respond to growing requirements for more environmentally friendly and responsible operations.



## Finnair's strategic strengths

- Competitive advantage due to geographical location
- Excellent operational quality and efficiency
- Top-class service – Northern Europe's best airline***
- Modern, fuel-efficient fleet
- Good financing position for implementing future fleet investments
- Quality and capacity of Helsinki Airport

*** Source: Skytrax World Airline Awards report published in summer 2013.

**Read more**

On megatrends on pages 9–10

On key performance indicators on page 11

On business risks on pages 142–146

# MEGATRENDS

Megatrends are phenomena that have a strong impact on the future and consumer behaviour in the long term. These phenomena also have a significant effect on the airline industry and Finnair's business operations.

## Economic and political focus shifts 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 in the world market is growing. The middle class is growing rapidly in many Asian countries.

Asian travel will increase, and competition on Asian routes will intensify, as Asian airlines expand their operations to intercontinental flights. As traffic increases, airlines and governments will also have to negotiate for more traffic rights and flight permits. 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.

In response to this shift and the opportunities it presents, we are investing in a modern fleet and new destinations and increasing capacity to Asian markets. We also invest in building and maintaining strong relationships with Asian opinion leaders and policymakers. We will increase our understanding of Asian cultures and provide fast transfers between Asia and Europe, with a particular focus on onward connections.

| Megatrend | Impact on the industry and Finnair | Our response |
|---|---|---|
| Economic and political focus shifts to developing countries, particularly Asia | • Traffic between Asia and Europe grows<br>• Intense competition continues<br>• Increased importance of understanding Asian markets | • Renewal of the long-haul fleet from 2015 onwards<br>• New Asian destinations, additional flights<br>• Increasing Finnair's understanding of Asian markets<br>• Good stakeholder relations |
| Accelerating urbanisation | • New markets are created<br>• Intensifying competition | • Fastest route between Asia and Europe |
| Technological progress, the increase in the significance of network connections and digitalisation will all continue | • Increasing significance of online services and network connections<br>• New opportunities for serving customers | • Developing online services<br>• Developing the service experience |
| Increasing significance of responsibility | • Increase in regulation and reporting requirements<br>• Increasing significance of open communication | • A more environmentally friendly and efficient fleet and operations<br>• Monitoring the supply chain |

### Urbanisation

Migration flows from rural areas to cities are continuing to accelerate, particularly in China and other developing countries. Especially in Asia, 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 these routes.

We take advantage of urbanisation and the opportunities it presents by investing in a modern fleet and new destinations, as well as by increasing our flight frequency to current Asian destinations. We also invest in building and maintaining strong relationships with Asian opinion leaders and policymakers. We will also increase our understanding of Asian cultures and provide fast connections between Asia and Europe, with a particular focus on onward connections.

### 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. Consumers want and expect network connections everywhere they go. Social media spreads news rapidly and requires 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.

We will invest in developing digital services, entertainment systems and the service experience.

Our Designed for You concept corresponds to consumer wishes for individually tailored services, while the Quality Hunters project is focused on service development.

### Increasing significance of responsibility

Political decision-makers, consumers 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 companies' 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 and passenger rights.

We respond to these changes by investing in a more environmentally friendly and cost-efficient fleet, developing our operations towards greater efficiency and responsibility, improving our supply chain monitoring and participating in joint projects in the industry. We will also continue to develop our reporting and stakeholder communications related to responsibility.

# KEY PERFORMANCE INDICATORS

| | Indicator (KPI) and target level | Actions taken in 2013 | Performance in 2013 |
|---|---|---|---|
| **Customer experience** | • Customer satisfaction, read more on page 20. | • Developing the product, service and network to better meet customer needs. Read more on pages 14-20. | ✓ 86% of customers graded their customer stisfaction as "good" or "very good" |
| **Profitable growth** | • Operational result at least 6% of turnover | • Launch of new routes to Xi'an and Hanoi.<br>• Seeking additional revenue through product and service development.<br>• Implementation of the cost reduction programs commenced in 2011 and 2012. Read more on pages 59-60.<br>• Financing arrangements carried out in 2013 to maintain a strong balance sheet. Read more on page 62. | ✗ Operational result -0.2% of turnover |
| | • EBITDAR at least 17% of turnover | | ✗ EBITDAR 7% of turnover |
| | • Positive economic added value in excess of 8% of the cost of capital (WACC pre-tax) | | ✗ Negative operational result<br>✗ ROCE 2.3% |
| | • Adjusted gearing no more than 140% | | ✓ Adjusted gearing 77.6% |
| | • To pay, on average, at least one-third of the earnings per share as a dividend during an economic cycle. The aim is to also take into account the company's earnings trend and outlook, financial situation and capital needs for any given period. | | ✓ The Board proposes that no dividend be paid for 2013. |
| | • Increase in RASK (Revenue per Available Seat Kilometre) | | ✗ RASK declined by 3.8% compared to 2012. |
| **Cost competitiveness** | • CASK (Cost per Available Seat Kilometre) excluding fuel decreases from 2012 level. | • Implementation of the cost reduction programs commenced in 2011 and 2012. Read more on pages 59-60.<br>• Optimisation of the fleet and route network.<br>• Replacing Boeing 757 aircraft with new Airbus 321 Sharklet aircraft. Read more on pages 23 and 64.<br>• Reducing emissions, Read more on pages 23 and 28-37. | ✓ CASK excluding fuel decreased by 1% compared to 2012. |
| | • Fuel consumption per available seat kilometre (ASK) will decrease. | | ✓ Fuel consumption / ASK decreased by 1.9% compared to 2012. |
| | • Emissions per available seat kilometre will decrease. | | ✓ $CO_2$ emissions / ASK decreased by 6.3% compared to 2012.<br>✓ NOx emissions / ASK decreased by 5.3% compared to 2012. |
| **International winning team** | • The 4D well-being at work index. Read more on page 38. | • Management and training programs. Read more on pages 40-41 and 45-46. | ✓ Well-being at work index 3.8/5 |
| | • Decrease in absences due to sickness. | | ✓ Absences due to sickness decreased by 0.3%-points to 4.6% in 2013. |

# THE TRIPLE BOTTOM LINE

**Kati Ihamäki, VP Sustainable Development**

Sustainability is integral to Finnair's overall business strategy and operations, and as such, the company's annual reporting framework should ideally reflect this reality. This is especially true in an industry like aviation, where an airline's greatest environmental impact, $CO_2$ emissions, is a byproduct its single largest cost item by far, fuel. In our business financial and environmental impact are in close alignment.

In the broader corporate world, however, the historical practice has been to separate financial and sustainability reporting, and up until now that has been Finnair's practice as well. But at many companies the need to integrate these two streams of information has been nonetheless increasingly clear to shareholders, analysts, personnel, governments, media and other stakeholders. Companies in the forefront of corporate reporting are looking at ways to combine and streamline their reporting practices toward the "triple bottom line" – financial, social and environmental results. And so at Finnair, this year we have sought to include this information within one annual report.

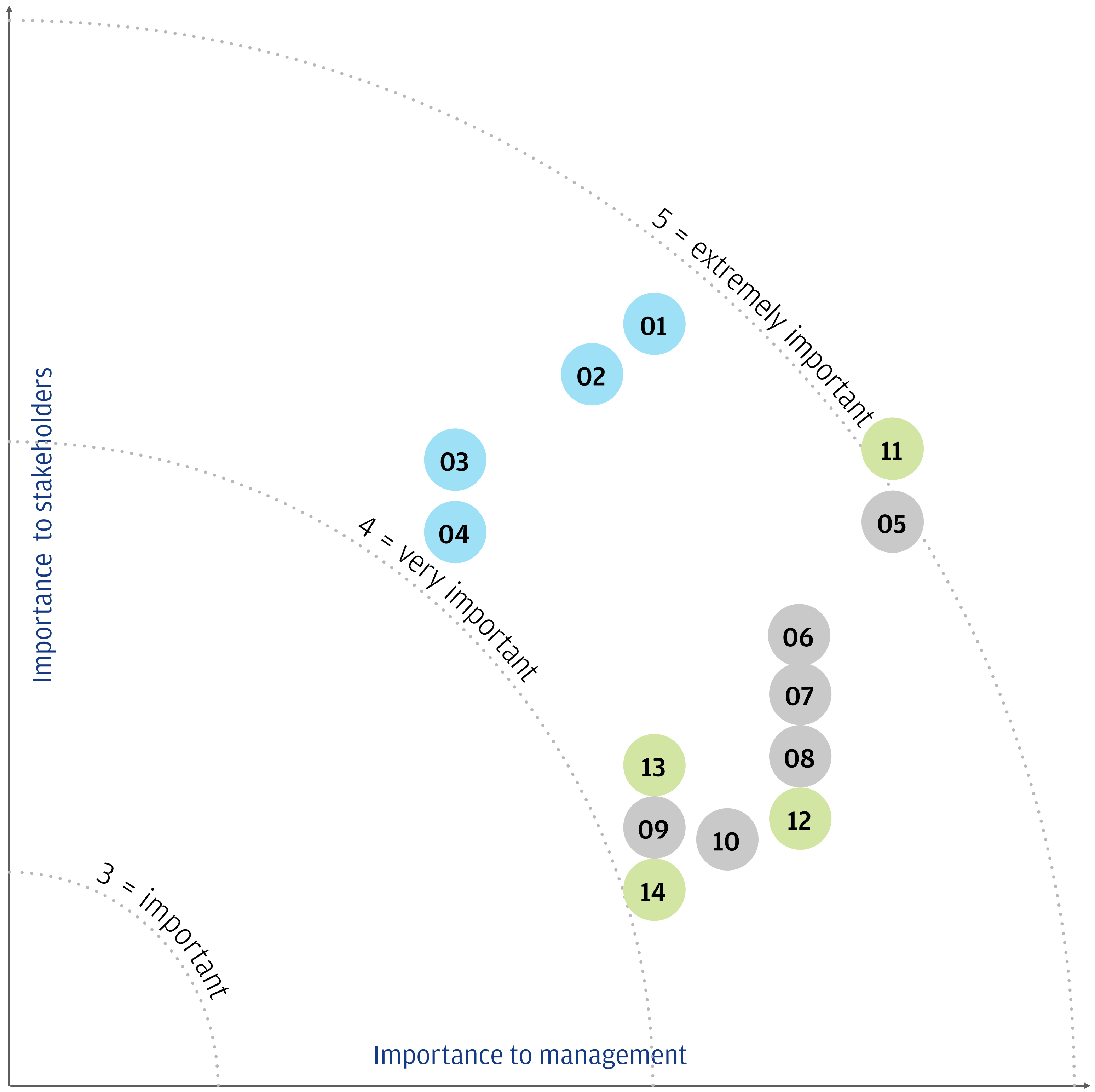
## Assessing materiality

But first, all reporting depends on identifying and assessing materiality – that is, the topics considered significant to economic, environmental and social impact or those that influence stakeholder decisions. For this report those topics were identified by means of a survey of a range of stakeholders, including customers and frequent flyers, investors, suppliers, employees, authority representatives and media. We also conducted workshops with subject-matter experts from throughout the company to identify issues and trends of material interest.

From this survey it became clear that many issues are clearly important to both stakeholders and management. Passenger health and safety as well as employee safety figure toward the top of the universal list of priorities, along with fuel efficiency, future competitiveness, environmental legislation, business continuity and cost efficiency. Stakeholders expressed a concern for climate change and working conditions. Lobbying, public policy and noise pollution were toward the bottom of the priority list for both stakeholders and management, although even for these factors the survey reflected a moderate concern on behalf of both parties.

By reporting accurately on these material topics and meaningfully engaging with stakeholders on them, we not only secure our operations but also earn our license to grow. It is our hope that this annual report stands as a thorough yet succinct account of our operations, and a cogent case for our value proposition.

# MATERIALITY MATRIX




## SOCIAL INDICATORS

- 01 Passenger health and safety
- 02 Employee safety
- 03 Anti-corruption and bribery
- 04 Ethical code

## ECONOMIC INDICATORS

- 05 Future competitiveness
- 06 Business continuity
- 07 Cost-efficiency
- 08 Strategic strengths and weaknesses
- 09 Economic performance
- 10 Business strategy and its connection to corporate responsibility

## ENVIRONMENTAL INDICATORS

- 11 Fuel efficiency
- 12 Environmental legislation and regulation
- 13 Efficient airtraffic management
- 14 Energy

# Customers

## Creating value for customers

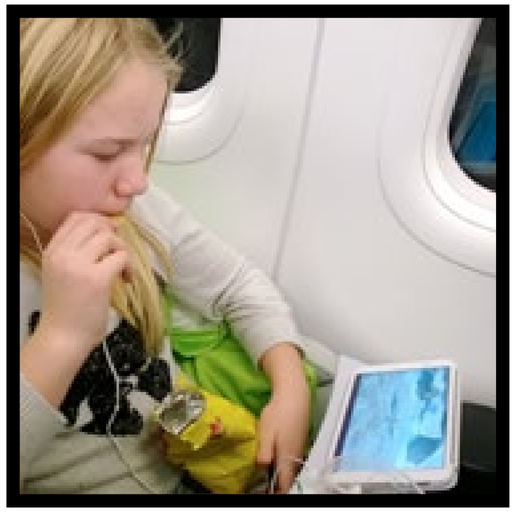
As a service company Finnair is organized around the needs of its customers, and a key strategic focus for the airline is the customer experience. The core product offering – destinations, frequencies and the overall customer experience – is created with customers in mind. In developing its value proposition, Finnair builds on its inherent strengths: a convenient and compact hub; efficient and punctual operations; professional and knowledgeable employees. But to continue to serve existing customers and to cultivate new ones, Finnair must also always be alert to external changes in the market and to larger trends. A successful service company is one that listens – to its customers and to the marketplace at large.

The growing economic importance of Asia is clearly reflected in Finnair's network development over the past dozen years, and accordingly service culture must also take into account the needs of Asian customers. The mobile computing revolution meanwhile has created new expectations for product development in aviation, as more smartphone-and tablet-wielding travellers come to expect more digital services at their fingertips, from booking and check-in to in-flight entertainment and frequent flyer programme. In some markets, quality-conscious customers in ever greater numbers are

| *Strategic* PRIORITIES: | *Megatrends* AFFECTING OPERATIONS: | *GRI indicators* IN THIS SECTION: |
| --- | --- | --- |
| Customer experience, Profitable growth. | Shift in economic and geopolitical power, Technological development. | PR3, PR5. |








also seeking more personalised services and value-added travel experiences. These trends and more inform the development of Finnair's value proposition.

The most direct indicators of how well Finnair listens to customers – and acts on what it learns – are Finnair's own customer satisfaction surveys. External ratings such as those provided by Skytrax are also telling, being roughly indicative of the general service level and how it compares in the sector at large. From a commercial perspective, how well Finnair is meeting (or even creating) demand in its chosen markets can in part be measured by total Revenue Available Seat Kilometres (RASK) and then comparing that measurement with competitor benchmarks.

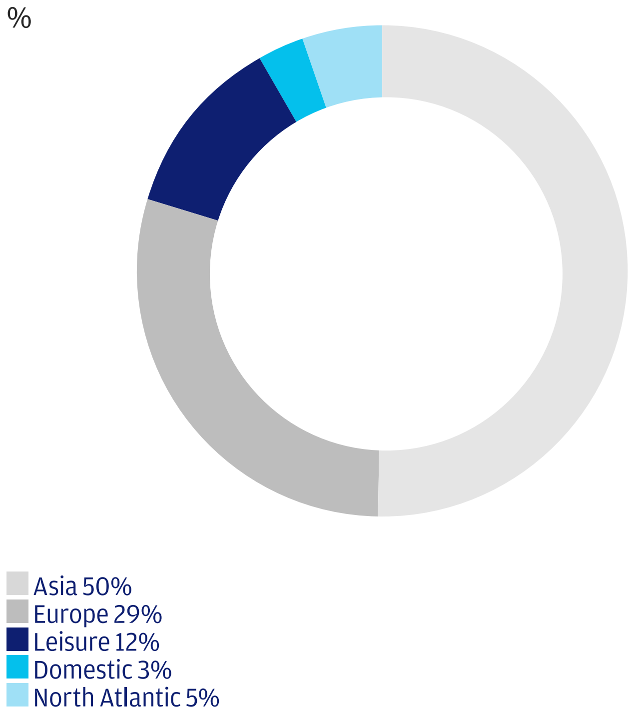
## Asian expansion brings new service challenges

Finnair has flown to Bangkok since 1976, Tokyo since 1983 and Beijing since 1988, but around the beginning of the 21st century the airline began in earnest to reorient its overall network strategy around Asia-Europe traffic, in response to rapid industrial investment and economic growth in the East. The new Asian prosperity is here to stay, indeed it's only just getting started, and Finnair's Asian revenue is growing with it – our aim is to double it between 2010 and 2020. Finnair is accordingly tasked with meeting the needs of the growing numbers of Asian customers.

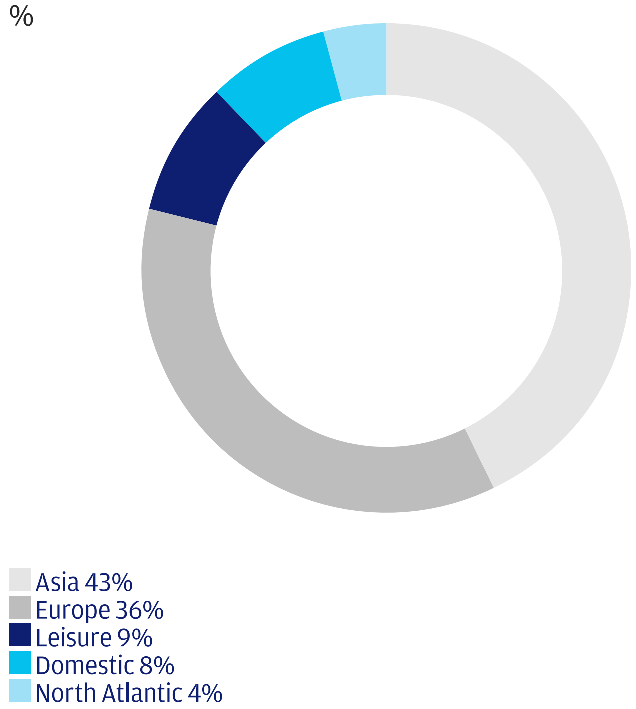
As the largest Asian country with the most room to grow, much of the focus is necessarily on China. According to the UN World Tourism Organisation, in 2012 China surpassed the US and Germany as the largest outbound tourism market in the world. Chinese investment in European companies is meanwhile growing dramatically – totalling some EUR 9.5 billion in 2012, up 21 per cent from 2011 – and fueling demand for long-haul business travel between China and Europe. On Finnair's routes from the Western Chinese cities Xi'an and Chongqing, for example, the majority of passengers are Chinese, which of course means developing the customer experience to suit Chinese needs and expectations, from in-flight meals and service to duty-free shopping options.

This is also why all of Finnair's Asian routes are served by at least three locally-based cabin crew members able to provide service in customers' native languages. In-flight entertainment options on long-haul flights are also always available in Asian languages. At Helsinki Airport, customers can be sure to find signage and help in Chinese, Korean, Japanese and Russian in addition to Finnish and

**Revenue passenger kilometres by traffic area**




**Distribution of passenger revenue, %**



English, and Finnair's Duty Free shops are staffed with personnel able to speak several languages. Japanese and South Korean citizens with biometric passports are able to complete border formalities with automated passport control gates as well.

### Mobile technology and social media: new possibilities, new expectations

Another dramatic change in the marketplace over the past decade is the digital communications revolution reshaping customer expectations every day. Paperless ticketing has been the norm at Finnair for years now, and Finnair supports the goals of IATA's Fast Travel, an automation program for commercial aviation covering check-in, baggage drop, document check, boarding, flight rebooking and bag recovery. In 2013 Finnair was awarded Fast Travel Gold status by IATA for introducing automated and digital mobile processes for all of these activities at Helsinki Airport and many outstations, reducing queues at airports and giving customers more options for self-service during their journey.

Social media meanwhile has transformed how customers get information, interact with each other and connect with brands. In the UK, for example, more people spend more time on Facebook than watch television, and that trend is broadly similar in most of the other territories where Finnair operates. A much-cited study by market research firm Nielsen also confirms the unsurprising conclusion that overwhelming majorities, in virtually all markets, place much more trust in "earned" online product reviews by strangers than they do in paid advertisements.

Customers, in other words, are already talking about Finnair in social media whether the company actively engages with them or not. This is why Finnair now engages with customers in various social media in six languages: English, Finnish, Swedish, Chinese, Japanese and Korean. The company's objective with this engagement is to listen and learn, improve brand awareness, support sales and – last but not certainly not least – solve customers' problems. This last function is especially vital when operations are subject to significant disruption. (See sidebar "Customer communications in social media in case of disruption" for more information.)

Social media also brings new dimensions to the passenger journey itself. In March 2013 Finnair introduced an optional social check-in service whereby passengers' Facebook profiles are linked with the seat map during the seat-selection process, enabling greater sociability on board for those wishing to open themselves up to new experiences when travelling. Customers can also more easily share their flight information on different social networks if they so choose. Alternatively, passengers can travel "incognito" as before; in this hyper-connected world, for some customers it is just as important to occasionally disconnect as to connect.

### Integrated approach to customer service

In 2013 Finnair recognised that to meet its customer service objectives and to maintain and grow its market position, that a more holistic organisational focus on customer service would be required. Accordingly, Finnair's customer service functions, which formerly stood alone in their own division, were merged into the Operations or Commercial divisions. The change underlined the role that all employees across the organisation have to play in serving customers, whether in front line customer-facing positions or not.

Additionally, Finnair's Commercial division is undergoing further changes in order to better gauge, react to and cultivate market needs. Product development and marketing are now combined into one team, ensuring that market outreach activities are closely informed by the real customer experience and vice versa. More emphasis is also now being placed on improving e-commerce capabilities, business analytics and decision-making processes. Finally, the Finnair Plus program and the value it generates for customers has taken on new priority, as **one**world, the global alliance to which Finnair belongs, grows in membership and provides Finnair Plus customers even more benefits and more opportunities to "earn and burn" points on more world-class airlines' route networks.

### **one**world for all

The **one**world alliance is in fact in the midst of its biggest expansion in history. In 2013, Malaysia Airlines and Qatar Airways entered the alliance, adding two top-tier carriers to the collection of leading brands from each global region: airberlin, American Airlines, British Airways, Cathay Pacific Airways, Finnair, Iberia, Japan Airlines, LAN Airlines, Qantas, Royal Jordanian and S7 Airlines. Also coming soon in 2014 is SriLankan Airlines, as well as Brazil's TAM and the other members of the LATAM Airlines Group not already in **one**world. In addition, US Airways' network will soon integrate with the **one**world map as part of its merger with American Airlines. After this expansion drive is complete, **one**world will stand as the global quality alliance par excellence, serving almost a thousand airports in more than 150 countries with 14,000 daily departures, carrying 480 million passengers a year on a combined fleet of almost 3,500 aircraft, all the while generating some USD 140 billion in annual revenues.

But within **one**world, increasing joint business activity between member airlines is also creating more value for customers. In July 2013 Finnair joined the transatlantic joint business founded by fellow alliance partners American Airlines, British Airways and Iberia. Finnair customers flying to North America can now book flights to dozens more North American cities on one single ticket at

## Customer service in social media in case of disruption

Social media provides powerful platforms for marketing and raising brand awareness, but for companies these activities are not credible without first providing solid, meaningful customer service. This means engaging with customers on their own terms and providing them with relevant information.

In November Finnair's social media presence was put to the test when the company faced warnings of strikes by the Finnish Flight Attendants' Association and the Finnish Aviation Union. The warnings necessitated the canceling of 130 flights with some 10,000 passengers affected. Throughout the disruption, Finnair reinforced its social media team with volunteers to serve and inform customers of the unfortunate situation.

While phone lines were busy and the volume of Finnair-related social media conversation increased more than tenfold, Finnair made sure all the latest information was always first available via Twitter, Facebook and Finnair's website. Finnair also served individual customers so they could make all necessary ticket changes directly on Twitter.

Finnair also created YouTube videos to instruct customers on what to do if their flight was cancelled, which were then spread by Finnair and the general public through Twitter and Facebook. The selection of channels, speed of information, and useful content were well received with many thanks, even from customers who had to reschedule their trips.

Finnair's active communication in social media was later recognised in Finland as industry best practice. As Pekka Aula, a media and communications professor at the University of Helsinki, wrote in Helsingin Sanomat: "Finnair's way of communicating is something that many other companies will follow."

You can find Finnair on Twitter at www.twitter.com/Finnair and on Facebook at www.facebook.com/Finnair.

a more competitive price, while customers of the other three airlines now also have better access to 13 cities in Finland and the rest of Europe.

In 2014, Finnair is set to enter a similar joint business between **one**world members Japan Airlines and British Airways on traffic between Japan and the European Union, which would, like the other joint business, create more network connectivity and more competitive pricing for customers of all three airlines. Both moves are examples of Finnair pursuing tighter cooperation within the **one**world alliance to improve network connectivity and better serve the needs of intercontinental customers, delivering much more route options and value to customers than any single airline could on its own.

## Highlights in product development

A successful airline listens to customers and the marketplace and continuously develops its offering. New products and services developed in 2013 included:

**Automatic check-in:** Passengers flying from Helsinki Airport and many other outstations are now checked in automatically before their flight if they haven't already done so. Mobile boarding passes are also sent to customers' phones.

**Social check-in:** Those who like to meet new people or open themselves to new experiences while travelling are now able to link their Facebook profile with the seat map during check-in. Of course, "incognito" travel is still an option.

**Marimekko textiles and tableware:** The design collaboration first announced in 2012 became a light and visually refreshing reality on board all Finnair aircraft starting from May 2013.

**New Signature Meals:** Finnair partnered with Michelin-starred chef Pekka Terävä and noted fusion gourmet chef Tomi Björck to create new menus for long-haul Business Class, combining the best of Nordic and Asian cuisine to create a distinctly Finnair flavour.

**Full-flat beds:** Finnair began the process of retrofitting most of the rest of its widebody fleet with seats in Business Class that convert to fully flat beds. After the retrofit is complete in 2014, 12 of Finnair's 15 widebody aircraft will feature the new seats, with the rest due to be retired from service after the arrival of Airbus A350 XWB aircraft in 2015.

**In-flight entertainment renewal:** On long-haul flights, Finnair nearly doubled its inflight entertainment options with a choice of 72 movies and more than 150 TV shows available on demand in both Economy and Business Class. Inflight entertainment is included in the price of the ticket in both classes on all long-haul flights. Meanwhile, on Finnair's new Airbus A321s with Sharklets, which are mostly operated on medium-haul and leisure or charter routes, passengers can hire Samsung Tab 3 tablet computers at a cost of EUR 10. The tablets come preprogrammed with dozens of hours of video and music, as well as games and newspapers.

# SOCIAL INDICATORS

## PR3

### TYPE OF PRODUCT AND SERVICE INFORMATION REQUIRED BY PROCEDURES, AND 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 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 of whom they can file a complaint with. 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.

## 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/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)
- http://www.area.fi/ehdot-ja-saannot
  (Area and SMT guidelines and general conditions of travel, in Finnish)

**Montreal Convention**

- http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:22001A0718(01):en:HTML

**EU Package Travel Directive**

- http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31990L0314:en: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:en:NOT

**Finnish Personal Data Act**

- http://www.finlex.fi/en/laki/kaannokset/1999/19990523

## PR5

### PRACTICES RELATED TO CUSTOMER SATISFACTION, INCLUDING RESULTS OF SURVEYS MEASURING CUSTOMER SATISFACTION

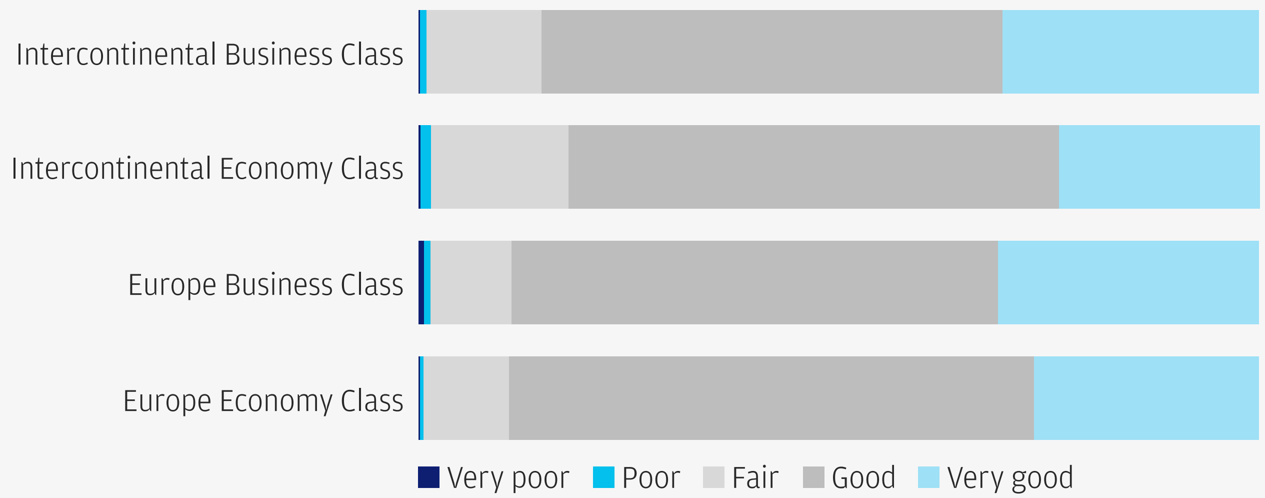
Finnair monitors the customer feedback it receives and reports on the feedback to the department concerned at least once per month. In urgent matters, contact is established and feedback is relayed immediately. In 2013, customer feedback was used particularly in redesigning Finnair's website to make it more customer friendly. We have also improved customer communications in exceptional situations concerning air traffic based on the feedback we have received. Proactive customer compensation during cabin service has also been developed further. One of our main goals remains improving the overall customer experience based on feedback. Customer feedback is also important for the motivation of customer service personnel.

Finnair monitors customer satisfaction daily on its scheduled flights, and the results are reported monthly. The customer satisfaction survey covers all of Finnair's scheduled traffic destinations and also part of the scheduled traffic destinations operated by Flybe. Until the end of 2013, the survey was carried out by means of questionnaire forms distributed to pre-determined random seats on flights. 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. From the beginning of 2014, customer satisfaction is monitored by means of a web-based survey sent to the customer 1-7 days after his or her flight. On Asian routes, Finnair also participates in IATA's competitor monitoring surveys, which track the quality of service experienced by the customer in comparison to the most important competitors.

Overall, Finnair's customer satisfaction remains close to the level seen in recent years, achieving the previously set target. Of all customers completing the survey in 2013, 86 per cent rated their experience as "very good" or "good". The strengths of the service included efficient and smooth ground services and effective transfers at Helsinki Airport. Customers also appreciate Finnair's cabin environments and friendly in-flight service. Development areas include in-flight entertainment and meals. Finnair took further measures to improve the customer experience in 2013, including the introduction of Marimekko tableware and cabin textiles in spring and summer 2013. From September, customers have been served meals designed by Pekka Terävä and Tomi Björck, two of Finland's most renowned chefs. The in-flight entertainment selection was also increased substantially in the autumn by, for example, nearly doubling the number of films available.

Finnair's customer satisfaction surveys also cover the services of LSG Sky Chefs Finland. In addition to customer satisfaction surveys at the group level, Finnair's subsidiaries also commission their own customer satisfaction surveys.

**Finnair's customer satisfaction with flight as a whole in 2013**



# Operations

## World class operations

When Finnair was founded 90 years ago, its first challenges in a difficult northern climate were immediate and practical. As an airline literally born on the ice – Helsinki's frozen Katajanokka harbour was Finnair's first airport – Finnair has of necessity taken pride in a culture of operational excellence, even in unforgiving conditions. But Bruno Lucander, the company's entrepreneurial founder, would have been the first to point out that it's not just the weather that can be harsh or unpredictable when operating an airline.

In 2013, the market for commercial aviation continued to grow globally, with its centre of gravity shifting tectonically toward Asia. The reorientation of global air traffic presents new opportunities but also new risks for airlines such as Finnair looking to meet rising demand from the east. The rising global appetite for oil is driving structurally higher fuel prices, putting new pressure on airlines to be more fuel-efficient. At the same time, more governments than ever are also demanding measurable action to be more fuel-efficient and reduce emissions of greenhouse gases, as we see with the EU's Emissions Trading Scheme and with agreement at the UN's ICAO to reach a global framework by 2020 on a "market-based measure" to offset emissions. Meanwhile, barriers to entry in the sector have never been lower and overall competition never more cut-throat, driving the need for even more efficiencies in airline operations.

*Strategic* PRIORITIES:
Profitable growth,
Cost competitiveness.

*Megatrends* AFFECTING OPERATIONS:
Urbanisation,
Technological development,
Sustainability.

*GRI indicators* IN THIS SECTION:
EN1, EN3, EN4, EN5, EN8,
EN16, EN19, EN20, EN22,
EN26.









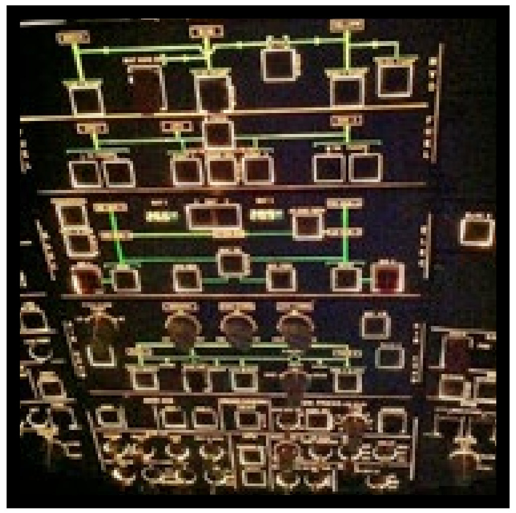
To survive and thrive in these circumstances, Finnair must draw on its long institutional experience of safety and efficiency and rise to the challenge in all aspects of its operations, from the apron to the cockpit, from network planning to fleet management. Key operational performance indicators include Cost per Available Seat Kilometre (CASK), fuel burn/$CO_2$ emissions, aircraft utilisation, on time performance, connection reliability and bags left behind.

## Safety first

When developing operations the first and foremost consideration is always safety. As the foundation for the company's and indeed the sector's success as a whole, safety and risk prevention are built into Finnair's operating culture, and numerous official regulations are binding upon the group's activities, starting with European Union OPS-1 regulations governing the operation of commercial aircraft. Additionally, as a member of the International Air Transport Association (IATA), Finnair adheres to IATA Operational Safety Audit requirements, which are to some extent stricter than the European OPS regulations. Compliance with regulations of all of the airline's operations is ensured by an annual audit, and possible deviations from requirements are designated for rapid correction.

Although regulations create the framework for flight safety, an effective airline needs a comprehensive safety culture to match that is best described by the term "Just Culture." This term means that all kinds of human slip-ups and errors are permitted, but intentional violation of regulations is unacceptable. Finnair's entire safety philosophy is based on the idea that no single human error causes an accident, rather safety networks built into the system are able to catch errors and mitigate their impact. Various protection networks in the company's operating systems are designed with the key objec-

**When developing operations the first and foremost consideration is always safety**



tive of stopping the advance of a possibly damaging course of events and the materialisation of risk.

An effective safety culture has another dimension: reporting. Personnel – traditionally pilots in particular but also other workers – report the risks associated with their work and events that occur. The company applies a safety reporting system in which reports on air safety, maintenance safety, ground safety and cabin safety are produced. According to Just Culture principles, those making reports suffer no consequences on the basis of safety reporting, because the aim is to learn from events and further develop safety processes. A safety report cannot, however, be used to wash one's hands of safety violations – intentional violations are unacceptable.

At Finnair all safety reports are interpreted and given a risk classification according to the seriousness of the event. Events that seriously jeopardise safety are rare and almost without exception a separate safety investigation is launched in respect of them. A safety investigation may be carried out by the authority concerned, such as the Accident Investigation Board of Finland. If authorities decide not to carry out an investigation, Finnair performs an internal safety investigation. In cases related to flying, the safety investigator is always an experienced pilot specially trained in the subject. The safety investigator (or investigators) always carries out the investigation independently and the company's management has no opportunity to influence the course of the investigation.

## Fuel efficiency and a modern fleet

A commitment to safety and comfort entails more than regulations, process and culture; it is also embodied in a modern, energy- and cost-efficient fleet – a prerequisite for cost competitiveness and profitable growth in a sector where fuel costs are high and societal pressure to reduce $CO_2$ emissions is growing. An imperfect but telling indicator of an airline's environmental performance is its average fleet age. At the end of 2013 the average age of the fleet operated by Finnair was 9.9 years, against the IATA overall average of 10.2 years. All Finnair Airbus aircraft belong to the latest aircraft generation.


## Next-generation Airbus A350 XWB takes flight

**The Airbus A350 XWB, the backbone of Finnair's future long-haul growth strategy, will set new standards in fuel efficiency, noise performance and passenger comfort. Airbus's A350 project, in development since 2004, reached a major milestone on June 14, 2013 when MSN 1, the first A350 test aircraft, took off on its maiden test voyage.**

**Thousands more test hours are still to be logged before Finnair, as European launch customer, takes possession of its first of eleven A350s (with options for eight more) in the second half of 2015. The aircraft will be 25 per cent more fuel efficient than the previous generation of comparable long-range twin-aisle aircraft, representing a step-change in cost-efficiency and environmental performance in Finnair's long-haul operations.**

**Miika Haatio, manager of Finnair's A350 program, was on hand at the Airbus facility in Toulouse for the aircraft's first test flight. "It was definitely a wonderful experience," he remembers. "I think everybody there felt like a little kid, seeing the aircraft flying for the first time."**

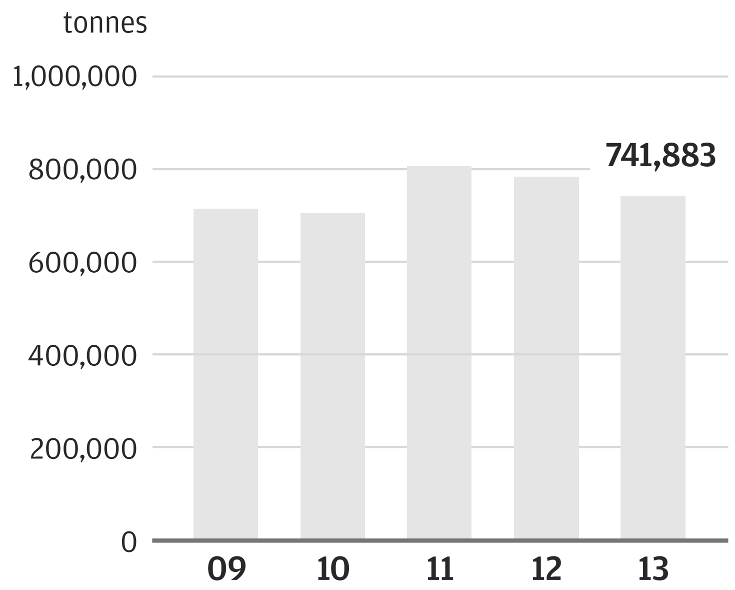
In September 2013 Finnair made important progress toward the twin goals of fuel-efficiency and greener operations when it became the world's first commercial operator of Airbus A321 aircraft equipped with new, fuel-saving Sharklet wing tip devices. The extended-range, single-aisle aircraft, which has the lowest fuel burn, operating cost, emissions and noise footprint in its class, is quieter and more comfortable for passengers than the older aircraft it replaces, as well as about 7 per cent more fuel-efficient per seat. Representing a substantial reduction in costs and $CO_2$ emissions, three A321s with Sharklets entered the fleet in 2013, with another two due in the first half of 2014.

The five A321s with Sharklets replace Finnair's four Boeing 757s that were used mainly for leisure and charter flights, enabling more flexibility and interoperability between European scheduled and leisure flights, driving up aircraft utilisation and thus improving returns on the fleet investment. The new aircraft also complete Finnair's shift to all-Airbus operations, bringing further cost efficiencies in maintenance and pilot training.

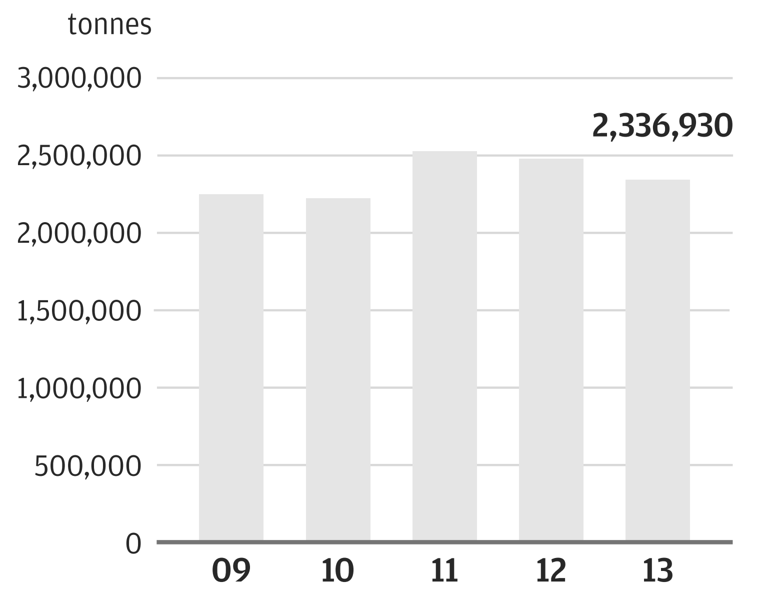
## World-class performance and partnerships enable a network strategy

The scheduling flexibility made possible by the commonality and simplified maintenance regime of an all-Airbus fleet also helps achieve excellence in on-time performance, connection reliability and bags left behind, without which Finnair's strategic focus on network traffic through Helsinki would not be tenable. World-class quality and punctuality create the basis both for Finnair's value proposition and its drive toward profitable growth, and are prioritised accordingly.

**Jet fuel consumption**




**Direct $CO_2$ emissions in passenger traffic**



To insure swift turnarounds of aircraft and smooth connections, personnel at Finnair's hub and network control centres work round the clock looking after the status of all aircraft and customers. Good cooperation with the Finnish Border Guard and Finavia, the operator of Helsinki Airport which guarantees a minimum connection time of 35 minutes, is also essential.

Another key component of punctuality and operational excellence is close coordination with strategic vendors. 2013 was a notable year in that it was Finnair's first full year of operations with outsourced apron, catering, and engine and component maintenance services – functions which previously had been performed for Finnair in house. In choosing world-class partners for these functions – Swissport, LSG Sky Chefs and SR Technics respectively – Finnair increased quality and achieved record levels of operational performance while reducing costs at the same time. The airline has achieved a similar result with its "thin route" Embraer and ATR flight operations as well, with its strategic partner Flybe Finland.

But Finnair's new operational model in which it works in cooperation with a wider ecosystem of strategic suppliers is not without risk. Before, Finnair largely had "no one to blame but itself" in the event of a significant disruption or operational difficulty. Now, however, if a key vendor is facing operational difficulties for whatever reason, those difficulties are likely to be felt by Finnair as well, which then must take ultimate responsibility. This risk is mitigated to a large extent by close cooperation, coordination and performance review with mission-critical partners, and by the fact that while key partners each excel in different core competences, they all share the same ultimate business objective of serving passengers with a quality air travel experience. When disruptions occur, as they inevitably must sometimes do in an unpredictable world, Finnair works to ensure that the least inconvenience is felt for the greatest number of passengers in the network, with a particular priority on transfer passengers.

## Setting the standard for environmental performance

More than 95 per cent of an airline's environmental impact is related to flight operations, as every kilogram of fuel burned produces 3.25 kilograms of $CO_2$. In 2013 Finnair made important environmental progress when it was certified as a Stage 1 operator in IATA's Environmental Assessment Program (IEnvA), a new and innovative environmental management system designed to independently assess and improve the environmental management of an airline. Acting in the belief that, as with safety, the whole sector would benefit from a more systematic approach to environmental management, Finnair is part of a pilot group of IATA member airlines that has been developing and participating in the program.

The environmental standards that underpin IEnvA are based on recognised environmental management system (EMS) principles (such as ISO 14001) and have been developed by a joint team of environmental consultants and leading airlines, including Finnair. Airline assessments, however – including Finnair's – are undertaken by independent accredited Environmental Assessment Organisations that have demonstrated competencies in EMS auditing.

The initial scope of IEnvA is limited to flight operations and corporate activities, but new modules covering ground operations and maintenance are currently under development.

The results of a commitment to operational quality and smooth hub operations were seen in 2013 with Finnair's performance in monthly reports generated by FlightStats, an independent travel data provider. The firm's well-publicised "league table" for on-time performance routinely showed Finnair to rank in the Top 5 of major international airlines for punctuality – and in April, May, August and November Finnair was found to be No. 1 globally, a remarkable achievement considering the scope of the competition and something that can make all Finnair employees and partners proud. With 89.73 per cent of flights arriving within 15 minutes of the scheduled time, Finnair finished 2013 as the world's second most punctual major airline network. The connectivity rate for all transfer passengers, meanwhile, exceeded 98 per cent, and 6.8 bags per 1000 were left behind, against the industry benchmark of 10 bags per 1000.

Also figuring in the top ranks in FlightStats' monthly reviews were several of Finnair's fellow members of the **one**world alliance, which overall was named the best alliance for punctuality in 2012 and again in 2013. This wider, global network of quality is increasing in commercial importance for Finnair as it enters more codeshare cooperation and joint businesses with other airlines, such as that with fellow **one**world members American Airlines, British Airways and Iberia on transatlantic services. This world provides precious few guarantees, but with the track records established by Finnair and other key partners, passengers can feel reasonably confident that if they are transferring through Helsinki, they can count on a safe, hassle-free and pleasant air travel experience. That expectation is the asset at the core of Finnair's value proposition and it must be safeguarded.

## Finnair leaves fewer bags behind than average


Finnair


Industry benchmark

# THE WORLD OF FINNAIR

Information graphics: Tero Harsunen

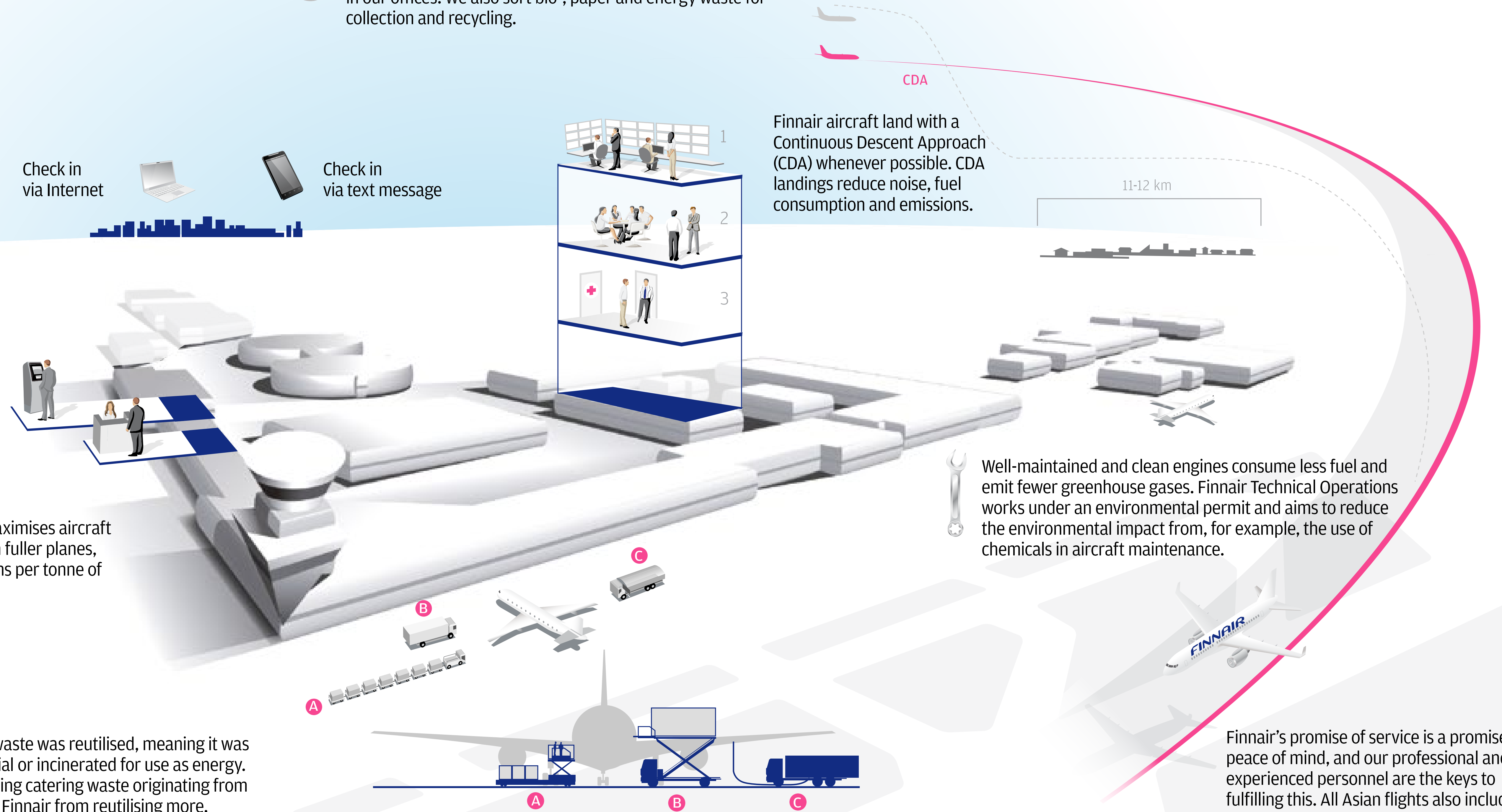
**1** Finnair's Network Control Center works 24 hours a day to ensure accurate and smooth flight operations.

**2** We seek ways to reduce heat, electricity and water consumption in our offices. We also sort bio-, paper and energy waste for collection and recycling.

**3** Employee well-being and work capacity are monitored by Finnair Health Services, which is also responsible for providing aviation medical services and regular check-ups for flying personnel.

Finnair offers customers several options for checking in

- Check-in kiosk
- Baggage drop by the check-in kiosks




Finnair aircraft land with a Continuous Descent Approach (CDA) whenever possible. CDA landings reduce noise, fuel consumption and emissions.

Well-maintained and clean engines consume less fuel and emit fewer greenhouse gases. Finnair Technical Operations works under an environmental permit and aims to reduce the environmental impact from, for example, the use of chemicals in aircraft maintenance.

**A** When Finnair Cargo maximises aircraft payload we can fly with fuller planes, which reduces emissions per tonne of transported goods.

**B** In 2013, 67% of cabin waste was reutilised, meaning it was either reused as material or incinerated for use as energy. EU regulations concerning catering waste originating from outside the EU prevent Finnair from reutilising more.

**C** When 1 kg of fuel is burned, 3.15 kg of $CO_2$ is discharged into the atmosphere. Greenhouse gas emissions are by far an airline's largest environmental impact. Finnair improves fuel efficiency and reduces emissions by technological, operational, infrastructural and economic means.

Finnair's promise of service is a promise of peace of mind, and our professional and experienced personnel are the keys to fulfilling this. All Asian flights also include cabin crew from the destination country in Asia.

# ENVIRONMENTAL INDICATORS

## EN1

### MATERIALS USED BY WEIGHT OR VOLUME

The emphasis of Finnair's use of materials is mainly on transport fuels, particularly jet fuel. In this report, fuels will be treated mainly as energy and the consumption of fuels is reported in section EN3. In addition to flight operations and fuel burn, significant material flows are created in LSG Sky Chefs Finland, Finnair Technical Services and Finnair Engine Service, as well as Finnair Cargo.

Meal services for Finnair flights from Helsinki are supplied by Finnair's partner LSG Sky Chefs Finland. As one of Finland's largest kitchens, it consumes a substantial amount of materials and also represents a considerable proportion of the material consumption in Finnair's supply chain. The raw materials used in catering services consist mainly of foodstuffs and the materials required for packaging them. Most of the materials used are renewable. Finnair continuously develops its service concepts and, from September 2013, customers have been served meals designed by Pekka Terävä and Tomi Björck, two of Finland's most renowned chefs. As part of its development efforts, Finnair began using frozen meals produced outside Finland for hot meal service in addition to the meals designed by the chefs. The shift to frozen meals is reflected in a decrease in the company's own purchases of meat, fish and vegetables compared to the previous year. Overall, the increase in the volume of foodstuffs was in line with the growth in passenger volumes in 2013.

In May 2013, Finnair introduced Marimekko for Finnair design products aboard its aircraft. The Marimekko for Finnair product range includes porcelain tableware, bedding and food service textiles, as well as disposable products used in food and beverage service, such as coffee cups and paper napkins. The Ilmo series tableware produced under the Marimekko for Finnair design cooperation feature highly durable porcelain that is 15 per cent lighter compared to Finnair's previous tableware. The lighter material supports Finnair's aim of decreasing the total weight of aircraft in order to reduce the environmental impacts of flying. The new Marimekko for Finnair products completely replaced the previous tableware and textiles, which required a substantial investment and is reflected as an increase in materials under other purchases in 2013.

The most significant consumption of materials by Finnair Cargo companies arises from the storage of cargo as well as preparing and protecting cargo for transportation. Cargo to be transported is protected with plastic, because the loading and unloading of aircraft and the transport of cargo between the terminal and the aircraft takes place outside, which requires that cargo be protected from the weather.

Aircraft de-icing is a significant area of material use in Finnair's operations. In cold weather, ice and frost forms and snow falls on the fuselage and wings of aircraft. They must be removed before take-off for flight safety reasons. A mixture of propylene glycol and hot water is used for de-icing. More information on de-icing agents is given in section EN21.

Finnair Technical Services' most important environmental aspects relate to the use of spare parts and chemicals. Due to the use of chemicals, Technical Services has an environmental permit. In 2013, the operations of Finnair Technical Services were scaled back considerably, which is reflected in a substantial decrease in chemicals consumption. The most significant change with respect to the use of chemicals in 2013 was the discontinuation of engine service operations and the related surface finishing department. The spare parts and components needed for the maintenance of aircraft are to a large extent repairable goods. In line with standard industry practice, aircraft components are repaired whenever safety aspects and official regulations allow, because the components are very expensive. This means that the lifecycle of aircraft components is typically long. The amounts of components and spare parts are not reported, however, because no universal or meaningful comparable data are available on them.

| Unit | 2013 1,000 kg | 2012 1,000 kg | 2011 1,000 kg | 2013 1,000 l | 2012 1,000 l | 2011 1,000 l | 2013 1,000 pcs | 2012 1,000 pcs | 2011 1,000 pcs |
|---|---|---|---|---|---|---|---|---|---|
| Plastic | 312 | 319 | 218 | | | | | | |
| Paper (not office) | 150 | 270 | 260 | | | | | | |
| Cardboard | 165,912 | 110 | 100 | | | | | | |
| Textiles | 65 | 50 | 87 | | | | | | |
| Metals* | 35 | 35 | 53 | | | | | | |
| Chemicals** | 751.4236 | 708 | 222 | | | | | | |
| Porcelain | 45 | 17 | 18 | | | | | | |
| Glass | 15 | 9 | 10 | | | | | | |
| Board | 42.7 | | | | | | | | |
| Loading pallets (wood) | | | | | | | 124 | n/a | 85 |
| Office paper (reams) | | | | | | | 27 | 29 | 33 |
| Propylene glycol*** | | | | 1,596 | 5,282 | 1,442 | | | |
| Food purchases | 3,399 | 3,050 | 3,023 | | | | | | |

* This figure does not include metals used by Finnair Technical Services, because the statistics system used for metal raw material consumed in Technical Services cannot provide comparable data. Finnair Technical Services does not manufacture products, however, so as a user of raw materials it is not a significant player on an industrial scale.

** Chemicals consumption figures for 2011 do not include dry ice used in catering operations. Dry ice is, by a significant margin, Finnair's third-largest category of chemicals purchases behind jet fuel and propylene glycol. For this reason, the 2011 figure is not directly comparable with the chemical consumption figures for 2012-13.

### Finnair Technical Services' use of chemicals 2009-2013, in tonnes

| CHEMICAL GROUP | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Glues and sealing agents | 0.7 | 0.9 | 2.7 | 3.2 | 2.6 |
| Paints and varnishes | 3.4 | 9.1 | 16.5 | 24.4 | 17.5 |
| Surface finishing agents | 5.8 | 6.4 | 11.3 | 24.5 | 19.3 |
| Cleaning agents and detergents | 31.2 | 38.6 | 41.2 | 48.2 | 47.4 |
| Solvents | 8.7 | 19.8 | 29 | 26.4 | 26.4 |
| Lubricants and oils | 111.6 | 93.4 | 105.4 | 86.0 | 92.7 |
| Total | 161.4 | 168.2 | 205.9 | 212.8 | 205.8 |

## EN3

### DIRECT ENERGY CONSUMPTION BY PRIMARY ENERGY SOURCE

Finnair's direct primary energy consumption consists of the use of transport fuels. Aviation is very energy-intensive. Globally, Finnair's largest environmental load arises from flying and particularly from the use of fossil jet fuel.

In 2013, Finnair's total consumption of jet fuel decreased by over 43 million kilogrammes, or nearly 6 per cent, compared to the previous year. The savings in fuel consumption were achieved by, among other things, route network optimisation, developing flight and taxi practices and reducing the empty weight of aircraft. Finnair also improved its fuel efficiency relative to available capacity: in 2013 Finnair's fleet consumed nearly two per cent less jet fuel per available passenger kilometre and over two per cent less jet fuel per available tonne kilometre compared to 2012. Due to fuel savings measures and improved utilisation rates, every passenger kilometre flown and every tonne kilometre of payload transported were operated with less fuel consumed.

In 2013, Finnair's ground vehicles consumed a substantially lower amount of fuel than in the previous year. As this was primarily due to the outsourcing of ground services, the figures are not fully comparable to the previous year's fuel consumption figures.

### Finnair's primary energy consumption 2010-2013

| Jet fuel | 2013 | 2012 | 2011 |
|---|---|---|---|
| Jet fuel (Jet A-1), 1,000 kg | 741,883 | 785,176 | 800,449 |
| MWh | 8,924,852 | 9,445,665 | 9,629,398 |
| GJ | 32,129,469 | 34,004,395 | 34,665,834 |
| Change % | -5.5 | -1.9 | 13.6 |
| | | | |
| **Ground vehicles** | **2013** | **2012** | **2011** |
| Petrol, 1,000 l | 10 | 21 | 27 |
| MWh | 94 | 185 | 247 |
| GJ | 338 | 664 | 888 |
| Change % | -52.4 | -25.2 | -14.7 |
| | | | |
| **Diesel, 1,000 l** | 41 | 77 | 200 |
| MWh | 412 | 771 | 1,996 |
| GJ | 1,483 | 2,777 | 7,187 |
| Change | -46.8 | -61.4 | -9.3 |
| | | | |
| **Fuel oil, 1,000 l** | 10 | 269 | 1,213 |
| MWh | 96 | 2,687 | 12,131 |
| GJ | 347 | 9,673 | 43,670 |
| Change % | -96.4 | -77.9 | -27.6 |
| | | | |
| **Total** | **2013** | **2012** | **2011** |
| MWh | 8,925,455 | 9,449,308 | 9,643,772 |
| GJ | 32,131,637 | 34,017,509 | 34,717,579 |
| Change % | -5.5 | -2 | 13.5 |

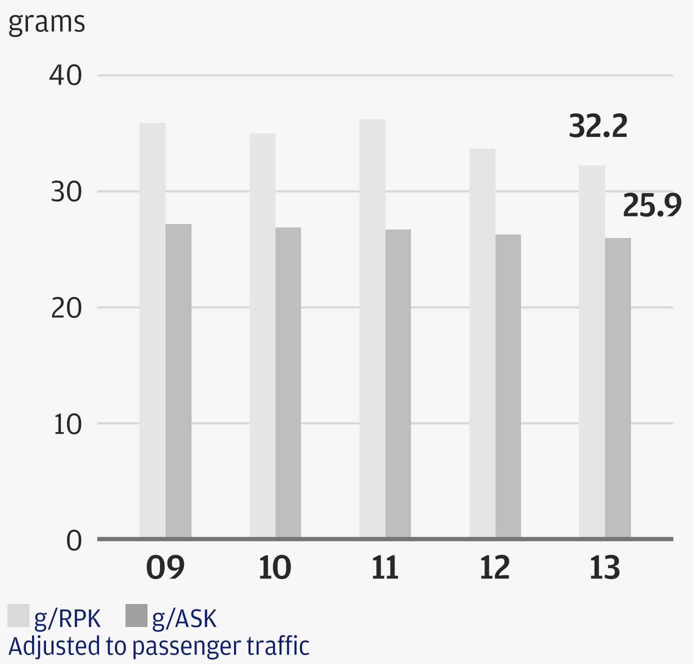
In addition to Finnair's fleet's energy and fuel consumption, the company's energy balance sheet also includes the transportation capacity that Finnair Cargo purchases from other companies. In 2013, transport of the cargo entrusted to Finnair Cargo by other airlines required 29,220 tonnes of jet fuel in total. This is equal to approximately 1,265,459 GJ. The amount includes cargo flights that were operated solely due to Finnair Cargo.

## Fuel consumption and fuel efficiency in flying 2005–2013

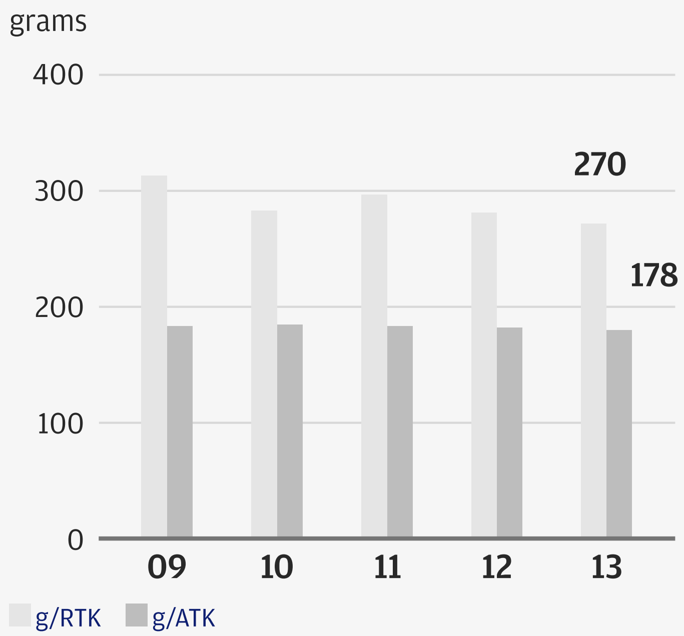
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Consumption, tonnes | 617,275 | 655,454 | 763,454 | 831,423 | 712,487 | 704,885 | 800,449 | 785,176 | 741,883 |
| g/RPK* | 38.5 | 38.3 | 38.2 | 38.0 | 36.0 | 35.1 | 36.3 | 33.8 | 32.2 |
| g/ASK* | 28.4 | 29.2 | 29.0 | 28.6 | 27.3 | 27.0 | 26.8 | 26.4 | 25.9 |
| g/RTK | 342.5 | 335.3 | 332.5 | 330.0 | 313.5 | 283.0 | 297.1 | 281.2 | 270.0 |
| g/ATK | 195.7 | 195.3 | 193.5 | 186.9 | 183.7 | 184.7 | 183.7 | 182.2 | 178.0 |

* Fuel consumption adjusted to passenger traffic.
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 + baggage + cargo).

### Passenger traffic fuel efficiency 2009–2013




### Payload fuel efficiency 2009–2013



## EN4

### INDIRECT ENERGY CONSUMPTION BY PRIMARY SOURCE

In 2013, Finnair's indirect energy consumption amounted to 103,438 MWh. Of this amount, electricity consumption accounted for 46,104 MWh, while heating energy accounted for 56,200 MWh. Both electricity and heating consumption declined by over 10 per cent from the previous year. This reduction in energy consumption was primarily the result of the moving office operations to a newly constructed energy-efficient building named the House of Travel and Transportation (HOTT). The move took place gradually, starting in June 2013. Geothermal energy accounts for 80 per cent of HOTT's energy consumption. The building is categorised in Energy Class A and LEED Platinum environmental certification was received in early 2014.

**Energy consumption of Finnair's properties in 2010–2013**

| Indirect energy consumption | | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Electricity** | MWh | 46,104 | 52,584 | 54,721 |
| | GJ | 165,974 | 189,302 | 196,996 |
| Change % | | -12.3 | -3.9 | -2.3 |
| | | | | |
| **Heat** | MWh | 56,200 | 63,002 | 59,551 |
| | GJ | 202,320 | 411,379 | 455,072 |
| Change % | | -10.8 | 5.8 | -15.4 |
| | | | | |
| **Total** | MWh | 102,304 | 115,586 | 114,272 |
| | GJ | 368,294 | 416,110 | 411,379 |
| Change % | | -11.5 | 1.1 | -9.6 |
| Change from 2007, % | | -12.5 | -4.8 | -2.2 |

Of the heat energy consumed by Finnair, 90 per cent was consumed in the operating locations situated at Helsinki-Vantaa Airport. The heat energy was delivered by district heating, of which 44 per cent was produced by natural gas, 56 per cent by coal and 0.04 per cent by heavy fuel oil. The $CO_2$ emissions created from the production of heat energy in 2013 amounted to 18,078 t/$CO_2$.

Finnair buys electricity from the electricity derivatives market via the Finnish national grid. According to the company that maintains the grid, most of the production is carbon neutral, but part is produced by fossil fuels. The different energy sources and their relative proportions are not known, nor is the amount of primary energy required to produce the electricity.

## EN5

### ENERGY SAVED DUE TO CONSERVATION AND EFFICIENCY IMPROVEMENTS

Owing to the energy-intensive nature of its industry, Finnair is determined to improve the energy efficiency of its operations, particularly by striving to reduce jet fuel consumption. Fleet modernisation is the single most significant measure by which Finnair reduces its energy consumption. Next-generation aircraft consume approximately 20 per cent less fuel than their predecessors. The carbon dioxide emissions of the aircraft have also declined by a corresponding amount. In late 2013, Finnair received three of five new A321 Sharklet aircraft that replace its old Boeing 757 aircraft.

The on-going fuel savings program resulted in savings of over two per cent in jet fuel consumption in 2013 compared to the previous year. This corresponds to nearly 16 million kilogrammes of fuel saved per year, which in turn translates to a decrease in $CO_2$ emissions of more than 50 million kilogrammes. Finnair has paid attention to fuel consumption in a number of different areas. The weight of aircraft has a significant effect on fuel consumption. The use of new technology and high-quality lightweight materials have enabled the company to reduce the empty weight of its aircraft. Weight control is also one of the most important selection criteria in all purchasing of aircraft components and equipment.

Finnair has invested in fuel efficiency in many different ways in its operational functions. For example, ground operations employ single engine taxiing whenever possible. In addition, the use of APU engines has been optimised (the auxiliary power unit, or APU, generates electricity and pressurised air for various aircraft systems). Together, these measures result in annual fuel savings of several million kilogrammes. The economical flying training for all Finnair pilots, which began in 2012, continued in the period under review. The aim of the training is to implement consistent operating practices and disseminate information on the factors that influence overall flight economy. These include optimal airspeed and altitude. Flight planning is also aimed at achieving optimal fuel efficiency by selecting the most economical route alternatives and negotiating more efficient overflight routes. In 2013, Finnair obtained several new flight routes, particularly in Asian traffic, that reduce flight times and thereby improve fuel economy.

As a partner of Finavia, Finnair has already participated for many years in the development of new kinds of landing practice. In Continuous Descent Approach (CDA) landing, the aircraft's altitude is reduced gradually throughout the entire landing stage. A landing performed in the traditional way includes horizontal flight stages, when the aircraft's engines have to be used now and then with greater power. This means that the aircraft's consumption of fuel and air emissions are higher than in a CDA landing. In addition, the approach method implemented in late 2013, which is aimed at better optimisation of the parallel runways at Helsinki-Vantaa Airport, is expected to result in significant reductions in fuel consumption and emissions.

In March, Finnair participated in the international Earth Hour for the fourth 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 at work as well as when off duty.

In October, Finnair organised its annual energy conservation week, during which information and energy conservation tips were disseminated to personnel. There were several themes during the week, and personnel were encouraged to discuss and consider the significance of energy conservation as well as new ways to save energy.

Finnair Facilities Management Oy has joined an energy efficiency agreement between the Confederation of Finnish Industries, the Finnish Ministry of Employment and the Economy and industry associations. The parties to the agreement are committed to reducing properties' energy consumption by nine per cent from the 2007 level by 2016. Finnair's properties implemented several energy conservation measures in 2013. The most significant of these measures were related to changes in the ventilation scheduling of aircraft hangars, changes to automated building services, valve replacements and upgrades to automation systems.

The combined effect of these measures is an estimated reduction in energy consumption of 25,631 GJ per year.

Energy efficiency has been given special consideration at Finnair's new head office HOTT, which was commissioned in summer 2013. Document printing is avoided and workstations do not have their own waste baskets. Instead, paper waste is sorted directly into collection boxes near the photocopiers and the kitchen on each floor has collection points for biowaste, energy fraction, glass and metal.

## EN6

### INITIATIVES TO PROVIDE ENERGY-EFFICIENT OR RENEWABLE ENERGY-BASED PRODUCTS AND SERVICES, AND REDUCTIONS IN ENERGY REQUIREMENTS AS A RESULT OF THESE INITIATIVES

In its customer service functions, Finnair is aiming to increasingly move towards digital services to avoid paper consumption. The packaging materials for in-flight products have also been selected to maximise their recyclability.

Finnair's subsidiary Finland Travel Bureau (FTB) merged in 2013 with another Finnair subsidiary, Area. The merger formed the largest Finnish business travel agency, FTB. In all of its operations, FTB monitors and strives to reduce paper consumption. FTB sends all documentation related to travel, invoicing and travel management to customers electronically. Communications are also carried out electronically. In recent years, FTB has been active in utilising virtual meeting technology in its internal meetings and training, which reduces the company's need for travel.

## EN8

### TOTAL WATER WITHDRAWAL BY SOURCE

**Finnair's water consumption 2011–2013**

| Water consumption | 2013 | 2012 | 2011 |
|---|---|---|---|
| Water, $m^3$ | 89,587 | 100,098 | 116,315 |
| Change % | -10.5 | -13.9 | -4.3 |

In 2013, the water used by Finnair was taken from the municipal water supply network. The primary water source is Lake Päijänne.

## EN16

### TOTAL DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS

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, increasing the atmosphere's $H_2O$ content above the cloud layer. However, not much is yet known about the effect of water vapour emissions from aviation.

In 2010, Finnair Group set an ambitious target for cutting its carbon dioxide emissions. Finnair's target is to reduce its $CO_2$ emissions by 24 per cent per seat by 2017, using the 2009 level as the baseline.

In 2013, the greenhouse gas emissions of Finnair's own fleet amounted to approximately 2,336,930 tonnes of carbon dioxide. This figure does not include wet lease operations, which refers to Finnair flights operated with leased aircraft and crew in circumstances where the company's own equipment is unavailable.

These figures also include the capacity acquired from other operators by Finnair Cargo. In 2013, this cargo capacity produced approximately 92,000 tonnes of carbon dioxide in total. The amount includes cargo flights that were operated solely due to Finnair Cargo.

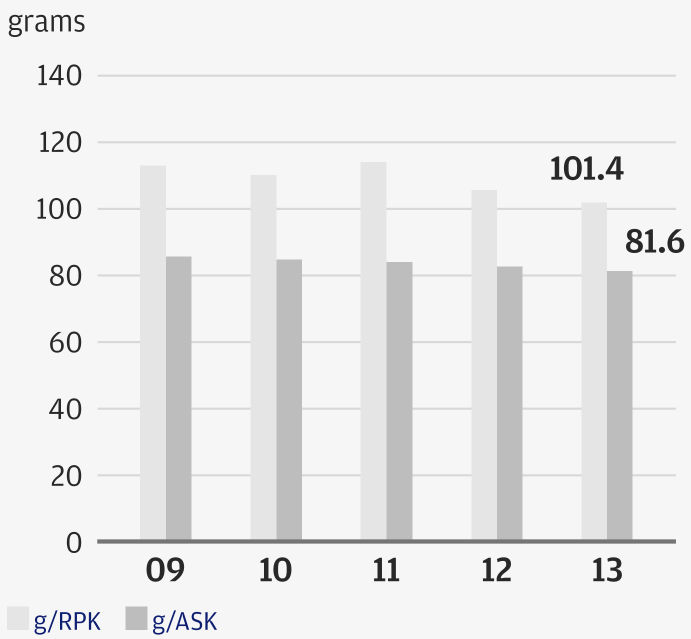
Information on truck transport used by Finnair Cargo is absent from this report. Finnair Cargo purchases transport services from truck companies, and the statistical practices of these companies do not allow actual emissions to be calculated at present. Finnair Cargo's main partners in truck traffic use vehicles classified as EURO 4 at a minimum.

### Finnair's direct and indirect greenhouse gas emissions 2011-2013

| | $CO_2$, tonnes | | | $H_2O$, tonnes | | |
|---|---|---|---|---|---|---|
| **Direct greenhouse gas emissions, tonnes** | **2013** | **2012** | **2011** | **2013** | **2012** | **2011** |
| Flying, AY | 2,236,930 | 2,473,304 | 2,521,414 | 964,447 | 1,020,729 | 1,040,583 |
| Ground equipment, AY | 160 | 979 | 3,870 | | | |
| **Indirect greenhouse gas emissions** | | | | | | |
| Electricity | n/a* | n/a | 10,070 | | | |
| Heat | n/a** | 18,799 | 14,850 | | | |
| **Total** | 2,337,090 | 2,493,081 | 2,550,203 | 964,447 | 1,020,729 | 1,040,583 |
| Change % | -6.3 | -2.2 | 13.7 | | | |

*will be available 3/2014
**will be available 6/2014

### Passenger traffic unit-specific $CO_2$ emissions 2009–2013

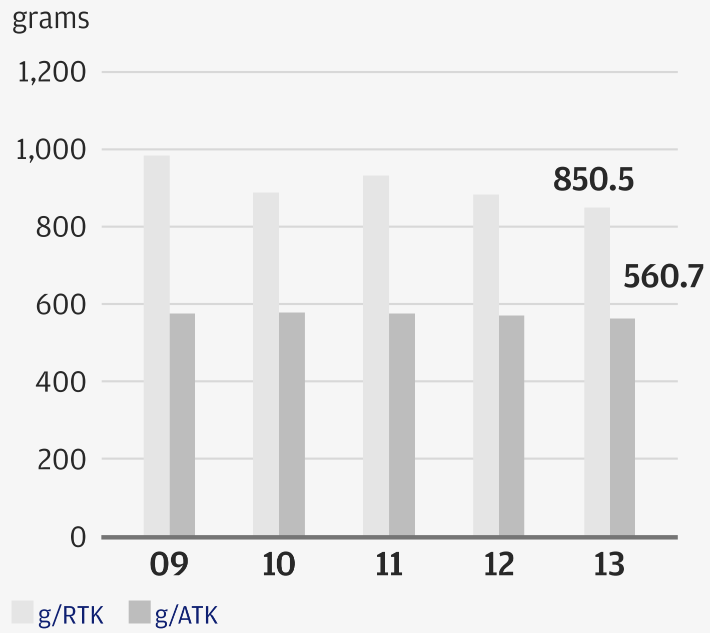



RKP = revenue passanger kilometres
ASK = available seat kilometres
RTK = revenue tonne kilometres, i.e. capacity use according to payload weight
ATK = available tonne kilometres, i.e. capacity use according to payload weight

RPK and ASK describe passanger traffic performance and RTK and ATK describe performance according to payload capacity (passangers + baggage + cargo).

Adjusted to passenger traffic

### Payload traffic unit-specific $CO_2$ emissions 2009–2013



# EN19

## EMISSIONS OF OZONE-DEPLETING SUBSTANCES

The Finnair Group does not use agents that destroy the ozone layer in the upper atmosphere. Aircraft fire extinguishing systems, which use halon fire-extinguishing agents, constitute an exception. Halon must be used in aircraft fire-extinguishing systems, as alternative agents approved for civil aviation use are not yet available on the market. The types of halon used in Finnair aircraft are Halon 1301 and Halon 1211. In 2013, one extinguisher containing Halon 1301 gas was set off, resulting in 10 kilogrammes of halon being released into the atmosphere.

### Halons released into the atmosphere

| Kg | 2013 | 2012 | 2011 |
|---|---|---|---|
| Halon 1211 | 1.45 | 0 | 0.3 |
| Halon 1301 | 10 | 10.4 | 8.3 |
| Total | 11.45 | 10.4 | 8.6 |
| CFC equivalent Total | 104.35 | 104 | 84 |

The ODP (ozone depleting potential) of halon 1211 is 3 and that of halon 1301 is 10. The ODP of a chemical compound is the relative amount of degradation to the ozone layer it can cause, using the ozone depleting potential of a CFC compound as the reference point.

# EN20

## NITROGEN AND SULPHUR OXIDES (NOx, $SO_x$), AND OTHER SIGNIFICANT AIR EMISSIONS

In 2013, the total nitrogen oxide emissions from Finnair flight operations declined by approximately five per cent compared to the previous year. The decline is due to decreased fuel consumption. The figure excludes the NOx emissions of the Sharklet aircraft that began operating in December, as well as those caused by wet lease operations.

Besides carbon dioxide, nitrogen oxides (NOx) are the most significant air emission arising from flying. NOx emissions arise from 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 NOx emissions produced by the engines of Finnair aircraft are emission figures in relation to route lengths reported by engine and aircraft manufacturers. In Finnair, these values are applied to actual fuel consumption figures separately for each individual route. In addition, the figures are compared with documents based on engine certifications maintained by the UN's International Civil Aviation Organisation (ICAO).

### $NO_x$ emissions arising from Finnair flight operations 2011-2013

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| $NO_x$ emissions, Mkg | 5.3 | 5.6 | 6.0 |

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. Finnair's VOC emissions are derived mainly from hydrocarbons that remain uncombusted during the combustion of transport fuels as well as from chemicals used in Technical Services. Finnair Technical Services' environmental permit specifies an upper annual limit for VOC emissions and Technical Services' emissions are considerably lower than this.Due to substantial scaling down of operations, the VOC emissions of Finnair Technical Services declined by more than a third in 2013 compared to the previous year.

### Finnair Technical Services VOC emissions in 2013

| VOC, 1,000 kg | Aliphatic hydro-carbons | Aromatic hydro-carbons | Ketones | Alcohols | Halogenated hydro-carbons | Various | Total |
|---|---|---|---|---|---|---|---|
| Paints and varnishes | | | | | | 1.4 | 1.4 |
| Paint removal agents | | | | 0.3 | 0.1 | | 0.4 |
| Glues and sealing agents | | | | | | 0.1 | 0.1 |
| Solvents | 0.9 | 0.1 | 0.2 | 0.9 | | 1.1 | 3.1 |
| Anti-corrosion agents | | | | | | 0.1 | 0.1 |
| Cleaning agents | | | | 3.6 | | 0.0 | 3.6 |
| Washing benzene / washing solvents | 1.6 | | | | | | 1.6 |
| Total | 2.5 | 0.1 | 0.2 | 4.7 | 0.1 | 2.6 | 10.1 |

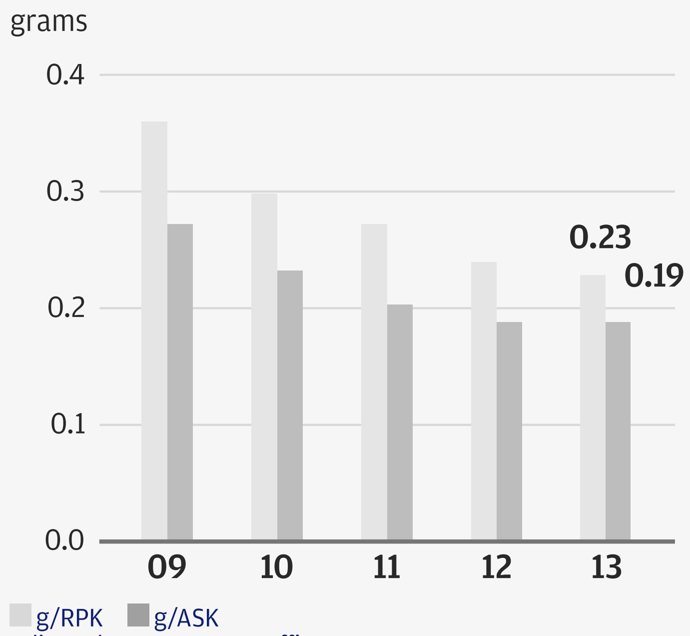
## EN21

### TOTAL WATER DISCHARGE

Wastewaters produced by the Finnair Group are discharged into the municipal sewerage network. The exception is a water-propylene glycol mixture used in aircraft de-icing, which Finavia primarily collects and transports to the waste water treatment facility for processing. Small amounts of the mixture also flow into small streams and ditches that surround Helsinki-Vantaa Airport. The area's streams and ditches run into the River Vantaa and the River Kerava. Finavia reports on these emissions in its environmental report.

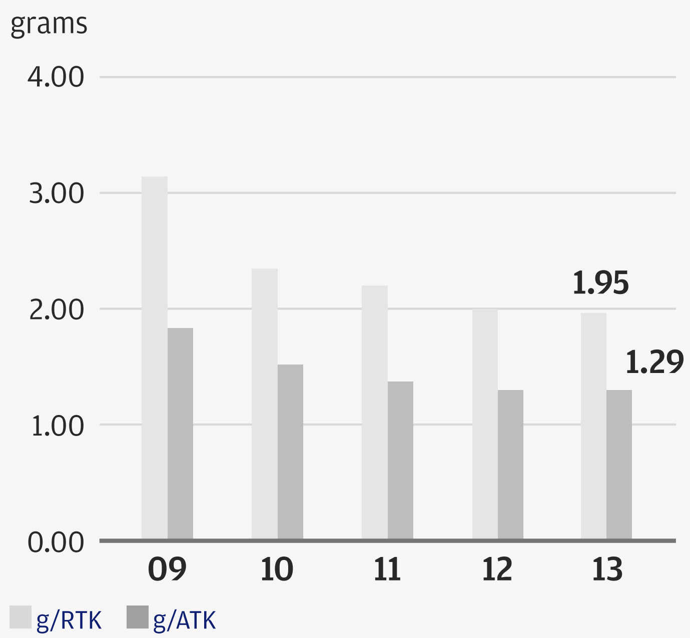
According to a study conducted by a third party and completed in January 2014, the bedrock potassium concentration at the airport are elevated compared to natural concentration levels, but the concentrations are still considered low. The potassium concentration of groundwater towards the Päijänne tunnel have not changed significantly. The computational impact of the use of de-icing agents on surface waters and groundwater is minor. According to research into the effects of propylene glycol during winter 2012–2013, the streams and ditches surrounding the airport showed slightly elevated levels resulting from glycol. However, the airport's operations were not perceptible in analysis results from the River Vantaa and the River Kerava. Finavia, which maintains Helsinki-Vantaa Airport, issues reports on the propylene glycol and the amounts thereof that end up in the soil and waterways in connection with aircraft de-icing.

### Unit-specific $NO_x$ emissions, passenger traffic 2009–2013

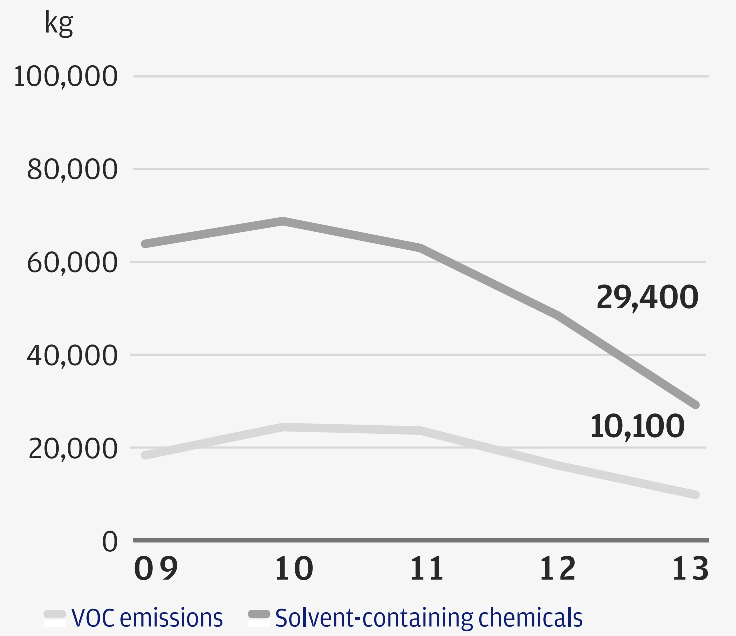



Adjusted to passenger traffic

### Unit-specific $NO_x$ emissions, relative to payload capacity 2009–2013




### Development of use of solvent-containing chemicals and VOC emissions in Finnair Technical Services 2009–2013



## EN22

### TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD

The total amount of waste generated by Finnair increased by 16 per cent, or nearly 700 tonnes, from the previous year. The increase in the quantity of waste is primarily explained by the increase in the number of flights. The waste recovery rate decreased as waste outside the EU increased as a result of the EU Animal by-products Regulation. This type of waste is not recyclable and its disposal requires special handling. In other respects, the waste recovery rate improved further in 2013.

**Waste generated by Finnair according to final disposal method**

| 1,000 kg | 2013 | 2012 | 2011 |
|---|---|---|---|
| Composting** | 60.9 | 395 | 461 |
| Change, % | -84.6 | -14.3 | -1.7 |
| Recycling | 1,912.31 | 1,116 | 1,374 |
| Change, % | 71.3 | -18.7 | 9.8 |
| Energy use | 1,297.64 | 1,259 | 1,349 |
| Change, % | 3.0 | -6.6 | 78.5 |
| Landfill site | 1,595.72 | 1,264 | 1,671 |
| Change, % | 26.3 | -24.4 | -23.4 |
| Other** | 0 | 144 | 157 |
| Change, % | -100.0 | -8.6 | -3.5 |
| Total | 4,867 | 4,178 | 5,011 |
| Change, % | 16.5 | -16.6 | 4.0 |
| Re-utilisation % | 67.2 | 69.8 | 66.7 |
| Recycling % | 40.5 | 39.6 | 39.7 |

* Waste in the Other category is included in the Recycling category in reporting for 2013

** The decrease in the amount of composted waste is due to the discontinuation of the use of bakery waste for bioethanol production in early 2013.

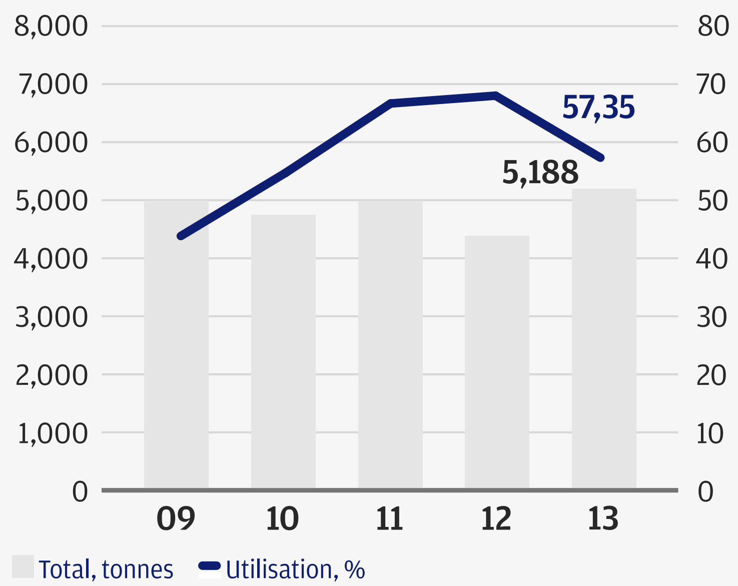
The majority of Finnair's hazardous waste is generated by Finnair Technical Services. In 2013, the amount of hazardous waste generated by Technical Services increased by 85% from the previous year. This is due to the closure of the surface finishing plant located in an engine service facility sold by Finnair. The amount of waste metal is also substantially higher than in 2012. This is due to structural changes in Technical Services as well as the emptying of premises.

**Hazardous waste generated by Finnair**

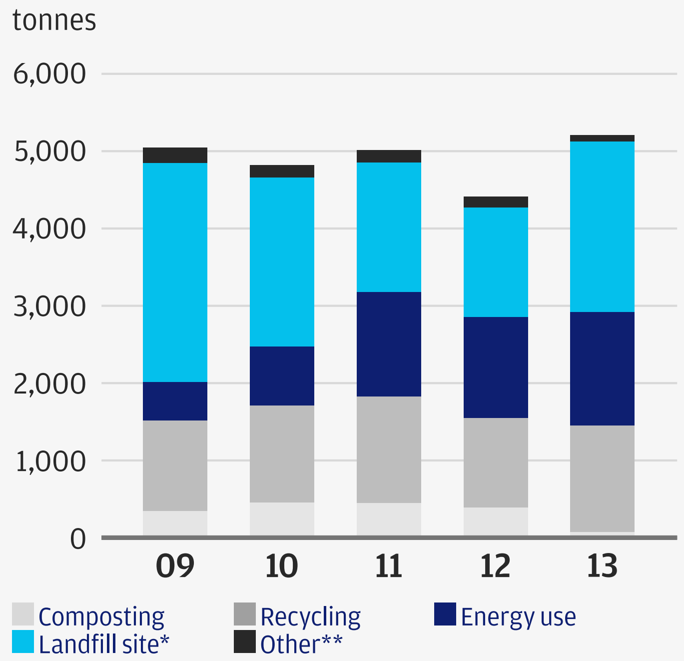
| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Hazardous waste, tonnes | 204.4 | 110.4 | 175.2 |
| change, % | 85.1 | -37.0 | 49.5 |
| Re-utilisable* | 38.2 | 24.0 | 41.9 |
| Re-utilisation % | 18.7 | 21.7 | 23.9 |

* Reutilisable hazardous waste includes waste kerosene, which is used as a co-combustion agent in processing hazardous waste, and part of solvent waste, which Finnair's partner cleans and returns to Technical Services for reuse.

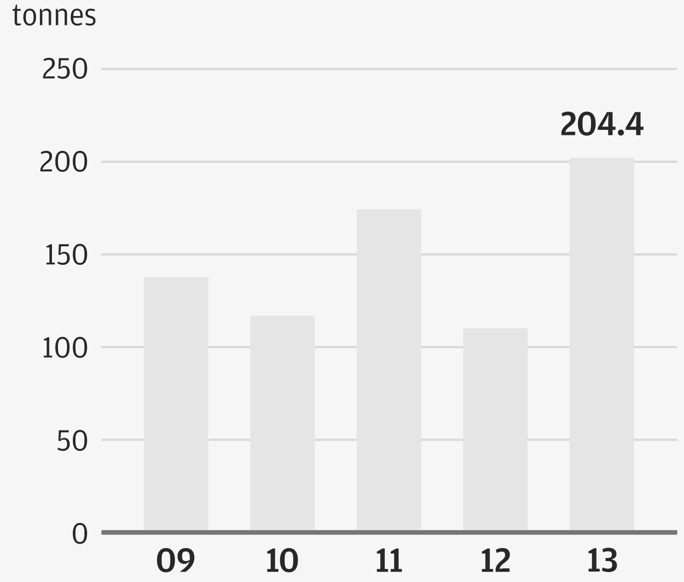
**Amounts of waste and utilisation percentage 2009–2013**




**Amounts of waste 2009–2013**




**Finnair Technical Services' hazardous waste 2009–2013**



## EN26

### INITIATIVES TO MITIGATE ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES, AND EXTENT OF IMPACT MITIGATION

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 takeoffs, while the level of aerodynamic noise grows during approaches.

In the Finnair Group, noise pollution is reduced by modernising the aircraft fleet and by planning takeoffs 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.

#### Finnair fleet noise values

| Aircraft type | Engine type | Takeoff noise / ICAO noise limit | Approach noise / ICAO noise limit |
|---|---|---|---|
| A340-311 | CFM56-5C2 | 95.0/103.7 | 97.2/104.7 |
| A340-313 | CFM56-5C4 | 95.4/104.1 | 97.0/104.9 |
| A330-302 | GE-CF6-80E1A4/B | 92.2/98.1 | 99.1/104.4 |
| B757-200 | P&W 2040 | 89.7/94.1 | 98.1/102.0 |
| A319-112 | CFM56-5B6/2P | 83.4/90.9 | 94.7/100.2 |
| A319-112 | CFM56-5B6/2P | 84.6/91.2 | 94.7/100.3 |
| A320-214 | CFM56-5B4/2P | 83.6/91.3 | 96.0/100.4 |
| A320-214 | CFM56-5B4/2P | 84.9/91.6 | 96.0/100.6 |
| A321-211 | CFM56-53/2 | 86.4/92.2 | 97.0/100.9 |
| A321-211 | CFM56-5B3/2P | 88.3/92.5 | 97.0/101.1 |
| A321-231 | V2533-A5 | 88.3/92.8 | 95.6/101.3 |
| Embraer 190 | GE CF34-10E | 86.1/89.2 | 92.7/99.2 |
| Embraer 170 | GE CF34-8ES | 84.1/89.0 | 94.9/98.2 |

### TRAVEL AGENCIES

Aurinkomatkat-Suntours participates in environmental protection projects at its holiday destinations. Loving Andaman Sea is a project in Krabi, Thailand, to promote responsible tourism at the local limestone cliffs. The project organises volunteer cleaning days on beaches in Krabi approximately once per month. The project includes many travel businesses from the Krabi region, and Aurinkomatkat became the first foreign enterprise to join the project in 2011. Aurinkomatkat staff and many customers have participated in the volunteer cleaning days, with thousands of kilogrammes of litter removed from the beaches.

In Fuerteventura and Gran Canaria, Aurinkomatkat participates, in cooperation with its local agent, in a campaign organised by the charitable organisation Fundacion Seur to collect hard plastic bottle caps. The proceeds received from recycling companies are used for the medical care of children from low-income families and the purchasing of required equipment. The families receiving assistance are selected by the foundation. Aurinkomatkat customers can hand bottle caps collected during their holiday to staff on the way to their return flight, who will then have them delivered to the campaign's collection boxes. Through their participation in the campaign, Aurinkomatkat and its customers support both local child welfare charity work as well as environmental protection.

Aurinkomatkat also participates in many assistance projects that customers may also participate in (see page 56).

# Employees

## Our greatest resource

There are lots of business models that sound ideal on paper, but at the heart of any enterprise are the boots on the ground – or indeed, in the air. Finnair's employees – their skills, knowledge, presence, decision-making and attitude – determine ultimate business success or failure. Are all employees working together toward common goals? Do they understand the competition and the business landscape? How international is their outlook? Is work taking place in an environment conducive to health and wellbeing? Are there opportunities for work rotation and career development? Does the working culture attract and retain top talent? Do management and labour unions work together in constructive, strategic partnership? Getting the answers to these questions right is essential in driving Finnair's value creation.

## Wellbeing at work: 4D survey

Twice in 2013, as per the annual plan, Finnair carried out its 4D survey, which collects and delivers information on the status of the work community in order to promote personnel well-being and develop the work culture.

*Strategic* PRIORITIES:

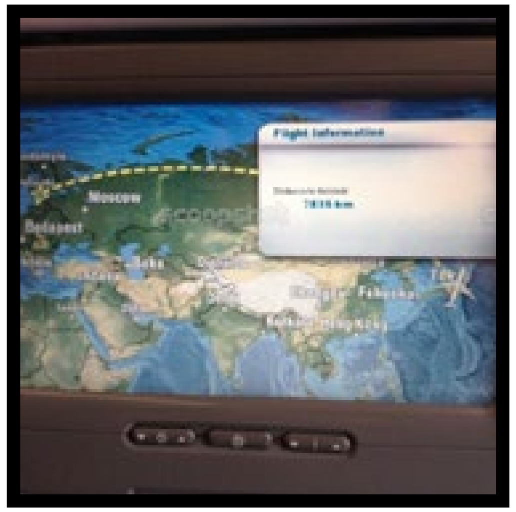
Customer experience, International winning team.

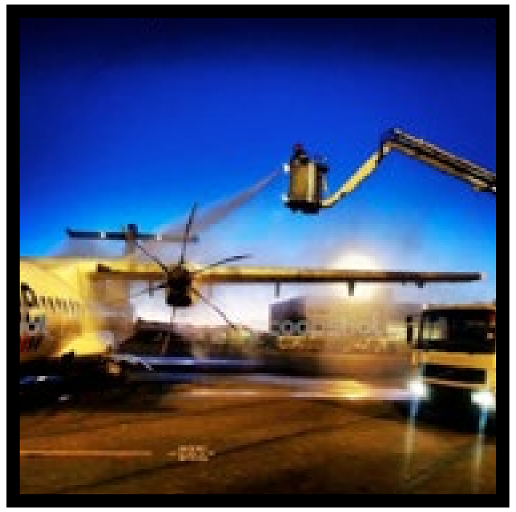
*Megatrends* AFFECTING OPERATIONS:

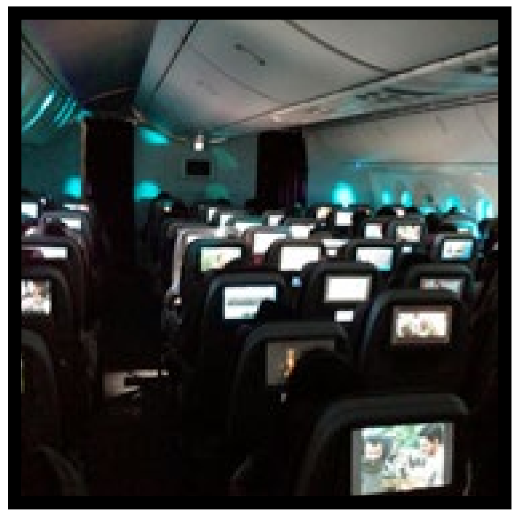
Shift in economic and geopolitical power, Technological development, Sustainability

*GRI indicators* IN THIS SECTION:

LA1, LA2, LA4, LA6, LA7, LA8, LA9, LA10, LA12, LA13, HR5, HR6, HR7, SO5







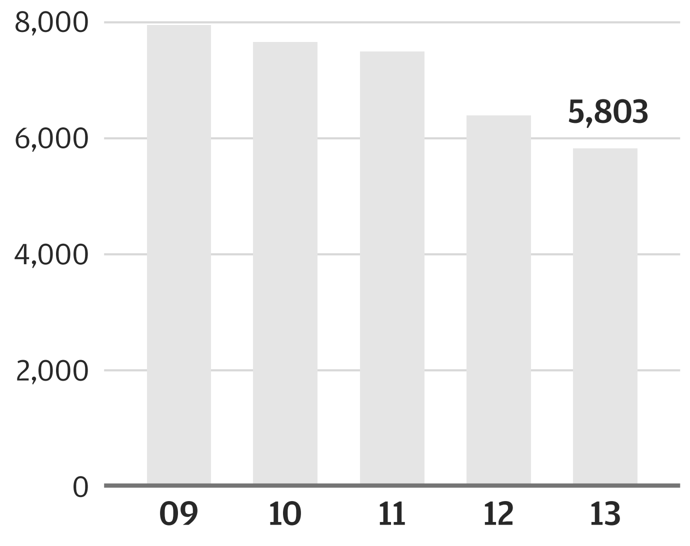
In the annual extensive 4D survey everyone has the chance to express their opinion on four aspects of the survey, i.e. my line manager, my work community, my personal aspect and my health and well-being. The survey gauges the level and development of employees' commitment to Finnair, its strategy, ways of working and organisational renewal. Based on the survey results, we aim at reinforcing things that are well and further developing things that need to be improved. Up to date information on the status of work and working environment are the basis for enhancing wellbeing at work.

Each autumn, Finnair also measures day-to-day wellbeing at work, job satisfaction and general satisfaction through the implementation of a condensed 4D Pulse survey. The average scores of the 4D Pulse survey can be seen as a general index of occupational wellbeing and job satisfaction in the work community.

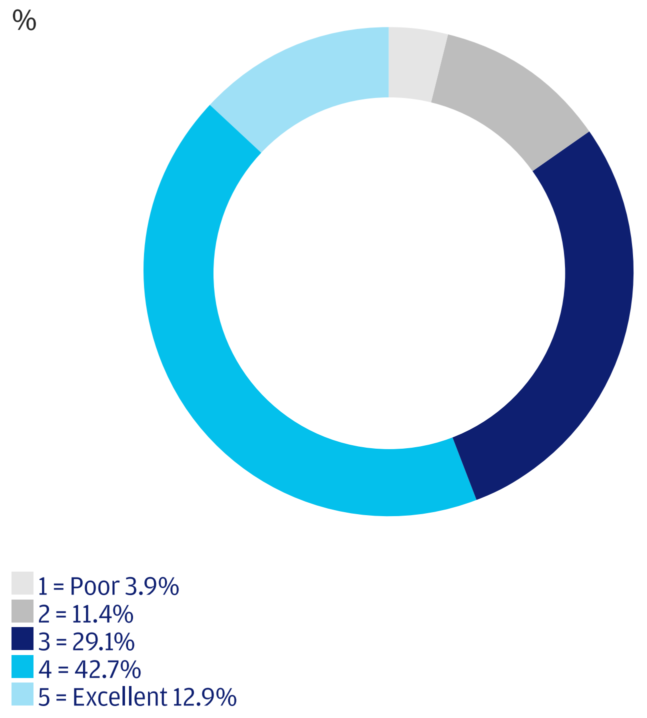
Finnair HR is responsible for implementing both 4D surveys, and the data collected is treated with strict confidence and used only for scientific purposes without personal identification information. Feedback is always given on a general level in order to protect individual anonymity. In addition to the survey, the company has a systematic process and a set of operating models for processing the results in the work communities. The aim is to activate the work community to discuss ways to improve wellbeing-at-work based on an analysis of the survey results.

The participation rate in the spring 2013 survey was 53 per cent and the autumn survey was 56 per cent. The wellbeing-at-work index for the group as a whole in spring 2013 was 4.0 and in fall 2013 3.8 on a scale of 1 to 5, with 5 being the highest score.

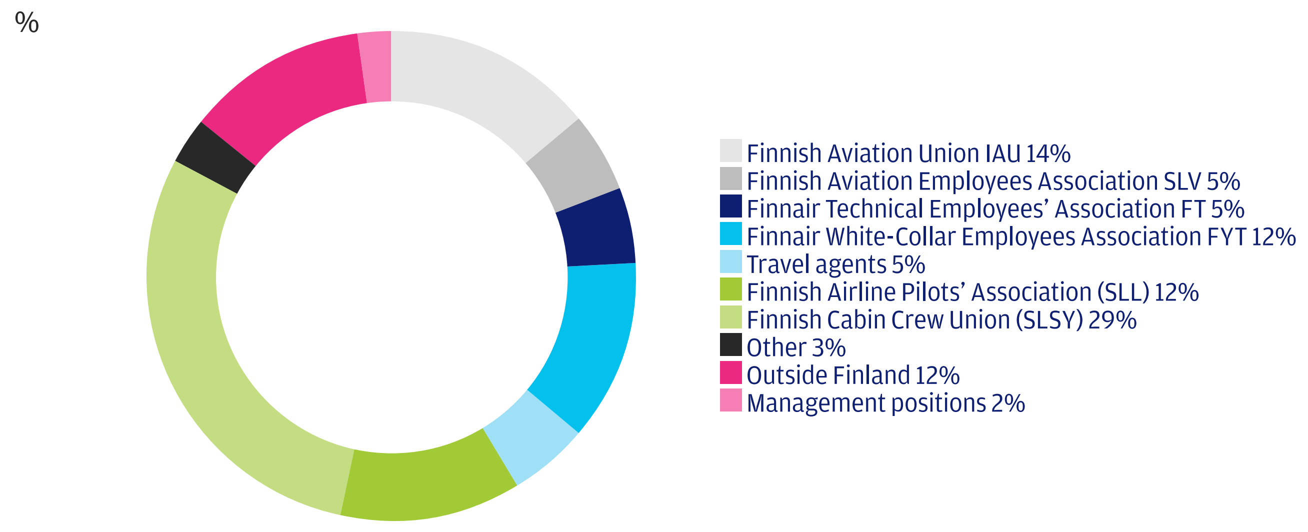
**Number of persons employed by Finnair at year-end**




**Employee wellbeing in 2013**




**Employees by group**



## Building the international winning team

One important way Finnair's leadership and working culture is developed is through the International Winning Team philosophy. Finnair's customers – and the airline's prospects for survival and growth – are mostly international, and this requires employees with an international outlook, experience and competence. Accordingly a member of the Finnair Executive Board is nominated to be responsible for each of five competence areas:

- Airline Business Understanding: How we understand the airline industry, the market environment, our business model and way we execute it

- Change Management: How we lead the change, new competitive circumstances and fresh business challenges

- Project Management: How Finnair implements new projects and builds and extends its business according to the project methodology

- Process Management: How we use processes to develop and enhance our operations and business

- Partner Management: How Finnair focuses on the core airline business and manages relationships with strategic suppliers and other partners

The aim of our Human Resources development is to provide our employees with concrete tools to manage daily tasks and to ensure employees' professional skills respond to the needs of the business. New employees are provided with on the job training and induction. Finnair has systematically used tools developed based on its leadership principles (goal-oriented, developing, incentivising, caring and fair) to support supervisors and teams in their day-to-day work. Finnair's Takeoff and Runway development programs for supervisors also continued in 2013, further strengthening the company's consistent leadership culture and improving the capacity of managers to lead their teams, their businesses and themselves.

Finnair's talent review and successor planning processes also play an important role in the management and development of the organisation. Talent review is based on Finnair's management principles and Performance Dialogue process. The talent review has helped improve the company's successor planning and career rotation opportunities and allowed the organisation to systematically focus its personnel development efforts on certain target groups.

## Codes for success

The manner and ethical norms in which the international winning team operates matter as much as the work itself. In a logistically demanding business with global reach in many different legal jurisdictions and cultural traditions, good intentions and instincts are not enough to protect the company from undue risk – clear ethical guidelines and principles for doing business must be articulated as well. This is why in 2012 the Board of Directors approved a new Code of Conduct applying to all management and employees, and this code was further explained and highlighted to personnel in 2013. E-learning package was also introduced in 2013. The full text of the Code can be found at www.finnairgroup.com in the Corporate Responsibility section.

As an airline, however, we are only at the tip of a very deep supply chain. Of equal importance, then, are ethical principles in the Supplier Code of Conduct, which governs all procurement decisions and also came into force in 2012. It can also be at www.finnairgroup.com in the Corporate Responsibility section.

These formal declarations of principles are intended to help us build a strong and fair business on a solid foundation of ethics that will stand the test of time.

## We like it HOTT

In July 2013 the Finnair Group began moving many of its functions into one building, the newly constructed House of Travel and Transportation, or HOTT. More than just a change of address, with the new premises Finnair wanted to take advantage of the opportunity to strengthen cooperation and communication between units, improve wellbeing at work and lighten the Group's energy and environmental footprint.

The new seven-storey building, located near Helsinki Airport and owned by insurance company Ilmarinen, features open-plan work spaces for all employees and numerous meeting rooms and conference facilities of various sizes, as well as "working cafes" for more impromptu meetings or collaboration. Other amenities in the building include a gym and changing rooms free for all employees, as well as a café, cafeteria and Finnair Sky Shop open to the general public. By bringing in formerly isolated units and functions under one roof, employees have more opportunities to get to know their colleagues from other parts of the business and increase mutual understanding of work roles, thus creating better conditions for cooperation and for developing the working culture.

The new, spatially consolidated work environment also represents a significant cost savings over previous arrangements; Finnair now leases approximately 25,000 m² less floor space than it did formerly. The new eco-friendly building controls energy costs too, and satisfies requirements for Platinum certification according to the Leadership in Energy and Environmental Design (LEED) standard for green buildings.

## A matter of trust: Relations with employees and labour unions

Finnair is going through a structural change aiming at improving profitability and competitiveness. Our goal is to save 200 million euros in annual costs by the end of 2014. The savings are being sought from all functions, including employee costs, and they apply to all employee groups.

Finnair's employee relationships are governed by collective labour agreements (CLAs). In the fall of 2013, agreements based on Finland's central incomes policy settlement were reached with the Finnish Flight Attendants' Union (SLSY), the Finnish Aviation Union (IAU) and Finnair employee groups belonging to Trade Union Pro. A similar agreement was made with the Finnish Airline Pilots' Association (SLL) in December.

The negotiation process was difficult and it led to strike threats by IAU and SLSY in November. There was also a threat of support strikes related to the intended change of employer union of the catering subcontractor LSG Sky Chefs. There were deficiencies in catering due to industrial actions of the LSG employees, while 130 flights had to be cancelled because of the threat of strikes. Although the strike threat caused significant financial losses, the terms of employment were finally agreed on without strikes, lockouts or industrial actions at Finnair.

In addition to the labour agreements, agreement on savings negotiations was reached based on the crisis clauses defined in the central incomes policy settlement. The aggregate of agreements was reached to secure Finnair's future.

The aim of the agreement is, in addition to the goals of the central incomes policy settlement, to agree on the measures to secure jobs and the future of the company in case of exceptional financial difficulties.

Finnair's employee and employer unions stated that at the time of the signing of labour agreements Finnair is in exceptional financial circumstances as defined in the central incomes policy settlement. Thus, an agreement was made to start or continue local savings negotiations with each union. As communicated earlier, with the savings agreement Finnair aims at saving 60 million euros part of which must come from personnel costs, including flight crew costs.

The new collective labour agreements are now in place and negotiations to reach the savings are ongoing. The aim is to reach the targets in 2014 in a way acceptable to all parties.

The CLA negotiations, though concluded peacefully, highlighted a difficult issue still facing Finnair: The company must secure its future in the long term, but naturally it is difficult for employees to give up current benefits even if they are above the current market level. Although industrial action is seldom in the ultimate interest of anyone at Finnair or Finnair's customers, it nonetheless remains a serious risk to Finnair's commercial objectives, which depend on operational quality and punctuality.

# SOCIAL INDICATORS

## LA1

### TOTAL WORKFORCE BY EMPLOYMENT TYPE, EMPLOYMENT CONTRACT AND REGION

The number of Finnair employees decreased significantly in 2013 as a result of the structural change in progress at the company. At the end of 2013, the number of Finnair's employees was 5,803, which is 565 fewer than in the previous year. Geographically, the greater part of personnel works in Finland, the majority at Helsinki-Vantaa Airport or in its immediate vicinity.

There are 710 Finnair employees working outside Finland. Of these, 263 are employed in sales and customer service duties for Finnair's passenger and cargo traffic. A total of 321 people worked for travel agencies and tour operators based in the Baltic countries, in financial management and as guides at Aurinkomatkat-Suntours' holiday destinations. Personnel based abroad are included in the total number of Finnair employees.

Full-time staff accounted for 95 per cent of Finnair employees, and 96 per cent of staff were employed on a permanent basis. The average age of employees was 44 years.

| LA1 | Fixed-term and permanent employees as of 31 December 2013 | | | |
|---|---|---|---|---|
| | Airline business | Aviation services | Travel services | Other functions |
| Total | 3,677 | 1,106 | 730 | 290 |
| Fixed-term (%) | 4.0 | 1.1 | 6.0 | 2.4 |
| Permanent (%) | 96.0 | 98.9 | 94.0 | 97.6 |
| | Full-time and part-time employees as of 31 December 2012 | | | |
| Total | 3,677 | 1,106 | 730 | 290 |
| Part-time (%) | 6.0 | 2.2 | 1.4 | 1.7 |
| Full-time (%) | 94.0 | 97.8 | 98.6 | 98.3 |

## LA2

### TOTAL NUMBER AND RATE OF EMPLOYEE TURNOVER BY AGE GROUP, GENDER AND REGION

Number and proportion of those who ended their employment (voluntarily, made redundant, retired or as a result of a fatality).

| | Airline business | Aviation services | Travel services | Other functions | Total |
|---|---|---|---|---|---|
| Total | 3,677 | 1,106 | 730 | 290 | 5,803 |
| Departed | 154 | 416 | 114 | 13 | 697 |
| Turnover, %* | 4.1 | 27.4 | 14.1 | 5.1 | 10.9 |

* Turnover figures do not include changes in personnel numbers due to outsourcing and the ending of fixed-term employment contracts. Finnair personnel working abroad are included in the figures. Finnair does not maintain turnover statistics in relation to gender, age group or other diversity aspects.

## LA6

### 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, co-operation 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, whose task is to participate in occupational health and safety activity in pairs with the employer's representatives at the job level. Occupational health and safety delegates are selected via elections for terms of two years at a time. The previous term commenced at the beginning of 2012, and at the end of 2013 employees organised occupational health and safety elections for the 2014-2015 term.

The number of occupational health and safety delegates and their operating areas were adjusted at the end of 2013 to correspond with the significant structural changes in the organisation. In addition, several changes pertaining to the occupational health and safety managers representing the employer took effect on 1 January 2014. The changes are aimed at facilitating and improving the efficiency of occupational health and safety activities and bridging the gap between the employer's representatives and the employee delegates.

Employee health and safety issues are also handled by Finnair's informal 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 on and discusses matters such as equality and non-discrimination, planning and changes pertaining to employees on a broad basis.

## LA7

### Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities by company and function

| 2013 | Number of work-related accidents | Number of workplace accidents | Workplace accident frequency (number of accidents per one million working hours) | Number of business trip accidents | Sickness days due to work-related accidents |
|---|---|---|---|---|---|
| Airline's flight personnel | 68 | 53 | 9 | 15 | 483 |
| Airline's ground personntel | 49 | 27 | 28 | 22 | 280 |
| Finnair Technical Services Oy | 35 | 29 | 10 | 6 | 165 |
| Finnair Engine Service Oy | 1 | 0 | 2 | 1 | 12 |
| Cargo Oy and FCTO Oy | 4 | 2 | 12 | 2 | 69 |
| Finncatering Oy | 18 | 16 | 31 | 2 | 32 |
| Finnair Flight Academy Oy | 0 | 0 | 0 | 0 | 0 |
| Travel Retail Oy | 4 | 4 | 17 | 0 | 20 |
| Aurinkomatkat Oy | 0 | 0 | 0 | 6 | 0 |
| Area Oy | 6 | 1 | 6 | 5 | 38 |
| Finland Travel Bureau Ltd | 5 | 0 | 1 | 5 | 5 |
| Amadeus Oy | 0 | 0 | 0 | 0 | 0 |
| **Total** | 190 (2012=255) | 132 (2012=182) | 10 (2012=15) | 64 (2012=73) | 1,104 (2012=1,415) |

The figures do not include Finnair's leased employees or subcontractors.
Finncatering had 1 suspected case of occupational disease in 2013.
Flight personnel had 1 suspected case of occupational disease in 2013.
There were no fatalities in 2013 (the most recent fatality was in 2005).
Work-related accidents are divided into workplace accidents and business trip accidents.
Sickness days due to work-related accidents This figure includes days of sickness absence caused by accidents that occurred in 2013, where the duration of the incapacity to work was at least one day in addition to the day of the accident. The day of the accident is not included in the calculation.
Workplace accident frequency = number of workplace accidents per one million working hours. Workplace accidents include all accidents that incurred treatment expenses and occurred at the workplace or during work.
Airline's ground personnel = Group management, HR, support services, ground crew, operative ground personnel and Travel Retail.

## LA8

### EDUCATION, TRAINING, COUNSELLING, PREVENTION AND RISK-CONTROL PROGRAMS IN PLACE TO ASSIST WORKFORCE MEMBERS, THEIR FAMILIES, OR COMMUNITY MEMBERS REGARDING SERIOUS DISEASES

**Occupational health services and wellbeing-at-work activities**

At Finnair, the Finnair Health Services unit is responsible for activities relating to occupational health and working capacity. Finnair Health Services, Finnair Aeromedical Centre FAeMC (subsequently referred to as Health Services) coordinates and is responsible for the implementation of occupational health care in the entire Finnair group. Finnair Health Services is one of Finland's leading experts in aviation medicine.

The Finnair Group engages in active communication on occupational health issues by utilising its internal communication channels and by arranging special occupational health theme days. As an authorised aviation medicine centre, Finnair Health Services also provides aviation medical examinations for the company's pilots, cabin crew and external aviators.

The operations, services and methods of Finnair Health Services are based on industry best practices, customer-focused work, leading expertise and the active production and application of research evidence as well as effective processes. Finnair Health Services' main research cooperation partners are the Finnish Institute of Occupational Health and the National Institute for Health and Welfare.

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 healthcare and aviation medicine services. Finnair Health Services has dedicated and up-to-date quality manuals for occupational health care as well as aviation medicine. A project to update and revise the quality manuals began in 2013 and will continue in 2014.

**Occupational health activities**

Occupational health care is responsible for providing advice and guidance based on information and experience at the workplace to develop well-being at work. Preventive occupational health care activities include influencing employees' health-related habits, identifying risk factors to health, providing advice and guidance for health-promoting choices and protecting oneself from health problems, diseases and reduced work capacity before symptoms or problems arise.

In its activities, Finnair Health Services has focused in particular on developing screening and care practices for illnesses that compromise and affect working capacity. In the aviation industry, some employees work in exceptional conditions and at atypical working hours. In 2013, Finnair Health Services participated in a Finnish Institute of Occupational Health research project aimed at producing information on identifying sleep and alertness disorders associated with irregular working hours and preventing the problems they cause.

Workplaces and occupational health care have cooperated in many ways to improve operating practices that help employees to continue to work and remain in working life despite individual health restrictions and ageing. These practices include referral to rehabilitation, trial work placements, the lightening of workloads, job modification, flexible working hours and the use of part-time sick leave supported by part-time sick leave allowance from the Social Insurance Institution of Finland.

Finnair uses an early intervention operating model for the management of risks related to working capacity. The operating model is included in group-level operating guidelines.

The operating principles of Finnair's substance abuse program is designed to contribute to an intoxicant-free workplace and work community. Identifying substance abuse problems, early intervention, treatment and rehabilitation help reduce the negative health effects of substance abuse and influence service quality, productivity, occupational safety and working atmosphere. This also contributes to flight safety.

**Promoting employee health and working capacity through various career stages**

Employees are invited to medical check-ups every three to five years, depending on their work-related exposure to risk factors, their duties and their age, in order to promote their health and working capacity. Medical examinations were carried out for a total of 986 employees in 2013. The examinations have a broad focus on various health risks (including diabetes and cardiovascular diseases) as well as musculoskeletal disorders, psychological disorders and other serious illnesses that may compromise working capacity, operating capacity and the connection between work and health. Work placement medical examinations are conducted for new recruits and employees whose jobs, working conditions or work-related medical requirements change. Returning examinations are also conducted for employees returning to work after extended periods of incapacity to work.

Medical examinations pertaining to exposure at work include examinations concentrating on the effects of cosmic radiation, carcinogenic substances, solvents and other chemicals, noise, vibration and working night shifts. In minimising exposure to such work-related health hazards, the primary focus is on implementing working methods and procedures that involve minimal exposure to hazards. Aviation operations require the use of effective chemicals and special attention is paid to chemical hazards and protection from them. Cosmic radiation assessments were conducted for a total of 24 pregnant members of flight personnel in 2013. 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 accumulated cosmic radiation exposure. 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).

Finnair Health Services has offered employees inoculations against work-related infectious diseases and influenza. The Health Services unit actively monitors the epidemiological situation of various infectious diseases and issues instructions to employees as necessary. In addition, Health Services continuously monitors the epidemiological situation and other risks in Finnair's destination countries.

Representatives of Finnair Health Services participate in the development of workplace meals and crew meals for flight personnel. The services of a nutritional therapist have been added to occupational health care services, and in special cases employees have the opportunity to obtain a referral from occupational health services for personal counselling visits by a nutritional therapist.

As in previous years, rehabilitation to maintain working capacity was carried out in cooperation with workplaces, the Social Insurance Institution of Finland and Avire Oy. In 2013, a total of three rehabilitation courses customised to the requirements of specific jobs began, with 10 participants selected by occupational health care in each. The courses targeted office workers, pursers and Technical Services employees.

As the company has implemented particularly substantial structural changes over the past few years, redundancies, layoffs and other changes have been unavoidable. Finnair Health Services has supported employees, work communities and supervisors in coping with these changes. Support has been actively offered to individual laid-off employees and work communities to help them identify coping strategies and find a new direction in life. Occupational health physicians and nurses have been responsible for group and individual-level support measures related to the structural changes in their respective areas of responsibility.

Occupational health care services have engaged in student cooperation with Metropolia University of Applied Sciences and, in 2013, this cooperation resulted in three health events aimed at employees. In spring 2013, a two-day health event was implemented for technical services personnel in cooperation with graduating nursing students with the theme "Maintenance for the Man", and in October a one-day health event was organised for ground service personnel and a one-day Cancer Prevention event was organised as part of the Pink Ribbon campaign. The event was implemented in cooperation with the Cancer Society of Finland.

#### Wellbeing-at-work program

The principles of Finnair's wellbeing-at-work program for the period 2011–2015 apply to all business units and their employees. The aim of the program is to promote the effectiveness and functionality of the work community and to ensure the wellbeing of personnel through all career stages. The program 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.

The members of the wellbeing-at-work steering group in 2013 were the Director of Finnair Health Services,

Finnair's Head of Occupational Safety, Finnair Cargo's HR manager and the group's director in charge of human resource development. The steering group met 10 times in 2013.

#### Exercise program in 2013

As in the previous year, in 2013, Finnair focused on increasing the day-to-day activity of employees whose exercise habits were below current recommendations. The exercise program was designed and implemented in cooperation between the UKK Institute, UKK Health Services and Finnair Health Services. The effect of the six-month exercise program on the participants' day-to-day activity and fitness variables will be evaluated, and the project's final report and effectiveness analysis will be completed in early 2014. In 2013, a total of 60 Finnair employees participated in the project.

Three THROTTLE fitness groups were launched in 2013, two with a focus on exercise and one with a focus on weight management. The programs were implemented in cooperation with Finnair's partner Avire Oy and with support from the Social Insurance Institution of Finland. A total of 47 Finnair employees participated in THROTTLE fitness groups.

Finnair also implemented a new form of support for exercise in 2013: CREW and TEAM exercise allowances. These discretionary allowances were directed at group exercise. FINNAIR TEAM exercise allowance is intended for the promotion of work community development, well-being and communality. Both allowances are granted in part or in full based on separate applications and are available to all employees. The TEAM allowance can be used to fund exercise activities—for example, in conjunction with team development days—while the CREW allowance can be used to fund various events, such as marathons and other mass sporting events. In 2013, Finnair employees used the CREW allowance to participate in the Yritysmaraton 2013 (Company Marathon 2013) event, the Midnight Run event and the Pink Ribbon run. More than 300 Finnair employees benefited from the allowance in 2013.

On 29 July 2013, Finnair opened a modern fitness centre available to all employees at its new HOTT office building. Going forward, instructor-led group exercise classes will be organised in the fitness centre's group exercise room.

**Workshops to support change management**

Finnair's most important personnel development project in 2013 was Network, which combines the development of well-being at work, managerial work and change management at the team level. Network is comprised of sets of three workshops led by Finnair managers and supervisors, internal facilitators and external experts. The workshop themes are leadership, well-being and change. They introduce team supervisors to practical methods for promoting well-being and change as a project that involves all team members. In the first phase of Network in autumn 2013, workshops were organised for the employees who moved to Finnair's new head office, HOTT, comprising approximately 800 employees and their 93 supervisors. The project will continue in these teams in spring 2014, and the Network operating models will also be applied in other areas of the Finnair organisation. The monitoring of the project is based on indicators regularly used by Finnair, complemented by project-specific questions and external reference material (Aalto University CityWorkLife study).

## LA9

### 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 personnel and the employer.

The development of occupational health and safety is based on the occupational health and safety action plan, the focal areas of which are updated annually.

The focal areas in 2013 were:

- Assessing the current status of occupational safety and planning the further development of operations on the basis of the assessment
- Establishing specific operating methods
- An operating model for preventing inappropriate conduct and harassment
- Early intervention operating model
- Developing and compiling statistics on accidents and hazardous situations and the way such cases are investigated
- Further increasing awareness of 3T (a system for reporting hazardous situations, accidents and damage to property and the environment)
- Harmonising processes used in hazard identification and risk assessment procedures as well as workplace risk assessments.
- Developing shared occupational safety practices for workplaces, occupational safety perspectives of subcontracting chains and supplier networks
- Including occupational safety as part of normal supervisory and managerial work (materials, competence)
- Developing occupational safety training, induction training and communications

The current state of occupational safety was evaluated at the unit level. This was done by risk assessment surveys using 3T. Continued common development areas include harmonising occupational health and safety activities between units and the development of consistent statistical practices and reporting. The unit-specific development areas were related to, among other things, the need to revise and update risk assessments, developing supervisors' occupational safety expertise and improving communication with personnel. The actions were incorporated into the action plans for 2013 and 2014. The investigation of accidents and hazardous situations was highlighted as one area of development. The aim of the investigations is to identify the causes of accidents and hazardous situations to develop measures to prevent similar accidents in the future and to learn from accidents through the entire line organisation. The operating model created for accident investigations was developed in cooperation with personnel representatives. The investigation model improved the investigation of serious accidents by, among other things, developing reporting and the work of investigation teams. The development of reporting continues.

The development of shared occupational safety rules for workplaces continued in 2013 through cooperation between the various actors at the airport, but also by assessing and supporting the safety efforts of subcontractors and updating the relevant rules and procedures. The key cooperation partner was Finavia and the cooperation took place via a forum that Finnair's representatives also participated in.

As an aviation industry employer, Finnair actively develops 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. The working group promotes occupational safety, occupational health and safety cooperation and the development of working life in aviation industry workplaces. The themes of the working group in 2013 included, among other things, making the airport a safe workplace, producing and publishing an aviation industry occupational safety video, developing occupational safety training in the aviation industry and preventing violence in customer service.

- http://ttk.fi/toimialat/kuljetus_ja_logistiikka/ilmailuala

## LA10

### AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE BY EMPLOYEE CATEGORY

In 2013, Finnair provided training for its employees via the Finnair Aviation Academy amounting to 160853 student hours in total. Relative to company's total number of personnel, this corresponds to 31hours per employee. The figures do not include courses arranged within departments nor training provided by parties outside the company

| 2013 | employees | office staff | flight personnel | management | total |
|---|---|---|---|---|---|
| Student hours | 41,149 | 23,531 | 95,071 | 1,102 | **160,853** |
| Persons per personnel group | 1,005 | 1,690 | 2,382 | 106 | **5,183** |
| Average hours per person | 40.9 | 13.9 | 39.9 | 10.4 | **31** |

| | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Student hours | **160,853** | 145,753 | 203,899 | 117,156 |
| Average student hours per person | **31** | 22.9 | 27.3 | 15.4 |

## LA11

### PROGRAMS FOR SKILLS MANAGEMENT AND LIFELONG LEARNING THAT SUPPORT THE CONTINUED EMPLOYABILITY OF EMPLOYEES AND ASSIST THEM IN MANAGING CAREER ENDINGS

With the help of the Finnair Flight Academy (FFA), Finnair supports the development of personnel skills actively and by diverse means. Finnair Flight Academy provides personnel development programs in the areas of flight training, safety and service training, and technical services training.

The strategic competence development has been part of the Finnair Group's HR since the beginning of 2013. In 2013, the Human Resource Development (HRD) team implemented the following strategic competence development projects and training programs, among others:

**A. Development of managerial and supervisory work**

- Revised Manager Induction for all new supervisors
- Runway supervisor training for team supervisors
- Takeoff supervisor training for business management
- Management team development
- Mentoring pilot involving members of the Group's Executive Board acting as mentors
- Project competence: project manager certification, round 1
- Process competence: process training course (online course)
- Airline business competence – developing an online course
- Partnership management - training
- "Tekniikan uusi arki" supervisor training
  Supervisors in technical services each participated in a four-day intensive training event with the following themes:
  1. Strategy, changes in the operating environment and operating methods, and how to manage them
  2. Leadership at Finnair
  3. Administrative responsibilities
  4. Continuous development of operations
  5. Managerial communication

**B. Customised personnel development solutions and projects**

- Change management and personnel competence development under the AJB (Atlantic Joint Business) project
- "Tekniikan uusi arki" workshops for all technical services personnel. A total of 599 employees participated in three three-hour workshops each. The aim of the workshops is for the group to learn to independently assess and develop its performance and working methods. They encourage work communities to take responsibility and initiative in development activities, and motivates each employee to generate ideas on how to develop their own work.

  The themes of the workshops were:
  1. Historical development of work
  2. Describing and analysing the Finnair Technical Operations operating system
  3. Development ideas and their analysis and prioritisation
- Global sales skills training – revised sales training
- Sales Motivator program for cabin crew
- Travel Retail sales training

**C. Team development and coaching**

- Individual coaching programs for key individuals
- Network project to provide tools for supervisors and teams to implement changes in the spirit of responsibility and to discuss rules and procedures when working methods are revised.

**D. Professional competence development and induction training**

- WeWin induction training for new recruits
- The permanent themes include making the airport a safe workplace, developing occupational safety training in the aviation industry, occupational health awareness for supervisors, and occupational safety card training.
- Other professional training organised in 2013 included driver training for Ground Customer Service and Cargo, outstation training, first aid and emergency training, recurrent training, systems training and cooperation with educational institutes.

Personnel development is strategy-oriented and it utilises, in addition to traditional classroom training, e-learning, job rotation, on the job training, coaching and mentoring. Training and development needs are collected and analysed in the company's various business units and subsidiaries as well as at the departmental and individual level as part of the personnel planning process and in conjunction with performance and development reviews.

The new flight training solutions of Finnair Flight Academy (FFA) emphasise the benefits of economical flying. Their aim is to reduce operative costs, improve training models and reduce emissions. The International Air Transport Association (IATA) has estimated that inefficient operational models increase operational costs by as much as 2–8 per cent. The Reverse Green™ training module covers all areas of flying that have an effect on overall economy in relation to skills and attitude. The Fit to Fly™ recurrent training program offers the same elements in annual training sessions. Multifly™, organised in collaboration with Patria Pilot Training, provides newly qualified pilots with extensive skills in economical flying, also in the challenging Nordic conditions. FFA has also continuously developed new online learning solutions that open up new pedagogic opportunities for the implementation of competence throughout the organisation.

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 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).

## LA13

### COMPOSITION OF GOVERNANCE BODIES AND BREAKDOWN OF EMPLOYEES PER CATEGORY BY GENDER, AGE GROUP, MINORITY GROUP MEMBERSHIP AND OTHER INDICATORS OF DIVERSITY

At the end of 2013, 55 per cent of Finnair's personnel were women and 45 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 2013 was 44 years. Of the personnel, 30 per cent were over 50 years of age, while four per cent were under 30 years of age. The employees' average number of years in service was 17. Employees who have worked for Finnair for over 20 years account for 40 per cent of personnel, while 10 per cent have worked for Finnair for over 30 years. Finnair does not maintain statistics on ethnic minorities.

**All personnel**

| Gender structure | % |
|---|---|
| Women (%) | 55 |
| Men (%) | 45 |

| Age structure | years |
|---|---|
| Under 30 years old | 5 |
| 30-50-year-olds | 65 |
| Over 50 years old | 30 |

**Senior management (assistant directors, department directors, Executive Board)**

| Gender structure | % |
|---|---|
| Women (%) | 31 |
| Men (%) | 69 |

| Age structure | years |
|---|---|
| Under 30 years old | 1 |
| 30-50-year-olds | 68 |
| Over 50 years old | 31 |

# Society

## Finnair in the world

Aviation is such an integral part of modern life that it's too difficult to contemplate how the world would be without it. Unravelling the tapestry of international trade, communications and culture woven by commercial aviation, both passenger and cargo, is both impossible. But it's worth taking a closer look at the patterns in that tapestry to take stock of its significance and be aware of our own place in society.

## Connecting Finns

Like any business, aviation has its positive and negative external impacts. The positives are easy to list, if not always easy to quantify. Finnair, like many airlines, recognises its own responsibility to identify and mitigate the most obvious negatives, including noise pollution and greenhouse gas emissions. But we also need to understand the wider picture of how our operations affect the communities where we operate – and to act accordingly.

Finnair's home country clearly benefits from the infrastructure value of connections between cities and markets, internally and externally. Finland is a small country in terms of population but relatively big in European terms. Residents of towns and cities in northern Finland have grown accustomed to air connections with the capital region a thousand kilometres or so to the south. These domestic connections

*Strategic* PRIORITIES:

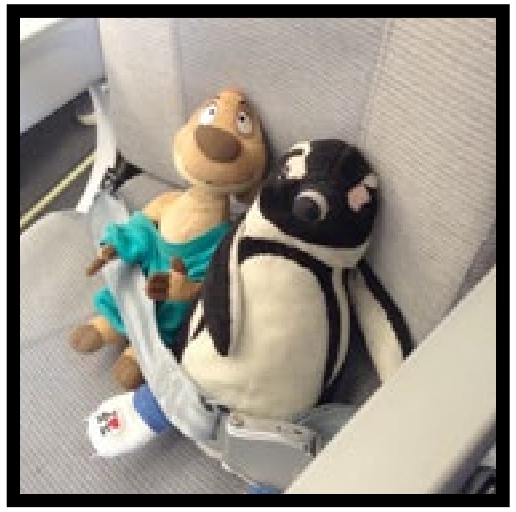
Profitable growth,
Cost competitiveness.

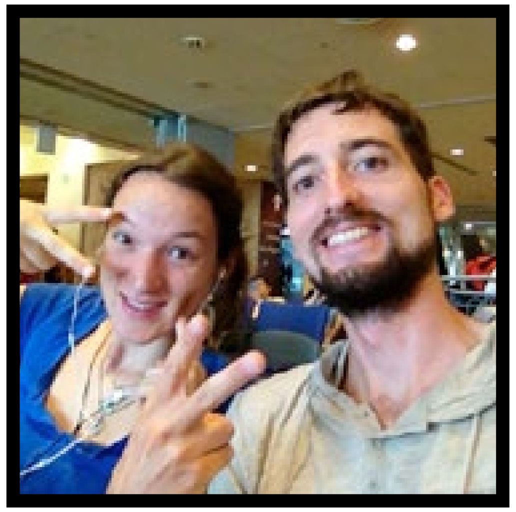
*Megatrends* AFFECTING OPERATIONS:

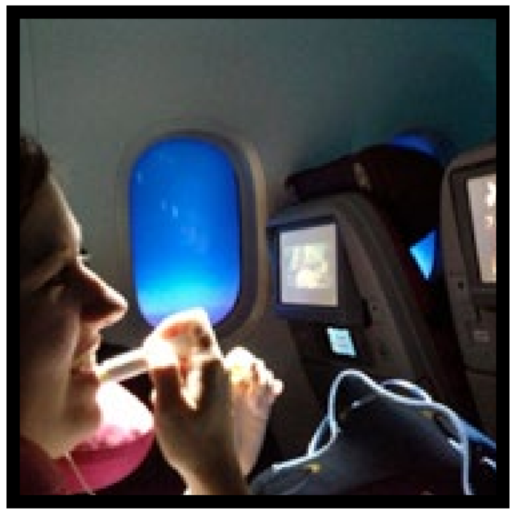
Shift in economic and geopolitical power,
Technological development,
Sustainability.

*GRI indicators* IN THIS SECTION:

HR7, SO1, SO5.



were pioneered by Finnair but are now also offered by other operators at fares comparable to – and sometimes even lower than – the state railways. Only commercial considerations determine where Finnair flies, however, and as the airline has grown, its focus and competence has largely shifted to connecting Helsinki to dozens of major economic centres in Europe and Asia.

As a result of the Asian strategy developed by Finnair and Finavia (the operator of Helsinki Airport) the Helsinki capital region, with a population of just over one million, is served by an airport that is significantly larger and more internationally connected than most airports for comparably-sized cities in the wider region. In 2013, for instance, more than 15 million passengers passed through Helsinki Airport while the figure for Gothenburg in Sweden was about 5 million and for Vilnius in Lithuania, 2.5 million. This difference is thanks to transfer traffic, which makes the majority of Helsinki's direct connections commercially possible.

## Northern light

On the face of it, Helsinki's northerly location on the geographical fringe of Europe seems like a disadvantage. But the Asian strategy has converted Finnish remoteness into an advantage by proving Helsinki's credentials as a highly credible, fast and uncongested hub for transfers between Europe and Asia.

In turn, this scenario has opened up opportunities for Finnish companies, facilitating more exports to more foreign markets, cutting long-distance transport costs and attracting more highly-skilled workers to the capital metropolitan area from other EU countries. There is a direct connection between the rise of aviation in Finland, the improved connectivity that it brings and a boost in annual GDP that can be measured in billions of euros. According to a 2012 report by Oxford Economics, aviation accounts for nearly 4 per cent of Finland's GDP.

This local scenario fits in with the global picture described by IATA's estimate that $6.4 trillion worth of goods travel by air – or 35 per cent of all world trade by value. Moreover, Finnair has played a direct role in making it easier for Asians from Singapore to Delhi and from Hong Kong to Tokyo to travel to more than 40 European countries. Boosted by the 80-plus weekly departures from Helsinki to Asian destinations, the great cities of Asia are likewise within easy reach for Finnish and northern European travellers.

Finland's example shows how aviation plays a key and leading role in a modern, advanced economy. For a small country and in a global context, Finland's economic, technological and cultural development has been exceptionally agile and the connectivity that comes with aviation can take a share of the credit for this. Commercially, Finnish businesses have been able to keep pace with increased globalisation because of the fast supply chains and sophisticated logistics made possible by frequent and reliable air services.

## Looking outward

Founded in 1923, just six years after Finland gained independence, Finnair has a history that runs in parallel to and is closely linked with that of its home country. While its business landscape has become furiously competitive, the Finnair brand maintains an emotional connection with the Finnish population and society. While Finland remains Finnair's largest single market,  the majority of its sales are secured outside the country. As the company grows it therefore must be ever more international and outward looking.


Good relations and proactive openness with stakeholders are essential for our license to operate.

Finnair's confidence in its ability to grow and achieve its strategic goals is based on the relationships built up between Finnair and its numerous stakeholders, from customers and employees to regulators and other authorities throughout its route network. As the first European airline to fly nonstop to destinations such as Tokyo, Beijing, Chongqing and Xi'an, the airline believes in nurturing and sustaining positive long-term relationships with the communities it serves. Good relations and proactive openness – particularly on issues relating to safety and the environment – are essential for Finnair to retain its "license to operate."

### Climate change: To measure is to know

A major component of Finnair's stakeholder engagement activities is its participation in the Carbon Disclosure Project, the world's only global environmental disclosure system. Finnair is a leader in the quality of climate change data submitted to the global marketplace through the CDP, a status which was confirmed in the CDP Nordic 260 Climate Change Report 2013. The report tracks how the world's largest listed companies act in response to climate change. For the 2nd consecutive year, in 2013 Finnair achieved a position in CDP's Nordic 260 Climate Disclosure Leadership Index (CDLI). Compiled by First Carbon Solutions on behalf of CDP, this index highlights companies listed on the Nordic stock exchanges that have displayed a strong approach to the disclosure of climate change information. Finnair's score in 2013 was 96, improving on its 2012 score of 92. Companies are scored out of 100 on the completeness and standard of their submissions, completed at the request of 722 investors representing $87 trillion in assets.

Airline customers in an increasingly discerning and well-informed global society demand transparency and concrete action of this kind. They prove that a demonstrable policy of corporate responsibility is an advantage for the whole spectrum of stakeholders, from shareholders who seek greater profitability to local communities that seek affluence from a global economy with the lowest possible cost to the environment.

## Changes for good

Finnair also demonstrates its commitment to corporate responsibility in philanthropic actions that are not immediately central to its business operations but no less significant. The most conspicuous example has been the annual cooperation with UNICEF in the form of the Christmas Change for Good campaign, inviting passengers to contribute change of any currency using envelopes distributed on aircraft. Finnair Plus members have also been able to contribute Plus Points to the campaign all year round.

By the end of 2013, Finnair's various Change for Good campaigns had collected about 1.1 million euros since 1994, benefitting a number of good causes from sanitation and hygiene for the children of Bihar in India to the Schools for Asia program in the latest campaign. Vietnam, Finnair's latest Asian destination country, is one of the target countries for Schools for Asia, supporting work to improve the education prospects of children in remote locations and belonging to ethnic minority groups. Cooperation with UNICEF is set to continue in the form of a new and innovative "pay per booking" option, devised with travel booking engine provider Amadeus and inviting contributions from customers as they book their tickets online.

Through Plus Point donations, Finnair and its customers also support the Finnish Association for Nature Conservation's reforestation projects in Madagascar, the Pink Ribbon breast cancer research campaign, and the Association of Friends of the University Children's Hospital in Helsinki.

The emphasis in all these cooperation activities with NGOs is always on partnership. Finnair believes in more than just philanthropy, but in working together to create social and economic value. That is the basis for building enduring, positive relationships.

## A global solution to climate change

Finnair recognises its responsibility to account for and reduce its carbon footprint, and 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. A market-based measure is essential to IATA's goal of achieving carbon-neutral growth in the aviation sector and ultimately in the interest of all countries and airlines. Such a measure has proved difficult to agree on, however, as the diverse nations with diverse interests in the UN's ICAO – the global governing body for civil aviation – have been unable to find common ground.

This finally changed in September 2013 during ICAO's 38th Assembly, when the organisation reached a landmark agreement committing member states to developing a global market-based measure by 2020. In the meantime, the agreement also calls for member states to avoid creating or implementing their own emissions offsetting schemes without multilateral agreement with the states affected by such schemes.

Prior to the agreement, the EU had begun applying its Emissions Trading Scheme to European aviation, while "stopping the clock" on applying the scheme to foreign operators taking off or landing in the EU as well, at least while work at ICAO was underway. It is not yet clear now whether the EU intends to ultimately apply its offsetting scheme to all airlines using its airspace, only to European carriers operating routes entirely within Europe, or indeed cease applying the scheme to aviation entirely. The prospect of the EU carrying out its own offsetting scheme on foreign carriers has prompted sharp opposition in other countries, particularly China, Russia, India and the United States. In the aviation industry's view, it will also likely distort competition and promote "carbon leakage" whereby carriers fly longer (and thus more CO2-emitting) routes in order to avoid EU airspace.

As ICAO now proceeds with work to design and eventually implement the global market-based measure to control emissions, Finnair hopes that consensus can be found within Europe on action that best supports that global process.

# STAKEHOLDER ENGAGEMENT

## How Finnair communicates and cooperates with stakeholders

| | Subjects | Channels |
|---|---|---|
| Customers | The travel experience, customer service issues, product quality, on time performance, emissions and noise reduction, safety, recycling, responsible tourism, charity and corporate responsibility projects via Finnair Plus. | Surveys, research, written feedback, Finnair websites, social media, customer events, Blue Wings magazine, customer service encounters at every stage of the journey. |
| Personnel | Occupational health and wellbeing at work, target setting, Code of Conduct and ethical issues, changes to improve productivity, increasing trust, reducing environmental impact on the job, career assistance for employees made redundant. | Personnel magazine, intranet, internal blogs, theme weeks, personnel events, 4D Wellbeing At Work survey, occupational health unit, performance dialogue sessions, discussions with labour organisations, Career Gate. |
| Shareholders and investors | Market environment and competitive landscape, company's operations, goals, strategy and financial position. | Stock exchange bulletins of periodic and on-going information regarding financial development including interim reports, financial statements, report of the Board of Directors and Corporate Governance Statement; other, non-periodic stock exchange bulletins; Annual General Meeting; investor, analyst and media meetings and events; corporate website; Carbon Disclosure Project. |
| Aviation sector | Safety, emissions reduction, emissions trading, air traffic management, biofuel supply chain development, sustainable tourism, economic impact of sector. | Membership in IATA and AEA; membership in STLN for sustainable tourism; oneworld alliance member; cooperation with Finavia and other airport operators; sector seminars and working groups; manufacturers. |
| Authorities and government | Safety, emissions trading, air traffic management, supply chain responsibility, economic contributions of aviation, impact of operations on environment and noise, traffic continuity, biofuels, employee relations. | Dialogue with Finnish and foreign authorities and governments; events and other cooperation with Finnish Consumer Agency, Flight Safety Authority (TraFi), embassies and other relevant Finnish and foreign actors. |
| NGOs and companies with sustainability approach | Greenhouse gas emissions reduction, environmental remediation, public health measures, disaster relief, wildlife protection, common interest projects for sustainability and development cooperation, supply chain responsibility. | Cooperation with Finnish Association for Nature Conservation, Baltic Sea Action Group, UNICEF, Finnish Red Cross and other NGOs. Member of the Carbon Disclosure Project. Partnerships with sustainable design firms such as Tikau, U6 and GlobeHope. |
| Suppliers | Cooperation efforts to reduce emissions and other environmental impacts, monitoring of responsibility everywhere in the value chain. | Contractual cooperation, Finnair procurement guidelines and Supplier Code of Conduct, extranet. |
| Media | Company strategy and business, emissions reduction, personnel relations, financial sustainability, economic contributions of aviation, ethics, charitable cooperation projects, trends in traffic, biofuels, emission trading, noise, impact of aviation on local economy and mobility. | Press releases, press conferences, visits by reporters, press trips, interviews, websites, media desk, social media, Blue Wings magazine. |
| General public | Customer service, product quality, labour relations, economic contributions of aviation, ethics, emissions reduction, presence in local economies, charitable cooperation projects, corporate citizenship. | Communications via media, websites, e-mail and lectures; social media including blogs, Facebook, Twitter and Sina Weibo. |

# SOCIAL INDICATORS

## HR7

### OPERATIONS IDENTIFIED AS HAVING SIGNIFICANT RISK FOR INCIDENTS OF FORCED OR COMPULSORY LABOUR, AND MEASURES TAKEN TO CONTRIBUTE TO THE ELIMINATION OF FORCED OR COMPULSORY LABOUR

Finnair does not approve of the use of forced labour in any part of its value chain. With respect to the aviation industry, the company has not identified any risk for incidents of forced labour. This is a consequence both of the general nature of the industry and the strict official regulation and supervision of the industry. Nevertheless, the aviation industry and Finnair's operations do interact with global sectors in which the use of forced labour cannot be excluded. The textile industry is one such sector. Finnair's uniforms and workwear are acquired from suppliers that have addressed ethical issues in their own operations.

## SO1

### NATURE, SCOPE AND EFFECTIVENESS OF ANY PROGRAMS AND PRACTICES THAT ASSESS AND MANAGE THE IMPACTS OF OPERATIONS ON COMMUNITIES, INCLUDING ENTERING, OPERATING AND EXITING

As a company, Finnair is not deemed to have a significant direct impact on local communities outside Finland. For this reason, no programs relating to the assessment and management of the impacts of operations on local communities have been considered necessary.

However, Finnair recognises that the tourism industry has significant impacts on local communities around the world. Of Finnair's subsidiaries, the tour operator Aurinkomatkat-Suntours and the travel agencies Area Oy and Finland Travel Bureau Ltd, in particular, occupy a special position in respect of their opportunities for influence in this field. In 2010, Finnair joined the international Sustainable Travel Leadership Network, which promotes sustainable tourism. Finnair and the tour operators and travel agencies belonging to it have signed the Helsinki Declaration, which aims to promote sustainable tourism.

Aurinkomatkat-Suntours has also selected local recipients of support at various destinations to give customers a concrete opportunity to support local residents. This policy has been successful in providing support to those in need.

#### Mayan child project

Aurinkomatkat-Suntours participates in the Juntos Calentermos el Invierno project together with dolphin excursion organiser Delphinus and a local representative, Hotelbeds Playa del Carmen, in Mexico.

The purpose of the project is to collect toys and warm clothing in partnership with the local DIF aid organisation for poor Mayan children living in palm leaf huts. Temperatures in the region can be as low as 6 degrees Celsius. Aurinkomatkat-Suntours communicates information on the project to customers prior to their travel date to give them the opportunity to pack warm clothing or school supplies to give to the local children.

#### Phuket children project

Aurinkomatkat-Suntours participates in a project to help local children in Phuket in partnership with its long-term partner, the English-Thai company Siam Safari Nature Tours. The project helps children from low-income rural families in schools and orphanages on the outskirts of Phuket. Customers are informed of the project before their travel date to give them the opportunity to pack clean used clothing, toys and notebooks suitable for children aged 4-16.

#### Helping poor children in Langkawi

Aurinkomatkat-Suntours supports a local charitable organisation in Langkawi. The organisation was established to help in the daily lives of local low-income families. The efforts to improve their daily living conditions include food donations, helping families with children's school fees and training women to earn additional income through activities such as making textiles and handicrafts. Interested customers are invited to participate by bringing clothing and toys for local children. Multivitamin tablets for children are also much needed. On location, Aurinkomatkat-Suntours guides sell small cookbooks featuring recipes from this multicultural country. Customers can also make a small cash donation at the destination to help local families in their daily lives. Further information is available at www.langkawicharity.com

#### LINKS (IN FINNISH):

- http://www.aurinkomatkat.fi/hyva-tietaa/hotellit/hotelliluokitus
- http://www.smal.fi/index.php?402
  (Helsinki Declaration)
- http://www.sustainabletravelinternational.org/
  (an international cooperation network for sustainable travel in which Finnair is involved)

## SO5

### PUBLIC POLICY POSITIONS AND PARTICIPATION IN PUBLIC POLICY DEVELOPMENT AND LOBBYING

Finnair monitors the political operating environment of the aviation industry and openly participates in discussion on industry regulation. The objectives of Finnair's advocacy work are to anticipate regulation that applies to the company, as well as to influence such regulations in a fair and transparent manner. In order to optimally allocate our resources, our advocacy work is focused on promoting our most important goals at the national and international levels.

Finnair's key societal stakeholders are ministries of transportation and civil aviation authorities. Finnair representatives participate in legislative and industry-related hearings in the Finnish Parliament and in government ministries and also otherwise meet with policymakers to discuss regulation that affects its business.

Finnair's most important advocacy targets are regulations that have an impact on traffic rights, cost factors and international trade relationships.

Restricted air traffic rights are defined by air transport agreements between countries or groups of countries. As Finnair aims to provide its customers with the most direct and comprehensive routes between Europe and key Asian destinations, the company cooperates with the authorities to secure rights to scheduled flights in Southeast Asia and overflight rights in Russia.

Finnair's advocacy work related to cost factors is primarily focused on labour market policy, consumer law and environmental policy. EU emissions trading, which started in 2012, extends to air traffic and is a significant issue for Finnair, which operates in and from the EU area. Finnair engages in advocacy work to achieve a global emissions trading agreement for air transport instead of regional systems.

Finnair cooperates with various associations and chambers of commerce in the majority of its advocacy work pertaining to regulations on civil aviation and economic activity. Finnair is actively involved not only in international aviation industry organisations such as AEA and IATA, but also the Confederation of Finnish Industries, its industry organisations and several chambers of commerce in key operating countries.

## Finnair is commited to UN initiatives

2013 Finnair joined United Nations Global Compact, a corporate responsibility initiative that comprises more than 8,000 businesses around the world. The project was proposed by Kofi Annan, then Secretary General of the UN, in 1999 and launched the following year. Participating businesses agree to make human rights, fair labour standards, environmental responsibility and anti-corruption core parts of their operations, and communicate with stakeholders on their efforts to implement the Global Compact's ten principles.

In 2011 Finnair has also signed the United Nations Women's Empowerment Principles. The Principles gives guidance on the empowerment of women in the workplace, marketplace and community.

The Women's Empowerment Principles are the result of a collaboration between the United Nations Development Fund for Women (UNIFEM, part of UN Women) and the United Nations Global Compact.

The Principles emphasize corporates to promote gender equality and women's empowerment. The Women's Empowerment Principles seek to point the way to best practice by elaborating the gender dimension of good corporate citizenship, the UN Global Compact, and business' role in sustainable development.

THE GLOBAL COMPACT
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

# Finance

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. Finnair's financial performance 2013 is described in the Board of Directors Report, Financial Statements and Financial indicators available in this section. Economic responsibility is discussed under management principles in the Governance section of this report.



*Strategic* PRIORITIES:
Profitable growth,
Cost competitiveness

*Megatrends* AFFECTING OPERATIONS:
Shift in economic and geopolitical power,
Technological development,
Sustainability

*GRI indicators* IN THIS SECTION:
EC1, EC2, EC3, EC4, EC6, EC9

# THE REPORT OF THE BOARD OF DIRECTORS

## Business Environment

Global air traffic is currently undergoing a structural change, the typical characteristics of which are market liberalisation, increasing competition, overcapacity, consolidation, alliances and specialisation. European network carriers, Finnair included, continued to implement structural change and cost-reduction programs in 2013 to improve their competitiveness in the prevailing tight competitive situation. Capacity growth in the market was conservative. Various partnerships increased, especially in international long-haul traffic.

The demand for passenger traffic in Europe grew in 2013 despite many European countries still being in recession. Combined with the conservative stance airlines have taken towards increasing their capacity, this led to improved load factors. The weakness of the Finnish economy was reflected in home market demand, especially in the second half of the year. Demand grew in passenger traffic between Asia and Europe but, at the same time, competition in this market increased as competitors launched new routes, particularly to Southeast Asia. Measured in passenger volume, the market for flights between Helsinki and Finnair's European destinations grew by 4.2 per cent, while the market between Finnair's Asian and European destinations grew by 1.8 per cent.* Finnair was successful in increasing its market share in both traffic areas.* Unit revenue was under pressure in passenger traffic.

The demand for leisure traffic developed positively in the first half of 2013 as industry operators adjusted their package tour supply to better match demand. However, the market took a turn in the summer as consumers' uncertainty regarding their own economic situation began to slow down sales and decrease market prices. All industry operators cancelled their winter season tours to Egypt due to unrest in the country, which was reflected in the volumes and revenues for the fourth quarter.

Cargo traffic continued to suffer from overcapacity and weak demand in 2013, which put average yields in traffic between Europe, the Nordic region and Asia under substantial pressure. High fuel prices also had a negative effect on the result for cargo traffic. However, there were early signs of a slight recovery in demand late in the year, especially in Asia.

The price of the largest individual cost factor of airlines, i.e. jet fuel, has stabilised at a high level, and the increase in fuel costs levelled out in 2013. The US dollar is a significant expense currency in Finnair's operations, while the Japanese yen is a significant income currency. The dollar-euro exchange rate remained fairly stable in 2013, but the yen depreciated substantially against the euro as a result of stimulus measures implemented by the Bank of Japan.

## Strategy implementation and partnerships

Finnair's vision is to be the number one airline in the Nordic region and the most desired option for travel between Asia and Europe. In addition, its aim is to double its revenue from Asian traffic by 2020, using 2010 as the point of reference.

Finnair continued to implement its growth strategy in 2013, launching new summer season routes in June to Xi'an in China and Hanoi in Vietnam. This increased the number of Finnair's Asian destinations to 13. The sales of the new routes were in line with expectations, and the company will continue flying to both cities in summer 2014.

At the beginning of July, Finnair increased its cooperation with fellow **one**world alliance members by joining the transatlantic joint business founded by American Airlines, British Airways and Iberia. The cooperation has started well and the first months of the transatlantic joint business were in line with expectations. In October, competition authorities approved the company's entry into the joint business established by Japan Airlines and British Airways for flights between Japan and Europe. Japan is one of Finnair's most important markets, and the joint business is expected to enter into effect in the first half of 2014.

The airlines participating in the joint businesses cooperate commercially by sharing revenue and by coordinating capacity, flight schedules and fares. The aim of the participating airlines is to improve the efficiency of their operations, expand their networks and provide the public travelling between Europe and Japan with improved intercontinental connections.

## Progress of the structural change and cost-reduction program

Finnair continued the implementation of its structural change and cost-reduction programs in 2013. During the first half of the year, the focus was on seeking cost reductions under the first program commenced in August 2011. The cost-reduction target of 140 million euros set for that program was achieved by the end of June 2013, six months ahead of schedule. Cost reductions have been systematically sought in several different categories, including fleet, aviation service, catering, sales, distribution and personnel costs.

The second cost-reduction program, with a target of 60 million euros, was announced in October 2012. In August 2013, Finnair stated that, as part of this cost-reduction program, it aims to reduce crew costs by approximately 35 million euros and technical services and customer service personnel costs by approximately 8 million euros. In the autumn, Finnair continued negotiations with personnel and their trade union representatives regarding the solutions and

* Finnair's estimate. The estimate is based on travel agencies' MIDT data and Finnair's estimates of airlines' own sales through their own sales channels, such as websites.

schedules for achieving these cost reduction targets. During the negotiations on new collective labour agreements, the trade unions representing Finnair's cabin crew, technical staff and ground handling personnel issued strike warnings. To prepare for the potential strikes and look after customers, Finnair had to significantly restrict its traffic in mid-November. Even if the strikes were avoided in the final stages of negotiations, the strike threat and later the support strike threats issued by labour unions caused uncertainty and harm to our passengers, and resulted in a considerable loss of turnover as well as additional costs from, for example, the rerouting of passengers.

The strikes were cancelled on 15 November 2013, as Finnair's employer union the Association of Support Service Industries (PALTA) reached an agreement with the Finnish Cabin Crew Union (SLSY) and The Finnish Aviation Union (IAU) on a new collective labour agreement in line with the national framework agreement, known as the Finnish Employment and Growth Pact, and also agreed on the schedule and processes of separate, company-specific negotiations related to Finnair's cost reductions. According to the agreement, Finnair and SLSY will negotiate on reaching the cost reductions necessary for Finnair by 28 April 2014. If cost reduction targets are met, cabin personnel will be protected from layoffs for two years. Corresponding negotiations with the IAU to reach a company-specific labour agreement for technical staff have progressed quite far, and these negotiations will continue. In addition, Finnair and the IAU will continue company-specific negotiations on labour agreements for ground handling personnel. In December, Finnair and the Finnish Air Line Pilots' Association (SLL) agreed on a new collective labour agreement in line with the national framework agreement, and also agreed that they will negotiate on reaching the cost reductions necessary for Finnair by 13 June 2014.

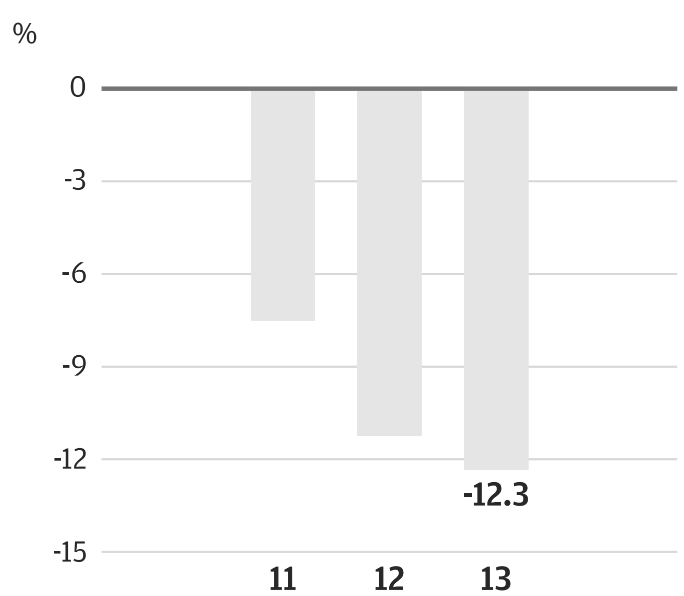
Finnair's objective in the negotiations is primarily to achieve a level of costs and wages that corresponds with market wages and costs in the industry, primarily by implementing changes to wage structures and working hours. Achieving the targets of the cost-reduction program is essential for improving the company's competitiveness, as high fuel prices, cost reduction measures taken by competitors, intensified competition and fleet investments in the coming years require a substantial improvement in profitability. The long-term return objective set for the company by Finnair's Board of Directors is an operating profit margin of six per cent.

Finnair continues to pursue savings in all of the first cost-reduction program's categories. As of the third quarter of 2013, Finnair has monitored the progress of its two cost-reduction programs combined. The combined total target is to reduce annual costs permanently by 200 million euros by the end of 2014. The point of reference for the cost reduction target is the company's unit cost level in 2010. By the end of 2013, Finnair had achieved a total cost reduction of 155 million euros, which was reflected in decreased air traffic unit costs in 2013. At the same time, the company has been able to move a substantial share of fixed costs to volume-based variable costs.

## Financial performance in 2013

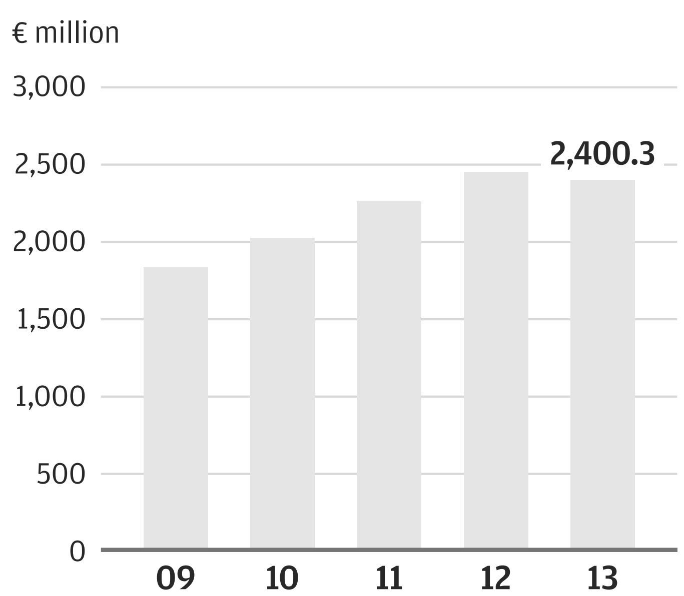
Finnair's turnover in 2013 declined by two per cent from 2012, totalling 2,400.3 million euros (2,449.4). Capacity grew by 2.6 per cent year-on-year. The main factor slowing down turnover growth was the fall in euro-denominated revenue due to the depreciation of the Japanese yen, but in the second half of the year the weaker-than-expected development of cargo and leisure traffic and lost turnover resulting from the strike threat also contributed to the decrease in turnover for the full year. Operational costs excluding fuel amounted to 1,736.6 million euros (1,758.4). Fuel costs, including hedging and costs incurred from emissions trading, increased slightly year-on-year and totalled 689.9 million euros (670.3). Personnel costs decreased by 10.6 per cent as a result of the implementation of structural changes, to 383.9 million euros (429.2), but part of the costs are now seen in the form of higher costs for outsourced catering and maintenance services. The euro-denominated operational costs were largely unchanged from the comparison year at 2,426.5 million euros (2,428.7), despite the increase in capacity. The operational result weakened substantially year-on-year and was -4.8 million euros (43.2).

**CASK ex. fuel development since 2010***




* 2010 figure adjusted for ash cloud and industrial actions.

**Turnover**



Finnair's income statement includes the change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves that took place during the period under review but will fall due later. This is an unrealised valuation result based on IFRS, where the result has no cash flow effect and which is not included in the operational result. The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 21.7 million euros (-4.0). Non-recurring items stood at -26.8 million euros (-27.6), with the majority being associated with the result of the employee consultations in technical services concluded in June. The non-recurring costs in 2012 were also primarily related to structural changes in technical services.

The operating result was -8.8 million euros (33.8). In April, Finnair sold its entire holding of shares in Norwegian Air Shuttle ASA and recorded a capital gain of 34 million euros as financial income. The result before taxes for 2013 was 10.1 million euros (14.8). The result after taxes was 11.0 million euros (10.5).

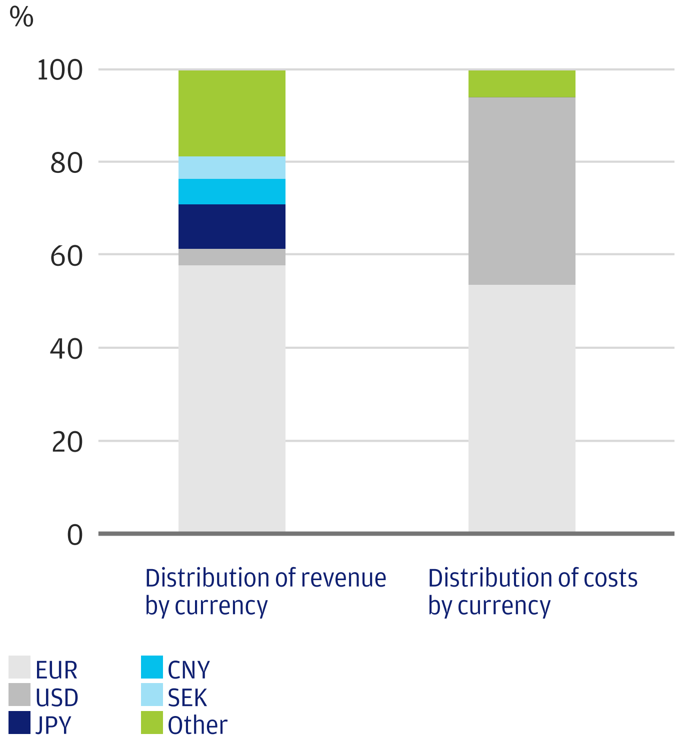
Unit revenue per available seat kilometre (RASK) declined, primarily due to the depreciation of the Japanese yen, by 3.8 per cent compared to 2012 and amounted to 6.24 euro cents (6.49). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 0.7 per cent year-on-year. Unit cost per available seat kilometre (CASK) decreased by 0.1 per cent and amounted to 6.57 euro cents (6.58). Unit cost excluding fuel (CASK excl. fuel) decreased by one per cent to 4.46 euro cents (4.50) as a result of good progress in the cost reduction program.

## Balance sheet on 31 December 2013

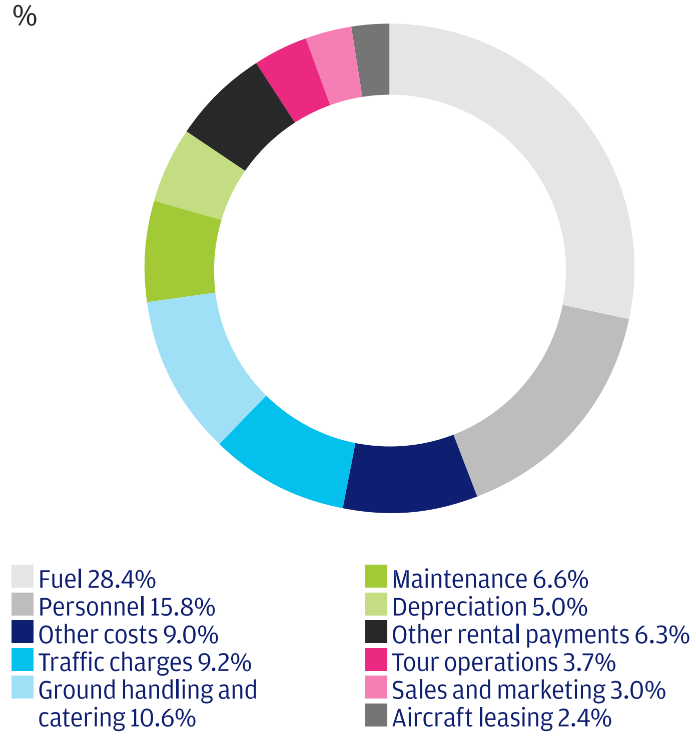
The Group's balance sheet totalled 2,200.6 million euros at the end of 2013 (2,231.3 million euros on 31 December 2012). Shareholders' equity totalled 691.8 million euros (775.3), which is 5.41 euros per share (6.06). Shareholders' equity decreased in 2013 primarily due to the repayment of the outstanding share of the hybrid bond issued in 2009.

Shareholders' equity includes a fair value reserve which is affected by changes in the fair val-

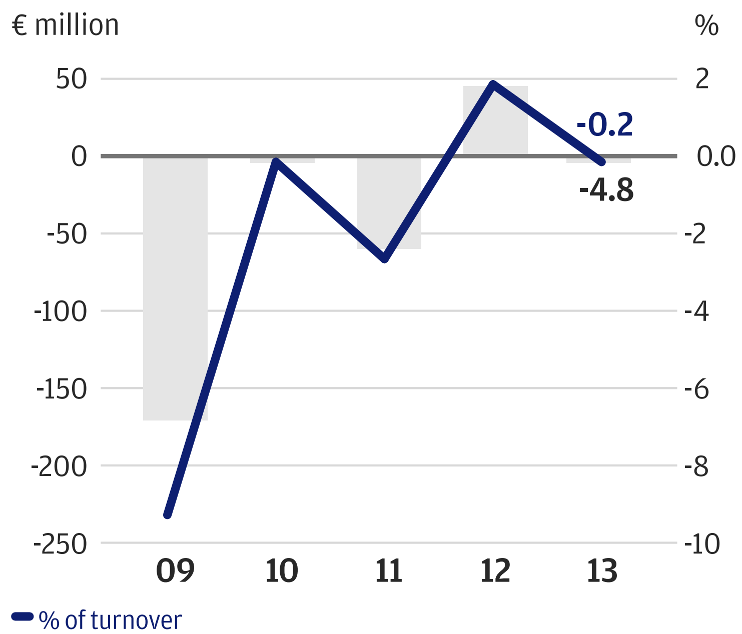
### Distribution of revenue and costs by currency in 2013




### Distribution of operating expenses € 2,426.5 million

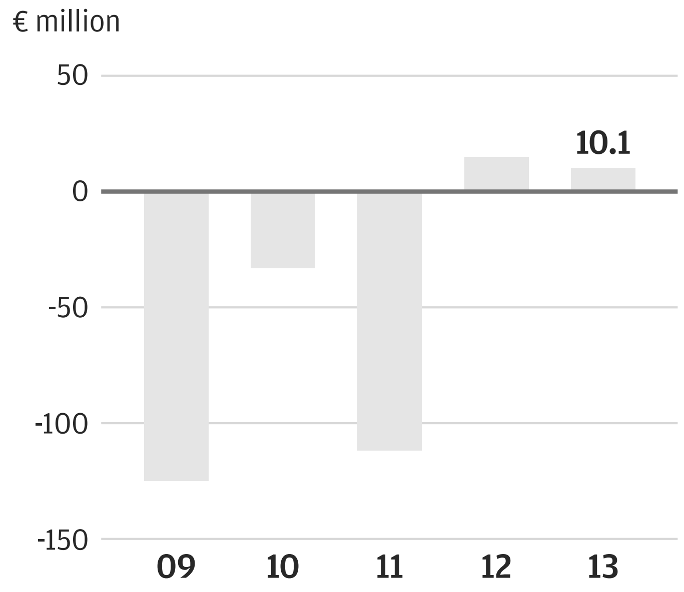



### Operational result, EBIT*




* Operating result excluding changes in the fair values of derivates and in the value of foreign currency denominated fleet maintenance reserves, non-recurring items and capital gains.

### Result before taxes



ues of oil and currency derivatives used for hedging as well as actuarial gains and losses related to defined benefit plans according to IAS 19. The value of the item at the end of 2013 was -14.7 million euros (0.3) after deferred taxes, and it is mainly comprised of actuarial losses.

## Cash flow and financial position in 2013

Finnair has a strong financial position, which supports business development and future investments. In 2013, net cash flow from operating activities amounted to 107.0 million euros (154.7) and net cash flow from investments totalled 16.1 million euros (-54.2).

The equity ratio was 32.0 per cent (35.4) and gearing was 19.5 per cent (18.0). The adjusted gearing was 77.6 per cent (77.8). At the end of the period under review, interest-bearing debt amounted to 593.0 million euros (569.0) and interest-bearing net debt stood at 134.2 million euros (138.4).

The company's liquidity remained strong in 2013. The Group's short term cash and cash equivalents in balance sheet amounted to 458.8 million euros (430.5) at the end of the period. In addition to the cash funds on the balance sheet, the Group has the option of re-borrowing employment pension fund reserves worth approximately 430 million euros from its employment pension insurance company. Drawing these reserves requires a bank guarantee. The Group's entirely unused 200 million euro syndicated credit agreement, which was intended as reserve funding, matured at the end of June. Finnair negotiated a new 180 million euro syndicated credit agreement that will mature in July 2016. The limit is currently unused.

In October, Finnair redeemed the outstanding share of 52.4 million euros of the hybrid bond issued in 2009. The original size of the hybrid bond issued in 2009 was 120 million euros and it was partly redeemed in November 2012. The size of the new hybrid loan issued by Finnair in November 2012 is 120 million euros. In August, Finnair issued a 150 million euro bond that will mature in five years. The bond pays an annual coupon of five per cent, and it was listed on NASDAQ OMX Helsinki Ltd on 2 September 2013.

Advance payments related to fixed asset investments totalled 66.0 million euros (32.7).

At the end of the year, 44.5 million euros of Finnair's short-term commercial paper program totalling 200 million euros were in use. Net cash flow from financing amounted to -47.4 million euros (-98.9). Financial expenses amounted to 19.7 million euros (-25.5) and financial income to 42.6 million euros (7.9). Financial income includes a capital gain of 34 million euros recorded on the sale of shares in Norwegian Air Shuttle ASA.

## Aircraft sale and leaseback agreements

Finnair's policy is to own approximately half of the fleet it operates. Various sources and instruments are used for fleet financing to ensure the lowest possible financing costs and the best possible operational flexibility and continuity.

In the second half of 2013, Finnair made sale and leaseback agreements on five new A321 Sharklet aircraft, two in September and three in December. In December, Finnair also signed memoranda of understanding on the sale and leaseback of four Finnair-owned Airbus 330 aircraft and two new Airbus 350 aircraft.

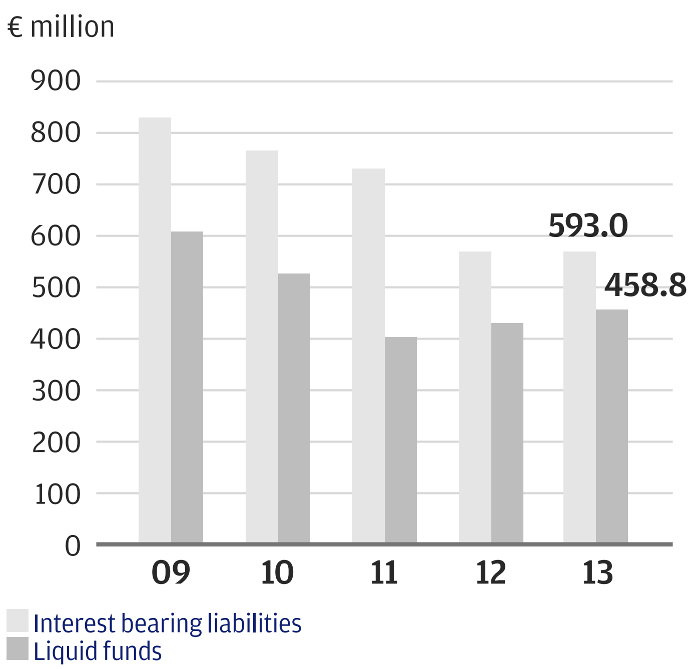
The agreements concerning new aircraft are expected to be concluded at the time of delivery in 2014–2015, while the agreements concerning A330 aircraft are expected to be concluded in the first half of 2014. The financing arrangements are part of the fleet renewal program, which involves transitioning from the current Airbus 340 and 330 fleet to the next-generation Airbus 350 aircraft. Arrangements associated with the fleet renewal program as a whole are not estimated to have a substantial effect on the company's result for 2014 and 2015.

## Capital expenditure

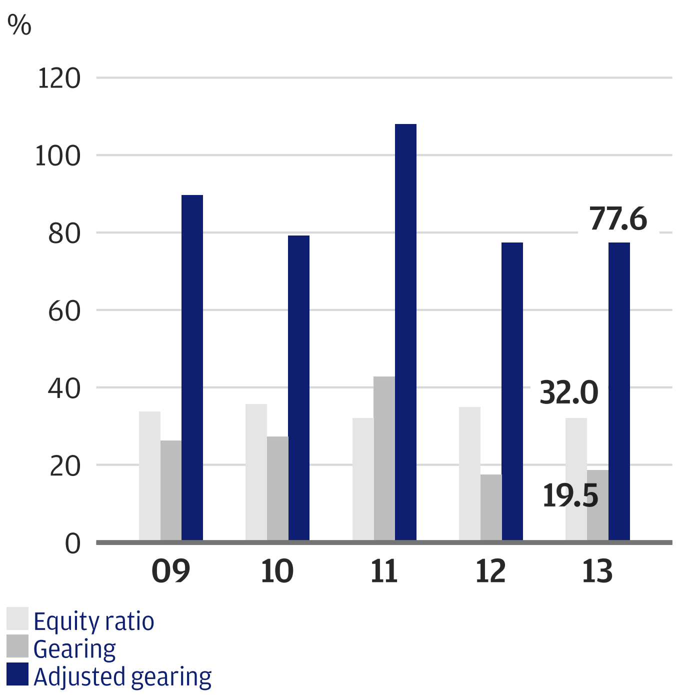
In 2013, capital expenditure, excluding advance payments, totalled 42.0 million euros (41.4) and was primarily related to one spare engine and the company's fleet. Capital expenditure for the full year 2014, including advance payments related to fixed assets, is estimated at approximately 133 million euros, with investments in the fleet representing a majority of this total.

The current state of the credit market and Finnair's good debt capacity enables the financing of future fixed-asset investments on competitive terms. The company has 36 unencum-

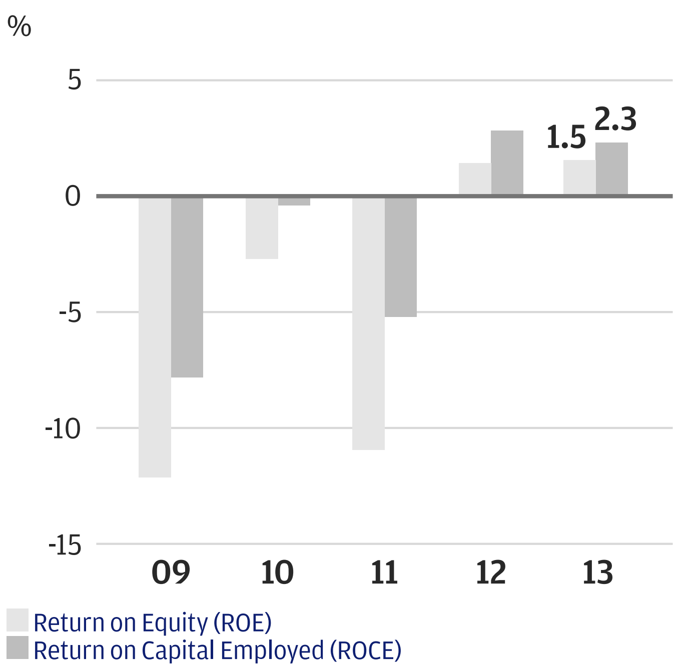
**Interest bearing liablities and liquid funds**



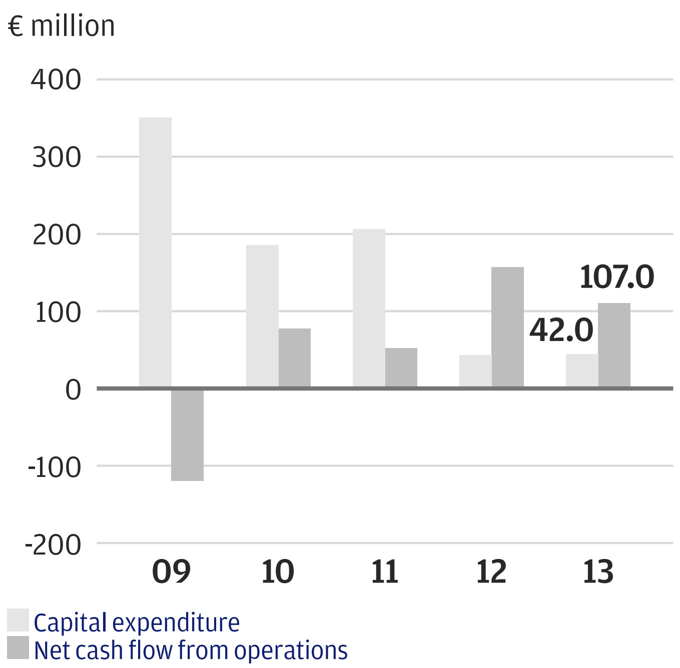

**Equity ratio, gearing and adjusted gearing**




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




**Capital expenditure and net cash flow from operations**




bered aircraft, the balance sheet value of which corresponds to approximately 47 per cent of the value of the entire fleet of 1.1 billion euros. The balance sheet value includes three finance lease aircraft.

## Fleet

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of 2013, Finnair itself operated 45 aircraft, of which 15 are widebody and 30 narrowbody aircraft. There were no changes to the size of Finnair's fleet in 2013. However, the composition of the fleet changed somewhat as Finnair received three new A321 Sharklet aircraft in the second half of the year and removed two Boeing 757 from the fleet as their leases expired. Finnair also removed from its fleet one Embraer 170 aircraft in the second quarter of the year, leasing the aircraft to an airline outside the Group.

The leases of the remaining two Boeing 757 aircraft will expire in the first half of 2014, at which time Finnair will take delivery of the last two Airbus A321 Sharklet aircraft. After this, the company will operate an all-Airbus fleet.

In addition to the aircraft operated by Finnair, its balance sheet includes 25 other aircraft owned by the company. These aircraft are operated by other airlines, mainly by Flybe Finland. The average age of the fleet operated by Finnair was 9.9 years at the end of the year and that of the Finnair owned fleet operated by other airlines 5.2 years. Finnair also has eight leased aircraft that it has subleased to be operated by other airlines.

### A350 AIRCRAFT

Finnair has an A350 XWB order book of 11 firm orders and eight options. Some of these aircraft will replace aircraft currently in use in long-haul traffic. Finnair estimates that the first four A350 XWB wide-body aircraft will be delivered and added to the fleet in the second half of 2015. The remaining seven aircraft are estimated to be delivered to Finnair by the end of 2017. Finnair is evaluating alternatives to minimise the effects that any possible delays in deliveries may have.

Finnair has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements with different durations.

| **Fleet operated by Finnair on 31.12.2013** | | | | Leased | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Seats | # | Own | (operational leasing) | (finance leasing) | Average age | Change from 31.12.2012 | Ordered | Add. options |
| **Narrow-body fleet** | | | | | | | | | |
| Airbus A319 | 138/123 | 9 | 7 | 2 | | 12.4 | | | |
| Airbus A320 | 165 | 10 | 6 | 4 | | 11.4 | | | |
| Airbus A321 | 209/196 | 9 | 4 | 5 | | 8.7 | +3 | 2 | |
| Boeing B757 | 227 | 2 | 0 | 2 | | 15.7 | -2 | | |
| Embraer 170 | 76 | 0 | | | | | -1 | | |
| **Wide-body fleet** | | | | | | | | | |
| Airbus A330 | 297/271/263 | 8 | 4 | 1 | 3 | 4.2 | | | |
| Airbus A340 | 270/269 | 7 | 5 | 2 | | 10.9 | | | |
| Airbus A350 | na. | | | | | | | 11 | 8 |
| **Total** | | **45** | **26** | **16** | **3** | **9.9** | **0** | **13** | **8** |

| **Fleet owned by Finnair and operated by other airlines on 31.12.2013*** | | | | Leased | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Seats | # | Own | (operational leasing) | (finance leasing) | Average age | Change from 31.12.2012 | Ordered | Add. options |
| ATR 72 | 68-72 | 12 | 12 | | | 4.4 | | | |
| Embraer 170 | 76 | 5 | 5 | | | 7.5 | +1 | | |
| Embraer 190 | 100 | 8 | 8 | | | 5.0 | | | |
| **Total** | | **25** | **25** | | | **5.2** | **+1** | **0** | **0** |

* All ATR aircraft, all E190 aircraft and two E170 aircraft have been leased to Flybe Nordic and three E170 aircraft to other parties outside the Group.

## Business area development in 2013

The segment reporting of 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, customer service and service concepts, flight operations and activity connected with the procurement and financing of aircraft. The Airline Business segment comprises the Commercial, Operations and Resources Management functions as well as the subsidiaries Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy, Finnair Flight Academy Oy and Finnair Aircraft Finance Oy.

| Key figures | 2013 | 2012 | Change % |
|---|---|---|---|
| **Turnover and result** | | | |
| Turnover, EUR million | 2,174.0 | 2,187.0 | -0.6 |
| Operating result, EBIT, EUR million | 24.8 | 30.2 | -17.8 |
| Operating result, % of turnover | 1.1 | 1.4 | -0.3%-p |
| **Personnel** | | | |
| Average number of employees | 3,619 | 3,660 | -1.1 |

| Traffic performance | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Passengers, thousands | 9,269 | 8,774 | 8,013 | 7,139 | 7,433 |
| Available Seat Kilometres, millions | 31,162 | 30,366 | 29,345 | 25,127 | 26,260 |
| Revenue Passenger Kilometres, millions | 24,776 | 23,563 | 21,498 | 19,222 | 19,934 |
| Passenger Load Factor, % | 79.5 | 77.6 | 73.3 | 76.5 | 75.9 |
| | | | | | |
| Cargo tonnes, 1,000 kg | 146,654 | 148,132 | 145,883 | 123,154 | 89,234 |
| Available Tonne Kilometres*, millions | 4,709.2 | 4,646.7 | 4,570.6 | 3,807.8 | 3,920.1 |
| Revenue Tonne Kilometres, millions | 3,107.4 | 3,029.0 | 2,823.5 | 2,471.2 | 2,297.7 |
| Overall Load Factor*, % | 66.0 | 65.2 | 61.8 | 64.9 | 58.6 |

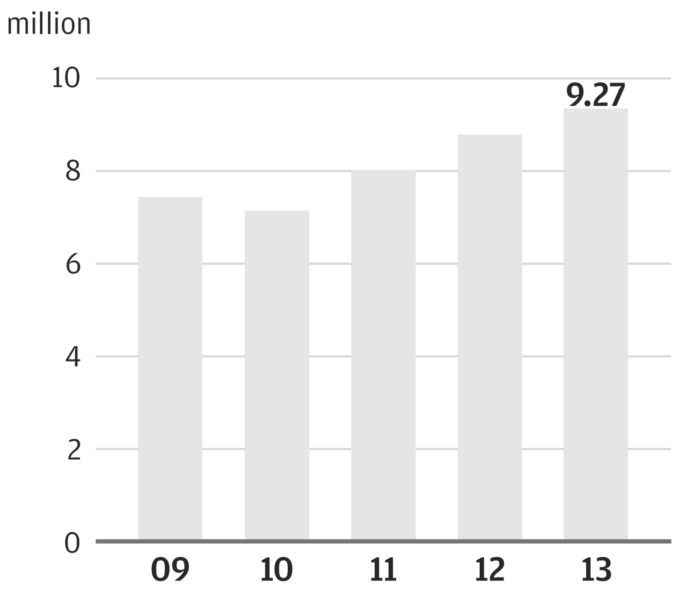
*Cargo ATK's for the year 2013 are restated due to more accurate metrics implemented in calculation.
- Available seat kilometres, ASK: Total number of seats available, multiplied by the number of kilometres flown.
- Revenue passenger kilometres, RPK: Number of revenue passengers carried, multiplied by kilometres flown.
- Passenger load factor: Share of revenue passenger kilometres of available seat kilometres.
- Available tonne kilometres, ATK: Number of tonnes of capacity for carriage of passengers, cargo and mail, multiplied by kilometres flown.
- Revenue tonne kilometres, RTK: Total revenue load consisting of passengers, cargo and mail, multiplied by kilometres flown.
- Overall load factor: Share of revenue tonne kilometres of available tonne kilometres.

The turnover of Airline Business in 2013 remained largely unchanged from the previous year and amounted to 2,174.0 million euros (2,187.0 in 2012). The main factor slowing down turnover growth was the fall in euro-denominated revenue due to the depreciation of the Japanese yen, but in the second half of the year the weaker-than-expected development of cargo and leisure traffic and lost turnover resulting from preparations for potential industrial action also contributed to the decrease in turnover for the full year. Operating profit totalled 24.8 million euros (30.2).

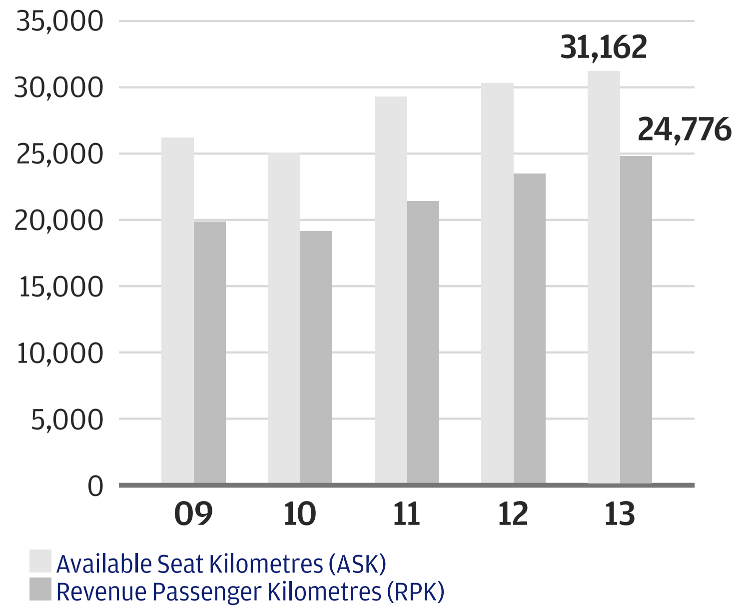
The demand for air travel grew in 2013 despite the weak economic situation. Finnair traffic measured in revenue passenger kilometres grew by 5.1 per cent, while total capacity increased by 2.6 per cent. The overall passenger load factor increased by 1.9 percentage points to 79.5 per cent.

Measured in revenue passenger kilometres, Asian traffic grew by 5.1 per cent in 2013, while capacity grew by 1.4 per cent. The load factor in Asian traffic rose by 2.8 percentage points to 80.3 per cent over the same period. Measured in revenue passenger kilometres, European traffic grew by 11.7 per cent and domestic traffic by 0.1 per cent on the comparison period. Load factors increased by 1.9 percentage points and 1.3 percentage points to 75.9 per cent and 64.8 per cent, respectively.

### Number of passengers




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



Finland, Japan, China and Sweden were Finnair's largest sales units in 2013. The weak situation in the Finnish economy was reflected in home market demand, especially in the second half of the year. Finnair's market share in the route pairs operated by the company in scheduled traffic between Asia and Europe increased to 5.7 per cent (5.5).* In scheduled traffic between Finland and Europe, Finnair's market share increased to 48.6 per cent (45.8), excluding Flybe operations.*

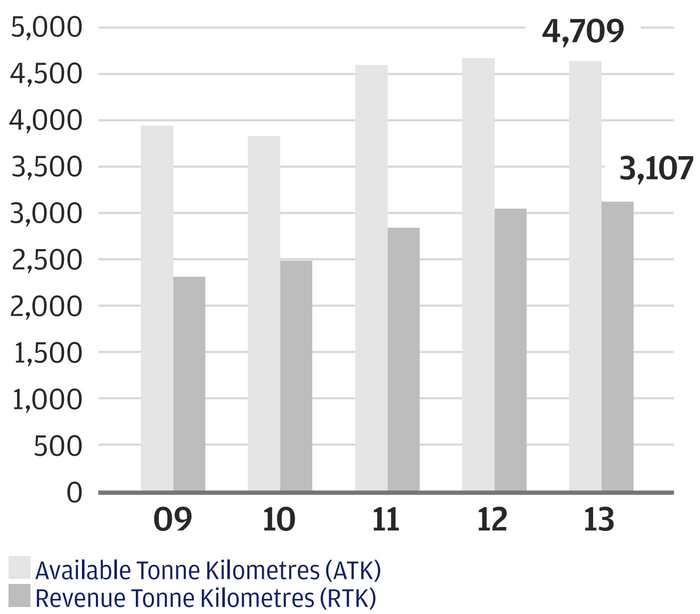
Approximately 768,000 passengers flew on Finnair's charter flights in 2013, down 5.6 per cent on the previous year. Leisure traffic capacity fell by 6.5 per cent in 2013, and the passenger load factor decreased by 0.3 percentage points to 88.3 per cent. Leisure traffic developed positively in the first half of the year. However, the market took a turn in the summer as consumers' uncertainty regarding their own economic situation began to slow down sales and decrease market prices. The decision made in August to cancel all tours to Egypt for the entire winter season due to civil unrest was reflected in the volumes and revenues for the fourth quarter.

Unit revenue per available seat kilometre (RASK) declined, primarily due to the depreciation of the Japanese yen, by 3.8 per cent compared to 2012 and amounted to 6.24 euro cents (6.49). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 0.7 per cent year-on-year.

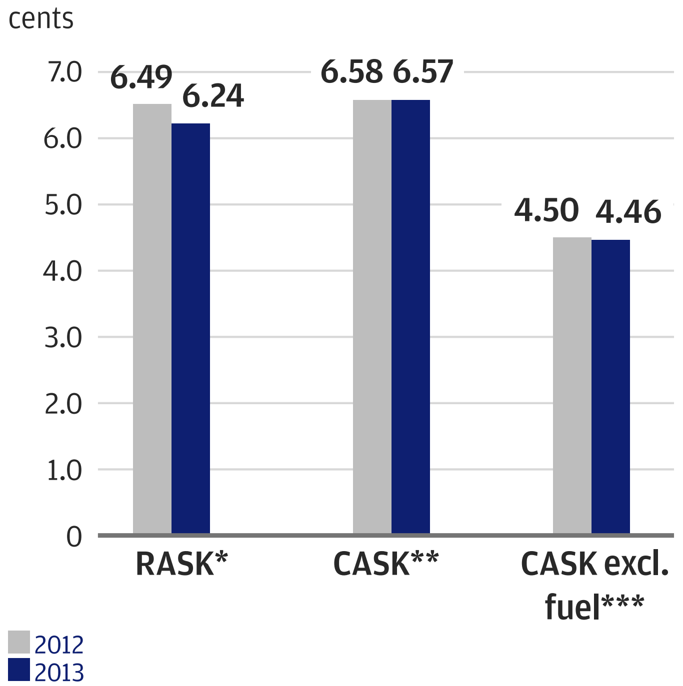
Cargo transported on scheduled flights (belly cargo) constitutes a significant proportion of the revenue from long-haul traffic. In 2013, belly cargo accounted for approximately 17 per cent of total long-haul revenue. The overall load factor in Finnair's cargo traffic improved by 0.8 percentage points to 66.0 per cent, while the available tonne kilometres rose by 1.3 per cent and the revenue tonne kilometres by 2.6 per cent. Average yields in cargo traffic were under substantial pressure due to market overcapacity and weak demand.

The most significant development in cargo traffic during the year was Finnair opening its second cargo hub in Brussels. The new operating model strengthens cargo demand in Finnair's Asian passenger flight network, as it allows Finnair Cargo to offer faster cargo connections

**Available tonne kilometres (ATK) and revenue tonne kilometres (RTK), belly cargo and freighter traffic**

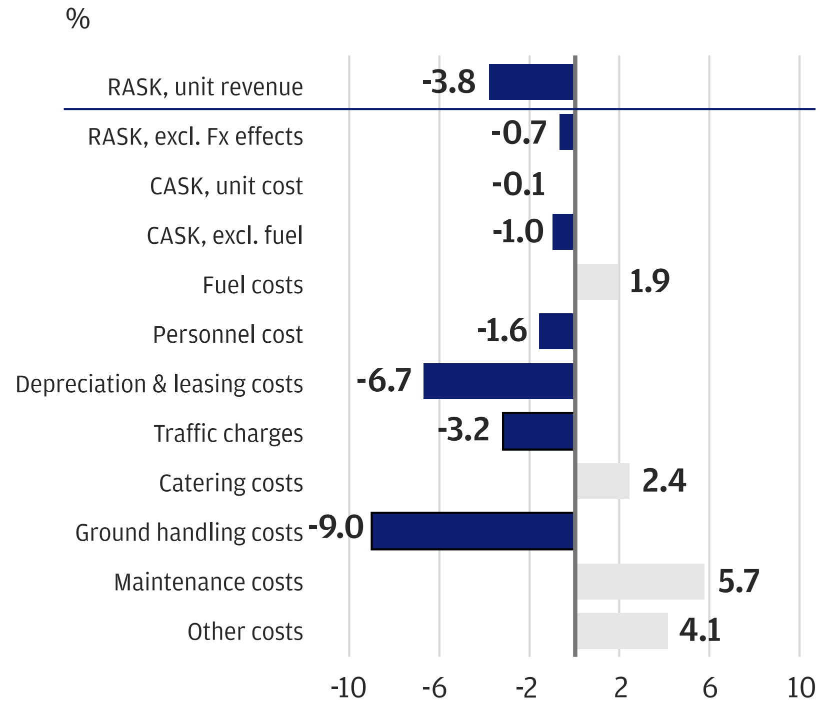



**Airline Business: unit revenue and unit cost**
(cents/Available seat kilometre)




* Revenue per Available Seat Kilometre
** Cost per Available Seat Kilometre
*** Cost per Available Seat Kilometre excluding fuel

**Airline business:**
**RASK & CASK development in 2013**
Change, 2013 vs. 2012




* Finnair´s estimate: The estimate is based on travel agencies´ MIDT data and Finnair´s estimates of airlines´own sales through their own sales channels, such as websites.

between Central Europe and Asia. Finnair Cargo operated separate wet-leased cargo flights to Hong Kong and New York throughout the year. The cargo aircraft route to Chicago was discontinued in May after the successful launch of the Brussels hub. Cargo flights to Mumbai were discontinued in September due to weakened forecasts of Indian cargo volume and yield as well as the significant depreciation of the Indian rupee. In the third quarter, Finnair Cargo purchased the cargo capacity on the daily Tokyo-Helsinki flights launched by Japan Airlines at the beginning of June, allowing it to offer two daily flights to Tokyo. A new cargo route was also launched to Hanoi, the capital of Vietnam, at the turn of October–November. Separate cargo flights accounted for approximately 37 per cent of total cargo traffic in 2013.

The arrival punctuality of Finnair's flights was very good in 2013, with 89.6 per cent of scheduled flights (84.9) and 89.0 (84.5) per cent of all traffic arriving on schedule.

## Air traffic services and products

### Route network and alliances

Finnair offers connections between Asia and Europe with over 200 route pairs and also operates more than 800 flights weekly from Helsinki to other Finnish and European destinations. In the summer season, Finnair operated at most 81 flights to Asia per week.

Malaysia Airlines joined the oneworld alliance in January 2013 and Qatar Airways in October 2013. In addition, TAM Airlines, a member of the LATAM Airlines Group, announced in March and US Airways announced in December that they will join the oneworld alliance in March 2014. Also SriLankan Airlines is planning to join the **one**world alliance in 2014. For Finnair's customers, new airlines joining **one**world enables better connections to destinations outside the Finnair network.

At the beginning of July, Finnair joined the transatlantic joint business founded by American Airlines, British Airways and Iberia, and in October, competition authorities approved the company's entry into the joint business established by Japan Airlines and British Airways for flights between Japan and Europe.

### Other renewals and services

In March, Finnair launched a social check-in service for its customers. Passengers can link their travel information with their Facebook profile when checking in online and view the public Facebook information of other passengers who have enabled the service. Using the service is voluntary and it can be disabled at any time.

In March–April, Finnair carried out a trial of tablet devices and wireless Internet service on board one of its Airbus A330 wide-body aircraft, and all of the new A321 Sharklet aircraft have Samsung 3 tablet devices available to passengers for a fee. The entertainment systems of Finnair's aircraft were also upgraded in 2013, nearly doubling the selection of entertainment on long-haul flights in both Economy and Business Class.

Textiles and tableware designed by Finnish design house Marimekko for Finnair aircraft were introduced on flights in May, with Finnair also adding new Marimekko products to the Finnair PlusShop and in-flight sales selection.

Business Class in-flight dining on Finnair's long-haul flights departing from Helsinki was renewed in September with the launch of meals designed by two renowned Finnish chefs, Pekka Terävä and Tomi Björck. Finnair also renewed its Economy class meal service earlier in the year.

Also in early October, Finnair announced it will open a new Premier Lounge at Helsinki Airport in spring 2014.

### Awards

The International Air Transport Association (IATA) presented a Fast Travel Gold Award to Finnair in June in recognition of Finnair's implementation of IATA's Fast Travel program at Helsinki Airport. Designed to reduce queues at airports and give passengers more options for self-service during their journey.

The aviation research institution Skytrax named Finnair Northern Europe's Best Airline at the World Airline Awards™ in June. Finnair has now won the award for four consecutive years and is the only airline in the Nordic countries with a four-star Skytrax rating. The oneworld alliance, of which Finnair is a member, was named Best Alliance at the awards. World Airline Awards™ is the most extensive and respected commercial airline rating in the industry. The classification is based on the impartial assessments of 18 million passengers. The participating passengers represent a total of 160 countries.

In early October, Finnair was named Best European Airline at the annual Asia-Pacific TTG Travel Awards. The readers of TTG's travel magazines highlighted Finnair's punctuality, service quality and quick connections.

## Aviation Services

After the structural changes in Technical Services and catering implemented in 2012, the Aviation Services segment consists of aircraft maintenance and the operations of Finncatering Oy and Finnair Travel Retail Oy. The business operations of Finnair Catering Oy, which were transferred to LSG Sky Chefs on 1 August 2012, are included in the segment's figures for the comparison year until 31 July 2012. In addition, most of Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities also belong to the Aviation Services business area. Over half of the business area's turnover comes from outside the Group.

| Key figures | 2013 | 2012 | Change % |
|---|---|---|---|
| Turnover and result | | | |
| Turnover, EUR million | 196.3 | 319.5 | -38.6 |
| Operating result, EBIT, EUR million | -35.2 | -1.3 | <-200 |
| Operating result, % of turnover | -17.9 | -0.4 | -17.5%-p |
| Personnel | | | |
| Average number of employees | 1,215 | 1,984 | -38.8 |

The turnover of Aviation Services for the full year 2013 declined from the previous year due to the outsourcing of the engine and equipment maintenance operations to Finnair's outsourcing partner in July 2012 and the transfer of Finnair Catering Oy's operations to LSG in August 2012. In addition, Technical Services operations were adjusted in the first half of 2013 to correspond with the size of the current fleet.

The segment's turnover in 2013 amounted to 196.3 million euros (319.5). The operating result was a loss of -35.2 million euros (-1.3), primarily as a result of non-recurring items related to structural changes in Technical Services.

## Travel Services (Tour Operators and Travel Agencies)

This business area consists of the tour operator Aurinkomatkat (Suntours), its subsidiary operating in Estonia, and the business travel agencies that were combined in December, namely Area, Finland Travel Bureau (FTB) and FTB's subsidiary Estravel, which operates in the Baltic countries, as well as Amadeus Finland, which produces travel sector software and solutions. Aurinkomatkat serves leisure travellers, offering its customers package tours, tailored itineraries, flight and hotel packages, flights and cruises, as well as golf, sailing and skiing holidays.

| Key figures | 2013 | 2012 | Change, % |
|---|---|---|---|
| Turnover and result | | | |
| Turnover, EUR million | 251.7 | 284.4 | -11.5 |
| Operating result, EBIT, EUR million | 1.6 | 4.9 | -67.7 |
| Operating result, % of turnover | 0.6 | 1.7 | -1.1%-p |
| Personnel | | | |
| Average number of employees | 751 | 855 | -12.2 |

The turnover of Travel Services for the full year 2013 amounted to 251.7 million euros (284.4) and its operating result was 1.6 million euros (4.9).

Supply and demand were balanced in the Finnish package tour market in the first half of 2013, with the advance booking rate, load factor and price level increasing in the spring season. In June, however, consumers' uncertainty regarding their own economic situation and the pleasant summer weather in Finland slowed down sales and put downward pressure on prices. Aurinkomatkat cancelled all of its winter season travel to Egypt at the end of August due to travel restrictions in force in the country, which was reflected in the turnover of package tours, particularly in the fourth quarter. Weak demand decreased unit revenue from package tours, particularly in the second half of the year, while the biggest cost item, i.e. a flight's unit cost, increased.

Finnair began to replace Boeing 757 aircraft used in leisure traffic with new Airbus 321 Sharklet aircraft in the second half of the year.

Business travel continued to decrease in Finland in 2013, which was reflected in the sales and profitability of business travel agencies. Faced with a recession, the client companies of business travel agencies have reduced and restricted employee travel. Finnair subsidiaries Finland Travel Bureau and Area merged in December to form FTB, the largest Finnish business travel agency. The aim of merging the two travel agencies is to achieve volume synergies and significant reductions in costs by eliminating overlapping functions. In business travel agencies, the number of flights booked in Finland decreased in 2014 by six per cent year-on-year. The market share growth of international online travel agencies in Finland turned and their sales in Finland declined along the market.

## Group structure

The companies that are part of the Finnair Group are presented in the notes to the financial statements in notes 1.3 Subsidiaries and 1.6 Investments in associates and joint ventures.

Finnair's subsidiary Finnair Facilities Management Ltd (FAMA) was merged with its parent company Finnair Plc on 31 March 2013. All employees of FAMA were transferred to Finnair Plc with existing employment conditions. In the future the former FAMA operations will form the new group Facility Services team which will operate under the group Procurement function.

## Governance

### RESOLUTIONS OF THE ANNUAL GENERAL MEETING

Finnair Plc's Annual General Meeting, held on 27 March 2013, confirmed the financial statements for 2012 and discharged the members of the Board of Directors and the CEO from liability. The Annual General Meeting adopted the Board's proposal to pay a dividend of 0.10 euros per share. The dividends were paid on 10 April 2013.

### Board of Directors

The Annual General Meeting elected Klaus W. Heinemann as the Chairman of the Board of Directors. Of the previous members of the Board of Directors, Maija-Liisa Friman, Jussi Itävuori, Merja Karhapää, Harri Kerminen and Gunvor Kronman continue on the newly elected Board, with Ambassador Antti Kuosmanen elected as a new member. The term of office of the members of the Board of Directors ends at the close of the first Annual General Meeting following their election. The Annual General Meeting decided that the remuneration paid to the Board of Directors will remain unchanged. The Chairman of the Board of Directors will be paid an annual fee of 61,200 euros, the Deputy Chairman a fee of 34,200 euros and the ordinary members a fee of 30,000 euros. Members of the Board of Directors will also receive fees for participating in Board and Board Committee meetings at the amount of 600 euros per meeting for members residing in Finland and 1,200 euros per meeting for members residing abroad.

Until the Annual General Meeting 2013, the Chairman of the company's Board of Directors was Harri Sailas.

### Auditors

Authorised Public Accountants PricewaterhouseCoopers continues as Finnair's auditor, with APA Mikko Nieminen acting as the principal auditor. Auditor's fees are paid in accordance with the auditor's reasonable invoice.

### The Board's authorisations

The Annual General Meeting authorised the Board of Directors to decide on the repurchase of the company's own shares and/or use of shares as collateral. The authorisation applies to a maximum of 5,000,000 shares and is valid until 27 September 2014. The Annual General Meeting also authorised the Board of Directors to decide on the disposal of a maximum of 5,000,000 of the company's own shares. The authorisation is valid until the end of the next Annual General Meeting, but no longer than until 30 June 2014.

### Shareholders' Nomination Board

The Annual General Meeting decided to establish a permanent Shareholders' Nomination Board. The task of the Nomination Board is to prepare and present to the Annual General Meeting, and, if necessary, to an Extraordinary General Meeting, a proposal on the remuneration of the members of the Board of Directors, a proposal on the number of members of the Board of Directors and a proposal on the members of the Board of Directors. In addition, the task of the Nomination Board is to seek candidates as potential board members. The Nomination Board was established to operate until the General Meeting of the company decides otherwise. The members of the Nomination Board will be nominated annually and their term of office will end when new members are nominated to replace them. The Nomination Board will submit its proposals to the Board of Directors by 31 January each year.

The Company's three largest shareholders are each entitled to appoint one member to the Nomination Board. The right to nominate is determined on the basis of the registered holdings in Finnair's shareholder register as of the first weekday in September. The following persons were appointed to Finnair's Shareholders' Nomination Board: Eero Heliövaara, Director General of the Government Ownership Steering Department, Prime Minister's Office (Chairman); Robin Backman, Portfolio Manager, KEVA; and Per Wennberg, Director, Skagen funds. The fourth member is the Chairman of the Company's Board of Directors.

### CHANGES IN THE COMPANY'S SENIOR MANAGEMENT

Pekka Vauramo (M.Sc.) took his position as CEO of Finnair on 1 June 2013. He succeeds Mika Vehviläinen, who left the company on 28 February 2013.

Anssi Komulainen, Head of Customer Service, left Finnair's Executive Board and Management Board on 31 August 2013. Customer service functions were moved partly to Finnair's Commercial Division headed by Allister Paterson and partly to Operations headed by Ville Iho. Finnair did not appoint a successor to Komulainen.

At the end of December, Finnair announced that the head of Travel Services and a member of Finnair's Executive Board, D.Sc. (Econ.), Kaisa Vikkula will leave Finnair on 31 January 2014. As the companies belonging to the Travel Services business area will now report to Allister Paterson, the head of Finnair's Commercial Division, Finnair did not appoint a successor to Vikkula.

### INSIDER ADMINISTRATION

Finnair complies with the Insider Guidelines of NASDAQ OMX Helsinki Ltd that entered into force on 1 July 2013. Finnair's Board of Directors has approved Finnair's insider guidelines, which contain guidelines for permanent and project-specific insiders as well as the organisation and procedures of the company's insider controls. These insider guidelines have been distributed to all insiders.

### CORPORATE GOVERNANCE STATEMENT

Finnair Plc's Corporate Governance Statement 2013 is presented on pages 131–141, and it is available on the company's website.

## Personnel

The number of Finnair employees decreased significantly in 2013 due to the structural changes in the company. The Group employed an average of 5,859 (6,784) people in 2013, which is 13.6 per cent fewer than in the previous year. The Airline Business segment employed an average of 3,619 (3,660) people during the year, Aviation Services 1,215 (1,984) people and Travel Services 751 (855) people. A total of 274 (285) people were employed in other functions. The number of employees was 5,803 (6,368) on 31 December 2013.

Of the personnel, 710 people worked outside Finland. Of these, 389 were employed in sales and customer service duties in Finnair's passenger and cargo traffic. A total of 321 people worked for travel agencies and tour operators based in the Baltic countries and as guides at Aurinkomatkat holiday destinations.

Full-time staff accounted for 95.5 per cent of employees, and 96.4 per cent of staff were employed on a permanent basis. The average age of the employees was 44 years. Of the personnel, 30 per cent are over 50 years of age, while five per cent are under 30 years of age. The employees' average number of years in service was 17. Employees having worked for Finnair for over 20 years account for 40 per cent of the staff, while 10 per cent have worked for Finnair for over 30 years. Of Finnair Group's personnel, 55 per cent are women and 45 per cent are men.

### EMPLOYEE CONSULTATIONS CONDUCTED IN 2013

In 2013, Finnair conducted employee consultations related to personnel reductions with representatives of personnel in ground customer services, financial functions, technical services, Finnair Cargo, Aurinkomatkat-Suntours and in business travel agencies. The majority of the consultations were related to projects associated with the implementation of Finnair's structural change and cost-reduction program and in reorganizing Finnair's travel agencies.

The estimated maximum need for reductions totalled about 450 jobs. As a result of the negotiations conducted, a total of over 350 jobs were to be reduced. Some of these reductions will materialize only in 2014. By offering part-time jobs and new positions to over 50 people, Finnair was able to avoid some redundancies.

Following the employee consultations in Technical Services, Finnair offered the employees to be dismissed an additional support package. This was due to the very limited employment opportunities in the Finnish aircraft technology and maintenance sector. The package included not only monetary payments, but also re-employment support with the aim of finding new employment through Finnair's Career Gate service.

In the last quarter of 2013, Finnair trade union, the Association of Support Service Industries (PALTA), reached an agreement with the Finnish Cabin Crew Union (SLSY), Trade Union PRO, the Finnish Aviation Union (IAU) and the Finnish Air Line Pilots' Association (SLL) on a new collective labour agreement in line with the national framework agreement, known as the Finnish Employment and Growth Pact. The agreement included wages raises in line with the Finnish Employment and Growth Pact and also the schedule and processes of separate, company-specific negotiations related to Finnair's cost reductions.

### PERSONNEL INCENTIVE SCHEMES

Incentive bonuses for 2013, based mainly on financial performance and quality indicators, are estimated to be paid to personnel to an amount of approximately 5.1 million euros, including social security costs. The criteria based on the Group's result for the personnel profit bonus were not met in 2013.

The remuneration of personnel, including Employee Share Savings Plan FlyShare, is discussed in more detail in the Remuneration Statement 2013 on pages 147–155.

## Shares and shareholders

### SHARES AND SHARE CAPITAL

On 31 December 2013, 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 the NASDAQ OMX Helsinki Stock Exchange. Each share confers one vote at the General Meeting.

### GOVERNMENT OWNERSHIP

At the end of 2013, 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, and decreasing ownership below this level is subject to a Parliament decision.

### SHARE OWNERSHIP BY MANAGEMENT

On 31 December 2013, members of the company's Board of Directors and the CEO did not own any Finnair shares. Members of the Executive Board owned a total of 299,716 shares, representing 0.23 per cent of all shares and votes.

### OWN SHARES

Finnair acquired a total of 600,000 of its own shares in 2013. Finnair's Board of Directors decided on the acquisition of shares at its meeting of 18 December 2012, pursuant to the authorisation to acquire the company's own shares given by the Annual General Meeting of 28 March 2012. Also during 2013, the company transferred 708,679 of its own shares as incentive bonuses to key personnel belonging to the performance share plan in effect from 2010 to 2012, and a further 22,340 shares as incentive bonuses to members of the FlyShare employee share savings plan. On 31 December 2013, Finnair held a total of 279,168 (410,187) of its own shares, representing 0.2 per cent of the total share capital.

| Acquisition and delivery of own shares and returns of shares | Number of shares | Acquisition value, EUR | Average price, EUR |
|---|---|---|---|
| 2004 | 422,800 | 2,275,666.49 | 5.38 |
| 2005 | -37,800 | -209,838.54 | 5.55 |
| 2005 | 150,000 | 1,516,680.00 | 10.11 |
| 2006 | -383,097 | -2,056,847.88 | 5.37 |
| 2007 | 0 | 0.00 | 0 |
| 2008 | 235,526 | 1,538,956.35 | 6.53 |
| 2009 | 0 | 0.00 | 0 |
| 2010 | 22,758 | 114,719.52 | 5.04 |
| 2011 | 0 | 0.00 | 0.00 |
| 2012 | 0 | 0.00 | 0.00 |
| 2013 | 600,000 | 1,684,650.10 | 2.81 |
| 2013 | -731,019 | -4,055,744.86 | 5.55 |
| **31 Dec 2013** | **279,168** | **808,241.18** | **2.90** |

| Finnair plc largest shareholders as at 31 december 2013 | Number of shares | % | Changes 2013 |
|---|---|---|---|
| 1 State of Finland; Office of Counsil of State | 71,515,426 | 55.8 | 0 |
| 2 Skagen Global Funds | 6,308,221 | 4.9 | 419,792 |
| 3 KEVA (Local Government Pensions Institution) | 5,285,642 | 4.1 | -496,173 |
| 4 Ilmarinen Mutual Pension Insurance Company | 2,675,564 | 2.1 | 650,000 |
| 5 Nordea Funds | 2,640,810 | 2.1 | 2,066,952 |
| 6 State Pension Fund | 2,100,000 | 1.6 | 0 |
| 7 Veritas Pension Insurance Company | 1,530,000 | 1.2 | 0 |
| 8 Tiiviste-Group Oy | 1,500,000 | 1.2 | 0 |
| 9 Fennia Pension Insurance Company | 1,300,000 | 1.0 | 0 |
| 10 Evli Funds | 1,050,900 | 0.8 | 256,771 |
| 11 Etra Invest Oy | 1,000,000 | 0.8 | 0 |
| 12 Taaleritehdas Arvo Markka Osake Fund | 1,000,000 | 0.8 | 497,170 |
| 13 OP Funds | 849,769 | 0.7 | -675,231 |
| 14 Finnair Plc Staff Fund | 701,935 | 0.5 | 139,224 |
| 15 Varma Mutual Pension Insurance Company | 600,000 | 0.5 | 0 |
| | | | |
| Nominee registered | 10,015,872 | 7.8 | 1,672,538 |
| Others | 18,061,976 | 14.1 | |
| **Total** | **128,136,115** | **100.0** | |

## 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 some other person than the State of Finland acquires the control of Finnair either through majority of the voting rights or otherwise.

## SHARE-BASED INCENTIVE SCHEMES

### Employee share savings plan FlyShare

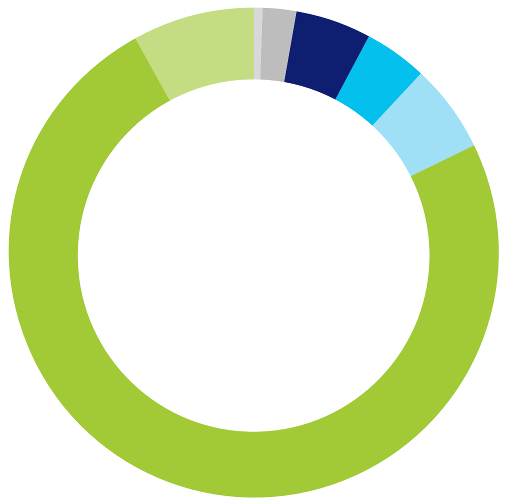
At the end of March 2013, the Board of Directors of Finnair decided to launch FlyShare, an employee share savings plan for Finnair employees. The objective of the plan is to encourage the employees to become shareholders in the company, and thereby strengthen the employees' interest in the development of Finnair's shareholder value and to reward them over the long term. Over 1,000 Finnair employees, or approximately one fifth of all employees, participated in the first phase of the share savings plan. In the fourth quarter of 2013, a total of 22,340 Finnair shares held by the company were transferred to FlyShare program participants as incentive bonuses. The share savings plan is described in more detail in Remuneration Statement on pages 147–155.

| Breakdown of shares at 31 december 2013 | Number of shares | % | Number of shareholders | % |
|---|---|---|---|---|
| 1-200 | 712,142 | 0.6 | 7,501 | 47.6 |
| 201-1,000 | 3,012,611 | 2.4 | 5,670 | 35.9 |
| 1,001-10,000 | 6,464,691 | 5.0 | 2,355 | 14.9 |
| 10,001-100,000 | 5,261,192 | 4.1 | 207 | 1.3 |
| 100,001-1,000,000 | 7,276,779 | 5.7 | 18 | 0.1 |
| 1,000,001- | 95,373,903 | 74.4 | 11 | 0.1 |
| Registered in the name of nominee | 10,015,872 | 7.8 | 10 | 0.1 |
| Not converted into the book entry system | 18,925 | 0 | - | - |
| **Total** | **128 136 115** | **100.0** | **15,772** | **100.0** |

| Shareholders by type at 31 December 2013 | Number of shares | % | Number of shareholders | % |
|---|---|---|---|---|
| Public bodies | 85,766,753 | 66.9 | 14 | 0.1 |
| Households | 12,916,483 | 10.1 | 15,125 | 95.9 |
| Registered in the name of a nominee | 10,015,872 | 7.8 | 10 | 0.1 |
| Outside Finland | 6,530,186 | 5.1 | 50 | 0.3 |
| Private companies | 6,272,034 | 4.9 | 510 | 3.2 |
| Financial institutions | 5,594,345 | 4.4 | 22 | 0.1 |
| Associations | 1,021,517 | 0.8 | 41 | 0.3 |
| Not converted into the book entry system | 18,925 | 0.0 | - | - |
| **Total** | **128,136,115** | **100.0** | **15,772** | **100.0** |

### Shareholding by number of shares owned

%




### Shareholding by type

%

### Key personnel's performance share plan

In February 2013, Finnair's Board of Directors approved a new performance share plan for Finnair's key personnel. The share plan replaces the previous plan that expired at the end of 2012. The purpose of the share plan is to encourage the management to work to increase long-term shareholder value and also to commit the management to the company. The share plan is described in more detail in a Stock Exchange Release published on 8 February 2013. Long term incentive plan follows the guidelines issued by Cabinet Committee on Economic Policy.

The share plan consists of annually commencing individual plans within which 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 are achieved. The commencement of each new plan is subject to a separate approval of Finnair Board of Directors. Finnair's Board approved in February 2013 also the 2013 – 2015 share plan and its performance criteria.

Share-based incentive schemes are described in Finnair's Remuneration Statement 2013 on pages 147–155 and on the company's website.

## Share price development and trading

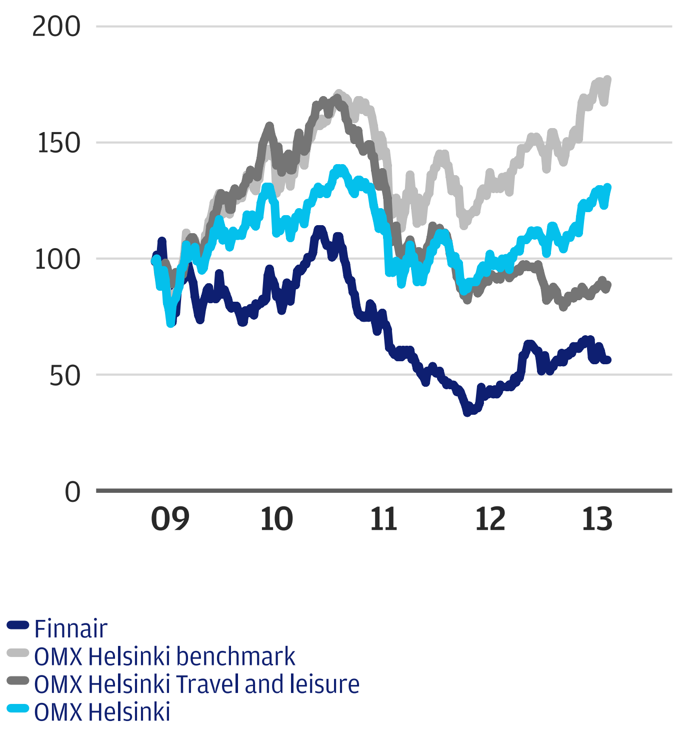
At the end of December 2013, Finnair's market value stood at 354.9 million euros (305.0), and the closing price of the share was 2.77 euros (2.38). During the January–December period, the highest price for the Finnair share on the NASDAQ OMX Helsinki Stock Exchange was 3.25 euros (2.64), the lowest price 2.40 euros (1.67) and the average price 2.85 euros (2.24). Some 26.0 million (19.7) of the company's shares, with a total value of 74.2 million euros (44.1), were traded. Traded shares represent 20.3 per cent (15.4) of all shares.

| Number of shares and share prices | | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Average number of shares adjusted for share issue | pcs | 128,136,115 | 128,136,115 | 128,136,115 |
| Average number of shares adjusted for share issue (with diluted effect) | pcs | 128,136,115 | 128,136,115 | 128,136,115 |
| The number of shares adjusted for share issue at the end of financial year | pcs | 128,136,115 | 128,136,115 | 128,136,115 |
| The number of shares adjusted for share issue at the end of financial year(with diluted effect) | pcs | 128,136,115 | 128,136,115 | 128,136,115 |
| Number of shares, end of the financial year | pcs | 128,136,115 | 128,136,115 | 128,136,115 |
| Trading price highest | EUR | 3.25 | 2.64 | 5.37 |
| Trading price lowest | EUR | 2.4 | 1.67 | 2.3 |
| Market value of share capital Dec. 31 | EUR mill. | 355 | 305 | 295 |
| No. of shares traded | pcs | 26,024,070 | 19,668,495 | 21,422,076 |
| No. of shares traded as % of average no. of shares | % | 20.31 | 15.35 | 16.72 |

### Finnair share 2009–2013


### Comparison European Airlines


### Comparison NASDAQ OMX Helsinki



## 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. In paying dividends, the aim is to also take into account the company's earnings trend and outlook, financial situation and capital needs for any given period. In 2013, earnings per share from the result of the period (before hybrid bond interest) was 0.08 (0.08) euros, and earnings per share was 0.02 (0.01) euros.

Finnair Plc's distributable equity amounted to 284,038,140.67 euros on 31 December 2013. The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2013.

## Corporate responsibility

In March, Finnair published its annual Sustainability Report, which is based on the Global Reporting Initiative (GRI). The report details and assesses the financial, social and environmental sustainability of the Finnair Group's activities in 2012 and proactively discusses topics such as the airline's efforts to reduce greenhouse gas emissions, developments in carbon trading and air traffic management, aviation's role in trade and economic development and the impact of restructuring on personnel.

In June, Finnair was certified as a pioneer in environmental management in IATA's Environmental Assessment (IEnvA) Program. The program is designed to independently assess and improve the environmental management of an airline. It helps airlines improve fuel efficiency, reduce waste and limit greenhouse gas emissions. Finnair is part of a pilot group of airlines that has been developing and participating in the program. The airline assessments are undertaken by independent accredited environmental assessment organisations.

In October, Finnair placed among the leading companies in the Carbon Disclosure Project (CDP), which assesses the quality of environmental reporting related to climate change published by companies from the perspective of identifying business risks and opportunities. Finnair was also included in the CDP Nordic 260 Climate Disclosure Leadership Index (CDLI) for the second consecutive year. The index highlights those companies listed on the Nordic stock exchanges that have displayed a particularly progressive approach to the disclosure of information regarding climate change. The Carbon Disclosure Project is the world's only global environmental disclosure system and represents 722 international investors with assets of over 87 trillion dollars.

Also in 2013, Finnair began employee training on its Code of Conduct updated at the end of 2012. An eLearning course related to the topic was published near the end of the year, and training will continue in 2014.

## Significant near term risks and uncertainties

Due to the short booking horizon in passenger and cargo traffic, long-term forecasting of Finnair's business operations is difficult. Aviation is an industry that is globally sensitive to economic cycles and also reacts quickly to external disruptions, seasonal variation and changes in economic trends. Finnair has implemented a comprehensive risk management process to ensure that risks are identified and mitigated as much as possible. The risks and uncertainties described here are considered to potentially have a significant impact on Finnair's business, financial result and future outlook within the next 12 months.

The achievement of the strategic advantages and cost reductions sought through Finnair's partnership projects involve risks due to, for example, changes in partners' business operations.

Negotiations on cost reductions between Finnair and the trade unions representing its employees involve risks that, if realised, could have an effect on the achievement of the company's cost reduction targets, the uninterrupted continuity of its operations and the company's reputation. The achievement of targets in other cost reduction categories included in the cost-reduction program also involve risks.

The aviation industry is affected by a number of regulatory programs at the EU and international levels. Estimating the impact of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory programs include international regulation related to emission trading 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. The European Commission's proposal issued in October 2013 regarding the expansion of emissions trading concerning flights within the EU (so-called stop the clock model or intra-EU ETS) has been met with opposition in certain countries outside the EU, which may have a negative effect on the growth potential of Finnair's Asian traffic, especially in the medium term. The new proposal may also lead to additional costs.

Finnair's risk management and risks related to companys operations are described in more detail on pages 142–146 and on the company's website at www.finnairgroup.com.

## Seasonal variation and sensitivities in business operations

Due to the seasonal variation of the airline business, the Group's turnover 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.

A one-percentage-point change in the passenger load factor or the average yield in passenger traffic has an effect of approximately 15 million euros on the Group's operating result. A one-percentage-point change in the unit cost of scheduled passenger traffic has an effect of approximately 17 million euros on the operating result.

In addition to operational activities, fuel price development has a key impact on Finnair's result, as fuel costs are the company's most significant cost item. A 10-per-cent change in the world market price of fuel has an effect of approximately 29 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 63 million euros on Finnair's operating result at an annual level.

Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, aircraft leasing payments and sales revenue denominated in foreign currencies. Slightly less than 60 per cent of the Group's turnover is denominated in euros. In 2013, the most important other foreign sales currencies were the Japanese yen (10 per cent of turnover), the Chinese yuan (6 per cent), the Swedish crown (5 per cent) and the US dollar (4 per cent). Approximately half of the Group's operating costs were denominated in foreign currencies. The most important purchasing currency was the US dollar, which accounted for slightly over 40 per cent of all operating costs. Significant dollar-denominated expense items are aircraft leasing payments and fuel costs as well as traffic charges. The largest investments, namely the acquisition of aircraft and their spare parts, are mainly denominated in US dollars.

A 10-per-cent change in the euro-dollar exchange rate has an effect of approximately 21 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per cent change would have an effect of approximately 68 million euros on Finnair's operating result at an annual level. The sensitivity analysis assumes that the Chinese yuan and the Hong Kong dollar continue to correlate strongly with the US dollar. A 10-per cent change in the euro-yen exchange rate has an effect of approximately 6 million euros on Finnair's operating result at an annual level (for the following 12 months), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 18 million euros on Finnair's operating result at an annual level.

The company protects itself against the risks of currency, interest rate and jet fuel positions by using different derivative instruments, such as forward contracts, swaps and options, according to the risk management policy verified 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. At the end of 2013, the hedging ratio for fuel purchases was 74 per cent for the first half of 2014 and 66 per cent for the whole year. The hedging ratio for a dollar basket over the following 12 months was 67 per cent, and the hedging ratio for a yen basket was 71 per cent.

## Other events in 2013

Finnair inaugurated its new head office at Tietotie 9 in Vantaa, Finland in July. All of the Group's functions in the Helsinki region, with the exception of flying crew and technical services, moved to the new HOTT Building (House of Travel and Transportation) by the end of 2013.

## Events after the financial year

### PROPOSALS OF THE SHAREHOLDERS' NOMINATION BOARD TO THE ANNUAL GENERAL MEETING

On 31 January 2014, the Shareholders' Nomination Board submitted its proposal on the composition of the Board of Directors to be chosen in Finnair's 2014 Annual General Meeting, and on the Chairman of the Board of Directors and the remunerations of the members of the Board of Directors. The Nomination Board proposes that present members of the Board of Directors Ms Maija-Liisa Friman, Mr Klaus W. Heinemann, Mr Jussi Itävuori, Mr Harri Kerminen and Ms Gunvor Kronman be re-elected, and that Ms Jaana Tuominen and Mr Nigel Turner be elected as new members to the Board of Directors. The Nomination Board further proposes that Mr Klaus W. Heinemann be re-elected as Chairman of the Board. The Nomination Board also proposes, that the annual remunerations of the members of the Board of Directors would remain unchanged. In addition, the Nomination Board proposes, that the meeting fees payable to Board members residing in Finland remain unchanged and to Board members residing abroad the fee of 2,400 (1,200) euros would be paid per meeting of the Board or its Committee.

### 2014–2016 PERFORMANCE SHARE PLAN

On 10 February 2014, Finnair Board of Directors approved a new performance share plan, covering years 2014–2016, for the key personnel of the Finnair Group. The share plan is a part of Finnair's long-term share-based incentive arrangement that Finnair Board of Directors approved in 2013, and which consists of annually commencing individual plans.

More information on the long-term share-based incentive arrangement and annual share plans is available on Finnair's website www.finnairgroup.com under Governance section.

### AIRCRAFT SALE AND LEASEBACKS

The sale and leaseback agreements of two Airbus 330 aircraft owned by Finnair were finalized on 26 February 2014. The Memorandum of Understanding (MoU) on the transactions was signed on 13 December 2013. The MoU includes also two ordered Airbus 350 aircraft, and sale and leaseback agreements for these two are expected to be concluded in H2 2015, when the first two A350s ordered by Finnair are delivered.

## Outlook for 2014

The ongoing uncertain economic outlook in Europe and Asia is contributing to weak consumer demand in some of our main markets. Air traffic is expected to grow moderately in 2014. Finnair, however, will not be able to benefit from that growth without progress in its cost savings program and its target cost structure in place.

Finnair estimates its turnover to be close to previous year's level in 2014. Fuel costs are expected to remain high. The outcome of Finnair's ongoing cost-saving negotiations will have a significant impact on financial performance in 2014, and therefore the company will reconsider giving guidance for its full-year 2014 financial performance after the savings negotiations have been concluded.

FINNAIR PLC
Board of Directors

# FINANCIAL INDICATORS 2009–2013

| INCOME STATEMENT | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Turnover | EUR mill. | 2,400 | 2,449 | 2,258 | 2,023 | 1,838 |
| change | % | -2.0 | 8.5 | 11.6 | 10.1 | -18.5 |
| Operational result | EUR mill. | -5 | 43 | -61 | -5 | -171 |
| in relation to turnover | % | -0.2 | 1.8 | -2.7 | -0.2 | -9.3 |
| Operating profit, EBIT | EUR mill. | -9 | 34 | -88 | -13 | -115 |
| in relation to turnover | % | -0.4 | 1,4 | -3.9 | -0.7 | -6.3 |
| Net financial income (+)/expenses (-) | EUR mill. | 23 | -18 | -22 | -20 | -10 |
| in relation to turnover | % | 1.0 | -0.7 | -1.0 | -1.0 | -0.5 |
| Net interest expenses | EUR mill. | -10 | -13 | -14 | -16 | -6 |
| in relation to turnover | % | -0.4 | -0.5 | -0.6 | -0.8 | -0.3 |
| Profit before taxes | EUR mill. | 10 | 15 | -111 | -33 | -125 |
| in relation to turnover | % | 0.4 | 0.6 | -4.9 | -1.6 | -6.8 |

| BALANCE SHEET | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Non-current assets | EUR mill. | 1,424 | 1,501 | 1,621 | 1,514 | 1,596 |
| Current assets | EUR mill. | 759 | 699 | 736 | 827 | 842 |
| Assets held for sale | EUR mill. | 18 | 32 | 0 | 71 | 19 |
| Assets total | EUR mill. | 2,201 | 2,231 | 2,357 | 2,412 | 2,457 |
| Shareholders' equity and non-controlling interests | EUR mill. | 692 | 775 | 747 | 853 | 825 |
| Liabilities total | EUR mill. | 1,509 | 1,456 | 1,610 | 1,558 | 1,632 |
| Equity and liabilities total | EUR mill. | 2,201 | 2,231 | 2,357 | 2,412 | 2,457 |
| Gross capital expenditure | EUR mill. | 42 | 41 | 204 | 183 | 347 |
| in relation to turnover | % | 1.7 | 1.7 | 9.0 | 9.1 | 18.9 |
| Average capital employed | EUR mill. | 1,314 | 1,413 | 1,550 | 1,636 | 1,353 |
| Dividend for the financial year * | EUR mill. | 0 | 13 | 0 | 0 | 0 |
| Interest bearing debt | EUR mill. | 593 | 569 | 729 | 765 | 829 |
| Liquid funds | EUR mill. | 459 | 430 | 403 | 527 | 607 |
| Interest bearing net debt | EUR mill. | 134 | 138 | 326 | 238 | 221 |
| in relation to turnover | % | 5.6 | 5.6 | 14.4 | 11.7 | 12.0 |

| KEY FIGURES | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Earnings/share | EUR | 0.02 | 0.01 | -0.75 | -0.24 | -0.76 |
| Earnings/share adjusted for option rights (with diluted effect) | EUR | 0.02 | 0.01 | -0.75 | -0.24 | -0.76 |
| Result/share (number of shares at the end of financial year) | EUR | 0.02 | 0.01 | -0.75 | -0.24 | -0.76 |
| Equity/share | EUR | 5.41 | 6.06 | 5.89 | 6.67 | 6.45 |
| Dividend/share* | EUR | 0.00 | 0.10 | 0.00 | 0.00 | 0.00 |
| Dividend/earnings* | % | 0.0 | 121.2 | 0.0 | 0.0 | 0.0 |
| Dividend yield | % | 0.0 | 4.2 | 0.0 | 0.0 | 0.0 |
| Cash flow from operating activities/ share | EUR | 0.84 | 1.21 | 0.40 | 0.59 | -0.94 |
| P/E ratio | | 155.88 | 174.96 | -3.07 | -21.09 | -4.93 |
| Equity ratio | % | 32.0 | 35.4 | 32.6 | 36.2 | 34.2 |
| Net debt-to-equity (Gearing) | % | 19.5 | 18.0 | 43.3 | 27.8 | 26.8 |
| Adjusted gearing | % | 77.6 | 77.8 | 108.4 | 79.6 | 90.0 |
| Return on equity (ROE) | % | 1.5 | 1.4 | -10.9 | -2.7 | -12.1 |
| Return on capital employed (ROCE) | % | 2.3 | 2.8 | -5.2 | -0.4 | -7.8 |

| CASH FLOW | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Operational cash flow | EUR mill. | 107 | 155 | 51 | 76 | -115 |
| in relation to turnover | % | 4.5 | 6.3 | 2.2 | 3.7 | -6.3 |

| PERSONNEL | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Personnel on average | 5,859 | 6,784 | 7,467 | 7,578 | 8,797 |

* The dividend for year 2013 is a proposal of the Board of Directors to the Annual General Meeting.

# FINANCIAL STATEMENTS 1 JANUARY–31 DECEMBER 2013

### HOW TO READ FINNAIR FINANCIAL STATEMENT?

Finnair financial statement hs been preseneted in a style that attempts to make it less complex and give more relevant picture of the whole by combining notes to business related sections. Each section sets out the accounting policies applied in producing these notes together with any critical accounting estimations and sources of uncertainty.

i Notes to the financial statement have been combined in a new way 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 mark A .

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

## CONTENTS



### NOTES TO THE FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| EUR mill. | Note | 2013 | 2012 |
|---|---|---|---|
| **Turnover** | **2.1, 2.2.1** | **2,400.3** | **2,449.4** |
| Production for own use | 3.1 | 2.5 | 1.7 |
| Other operating income | 2.2.2 | 18.8 | 20.8 |
| Capital gains on sales of tangible fixed assets * | 3.8 | 1.1 | 22.2 |
| **Operating income total** | | **2,422.8** | **2,494.1** |
| Staff costs | 3.9 | 383.9 | 429.2 |
| Fuel costs | | 689.9 | 670.3 |
| Lease payments for aircraft | | 57.5 | 66.2 |
| Other rents | 3.3 | 152.0 | 123.2 |
| Aircraft materials and overhaul | | 161.2 | 133.1 |
| Traffic charges | | 222.3 | 226.0 |
| Ground handling and catering expenses | | 257.3 | 247.2 |
| Expenses for tour operations | | 89.4 | 96.8 |
| Sales and marketing expenses | | 72.9 | 75.7 |
| Depreciation and impairment | 4.3 | 122.1 | 130.8 |
| Other expenses | 3.4 | 218.1 | 230.2 |
| **Operational expenses total** | **3.2** | **2,426.5** | **2,428.7** |
| **Operational result** | | **-4.8** | **43.2** |
| Fair value changes of derivatives and foreign currency denominated fleet maintenance reserves | 3.8 | 21.7 | -4.0 |
| Non-recurring items | 3.8 | -26.8 | -27.6 |
| **Operating expenses total** | | **2,431.6** | **2,460.3** |
| **Operating profit** | | **-8.8** | **33.8** |
| Financial income | 5.1 | 42.6 | 7.9 |
| Financial expenses | 5.1 | -19.7 | -25.5 |
| Share of profits from associates and joint ventures | 1.6 | -4.0 | -1.4 |
| **Profit before taxes** | | **10.1** | **14.8** |
| Income taxes | 6.1 | 1.0 | -4.3 |
| **Profit for the financial year** | | **11.0** | **10.5** |
| | | | |
| **Attributable to** | | | |
| Owners of the parent company | | 10.8 | 10.2 |
| Non-controlling interests | | 0.3 | 0.3 |
| | | | |
| **Earnings per share from profit attributable to shareholders of the parent company** | | | |
| Earnings per share (diluted and undiluted) | | 0.02 | 0.01 |

* Not included in the operational result.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR mill. | Note | 2013 | 2012 |
|---|---|---|---|
| **Profit for the financial year** | | **11.0** | **10.5** |
| **Other comprehensive income items** | | | |
| **Items that may be reclassified to profit or loss in subsequent periods** | | | |
| Translation differences | 5.9 | 0.0 | 0.0 |
| Change in fair value of available-for-sale financial assets | 5.9 | -13.8 | 20.8 |
| Change in fair value of hedging instruments | 5.9 | -5.3 | -48.3 |
| Tax effect | | 4.4 | 6.7 |
| **Items that will not be reclassified to profit or loss in subsequent periods** | | | |
| Actuarial gains and losses from defined benefit plans | 3.9.2 | 0.4 | -47.8 |
| Tax effect | | -0.6 | 11.7 |
| **Other comprehensive income items total** | | **-15.0** | **-56.9** |
| **Comprehensive income for the financial year** | | **-3.9** | **-46.4** |
| | | | |
| **Attributable to** | | | |
| Owners of the parent company | | -4.2 | -46.6 |
| Non-controlling interests | | 0.3 | 0.2 |

# CONSOLIDATED BALANCE SHEET

| EUR mill. | Note | 31 Dec 2013 | 31 Dec 2012 Restated | 1 Jan 2012 Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 4.1 | 19.3 | 25.5 | 32.3 |
| Tangible assets | 4.2 | 1,309.8 | 1,362.6 | 1,468.2 |
| Investments in associates and joint ventures | 1.6 | 8.2 | 12.3 | 13.7 |
| Loan and other receivables | 5.2.1 | 20.5 | 22.7 | 24.6 |
| Pension receivables | 3.9.2 | 0.0 | 0.0 | 43.5 |
| Deferred tax receivables | 6.1 | 65.8 | 77.6 | 75.2 |
| **Non-current assets total** | | **1,423.6** | **1,500.7** | **1,657.5** |
| | | | | |
| **Current assets** | | | | |
| Inventories | 3.6 | 19.9 | 17.1 | 48.9 |
| Trade and other receivables | 2.2.3 | 237.1 | 217.5 | 183.2 |
| Derivative financial instruments | 5.8 | 43.6 | 33.6 | 100.1 |
| Other financial assets | 5.2 | 335.9 | 363.5 | 353.8 |
| Cash and cash equivalents | 5.2.3 | 122.9 | 67.0 | 49.5 |
| **Current assets total** | | **759.4** | **698.7** | **735.5** |
| | | | | |
| Assets held for sale | 1.5 | 17.7 | 31.9 | 0.0 |
| | | | | |
| **ASSETS TOTAL** | | **2,200.6** | **2,231.3** | **2,393.0** |

| EUR mill. | Note | 31 Dec 2013 | 31 Dec 2012 Restated | 1 Jan 2012 Restated |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | 5.9 | 75.4 | 75.4 | 75.4 |
| Other equity | 5.9 | 615.7 | 699.0 | 703.6 |
| | | **691.1** | **774.4** | **779.0** |
| Non-controlling interests | | 0.7 | 0.9 | 0.7 |
| **Equity total** | | **691.8** | **775.3** | **779.7** |
| | | | | |
| **Non-current liabilities** | | | | |
| Deferred tax liability | 6.1 | 72.6 | 91.6 | 107.3 |
| Borrowings | 5.3 | 410.9 | 413.5 | 516.0 |
| Pension obligations | 3.9.2 | 10.6 | 3.6 | 0.0 |
| Provisions | 3.7 | 69.3 | 82.3 | 86.9 |
| **Non-current liabilities total** | | **563.4** | **591.0** | **710.2** |
| | | | | |
| **Current liabilities** | | | | |
| Provisions | 3.7 | 40.5 | 38.2 | 46.0 |
| Borrowings | 5.3 | 207.5 | 174.2 | 229.9 |
| Trade payables | | 61.6 | 70.3 | 69.1 |
| Derivative financial instruments | 5.8 | 29.1 | 18.5 | 17.0 |
| Deferred income | 2.2.4 | 340.8 | 288.0 | 267.1 |
| Employee benefit related accruals | 3.9 | 94.7 | 104.3 | 102.8 |
| Other expenses related accruals | 3.5 | 169.0 | 169.3 | 171.2 |
| **Current liabilities total** | | **943.2** | **862.8** | **903.1** |
| | | | | |
| Liabilities related to assets held for sale | 1.5 | 2.3 | 2.2 | 0.0 |
| | | | | |
| **Liabilities total** | | **1,508.9** | **1,456.0** | **1,613.3** |
| | | | | |
| **EQUITY AND LIABILITIES TOTAL** | | **2,200.6** | **2,231.3** | **2,393.0** |

# CONSOLIDATED CASH FLOW STATEMENT

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | 11.0 | 10.5 |
| Non-cash transactions [1] | 97.3 | 119.5 |
| Other adjustments to profit for the financial year | | |
| Financial income | -42.6 | -7.9 |
| Financial expenses | 19.7 | 23.3 |
| Share of results from associates and joint ventures | 4.0 | 1.4 |
| Income taxes | -1.0 | 4.3 |
| Changes in working capital | 35.8 | 22.2 |
| Interest paid | -12.1 | -16.7 |
| Other financial expenses paid | -3.8 | -6.0 |
| Received interest income | 1.4 | 4.2 |
| Taxes paid | -2.7 | -0.1 |
| **Cash flow from operating activities** | **107.0** | **154.7** |
| | | |
| **Cash flow from investing activities** | | |
| Investment in associates and joint ventures | 0.0 | -0.7 |
| Investments in intangible assets | -2.3 | -4.8 |
| Investments in tangible assets | -61.0 | -53.3 |
| Net change in financial interest bearing assets at fair value through profit or loss [2] | 14.6 | -5.2 |
| Net change in shares classified as available for sale | 53.7 | 0.1 |
| Sales of tangible assets | 8.9 | 10.6 |
| Dividends received | 1.2 | 0.1 |
| Change in non-current receivables | 1.0 | -1.0 |
| **Cash flow from investing activities** | **16.1** | **-54.2** |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from loans | 150.0 | 71.0 |
| Loan repayments and changes | -115.0 | -207.9 |
| Hybrid bond repayments | -52.4 | -67.7 |
| Proceeds from hybrid bond | 0.0 | 120.0 |
| Hybrid bond interest and expenses | -15.4 | -14.3 |
| Purchase of own shares | -1.7 | 0.0 |
| Dividends paid | -13.0 | 0.0 |
| **Cash flow from financing activities** | **-47.4** | **-98.9** |
| | | |
| **Change in cash flows** | **75.7** | **1.6** |
| | | |
| **Change in liquid funds** | | |
| Liquid funds, at beginning | 256.1 | 254.5 |
| Change in cash flows | 75.7 | 1.6 |
| **Liquid funds, at end [3]** | **331.8** | **256.1** |

**Notes to consolidated cash flow statement**

**[1] Non-cash transactions:**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Depreciation | 122.1 | 130.8 |
| Employee benefits | 7.3 | 12.3 |
| Fair value changes in derivatives and changes in exchange rates of fleet overhauls | -21.7 | 4.0 |
| Other adjustments | -10.5 | -27.6 |
| **Total** | **97.3** | **119.5** |

[2] Net change in financial interest bearing assets maturing after more than three months.

[3] **Liquid funds**

Financial assets include cash and cash equivalents and investments, which are reported in the separate accounts of balance sheet. The balancing of items is presented below:

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Other financial assets | 335.9 | 363.5 |
| Cash and cash equivalents | 122.9 | 67.0 |
| **Short-term cash and cash equivalents in balance sheet** | **458.8** | **430.5** |
| Maturing after more than three months | -126.5 | -141.1 |
| Shares available for sale | -0.4 | -33.3 |
| **Total** | **331.8** | **256.1** |

Cash and cash equivalents include cash and bank deposits as well as other highly liquid financial assets which mature within three months. Such items are e.g. certificate of deposits and commercial papers. Balance sheet items are presented in notes 5.2.2 Other current financial assets and 5.2.3 Cash and cash equivalents.

# 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 | Owners of the parent company | Non-controlling interests | Equity total |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders´ equity 1 Jan 2013** | **75.4** | **168.1** | **0.0** | **247.1** | **112.6** | **171.1** | **774.3** | **0.9** | **775.2** |
| Profit for the financial year | | | | | 10.8 | | 10.8 | 0.3 | 11.0 |
| Change in fair value of available-for-sale financial assets | | | -10.4 | | | | -10.4 | | -10.4 |
| Change in fair value of hedging instruments | | | -4.2 | | | | -4.2 | | -4.2 |
| Actuarial gains and losses from defined benefit plans | | | -0.2 | | | | -0.2 | | -0.2 |
| Translation differences | | | 0.0 | | | | 0.0 | | 0.0 |
| **Comprehensive income for the financial year total** | **0.0** | **0.0** | **-15.0** | **0.0** | **10.8** | **0.0** | **-4.2** | **0.3** | **-3.9** |
| Dividend | | | | | -12.7 | | -12.7 | -0.5 | -13.2 |
| Purchase of own shares | | | | -1.7 | | | -1.7 | | -1.7 |
| Share-based payments | | | | 1.9 | -0.3 | | 1.5 | | 1.5 |
| Hybrid bond repayment | | | | | | -52.1 | -52.1 | | -52.1 |
| Hybrid bond interests and expenses | | | | | -14.1 | | -14.1 | | -14.1 |
| **Shareholders´ equity 31 Dec 2013** | **75.4** | **168.1** | **-15.0** | **247.3** | **96.3** | **118.9** | **691.1** | **0.7** | **691.8** |

| EUR mill. | Share capital | Other restricted funds | Hedging reserve and other OCI items | Unrestricted equity funds | Retained earnings | Hybrid bond | Owners of the parent company | Non-controlling interests | Equity total |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders´ equity 31 Dec 2011** | **75.4** | **168.1** | **29.8** | **247.2** | **111.9** | **119.4** | **751.8** | **0.7** | **752.5** |
| Change in accounting principles (IAS 19) | | | 27.2 | | | | 27.2 | | 27.2 |
| **Shareholders´ equity 1 Jan 2012** | **75.4** | **168.1** | **57.0** | **247.2** | **111.9** | **119.4** | **779.0** | **0.7** | **779.7** |
| Profit for the financial year | | | | | 10.3 | | 10.3 | 0.2 | 10.5 |
| Change in fair value of available-for-sale financial assets | | | 15.7 | | | | 15.7 | | 15.7 |
| Change in fair value of hedging instruments | | | -36.5 | | | | -36.5 | | -36.5 |
| Actuarial gains and losses from defined benefit plans | | | -36.1 | | | | -36.1 | | -36.1 |
| Translation differences | | | 0.0 | | | | 0.0 | | 0.0 |
| **Comprehensive income for the financial year total** | **0.0** | **0.0** | **-56.9** | **0.0** | **10.3** | **0.0** | **-46.6** | **0.2** | **-46.4** |
| Purchase of own shares | | | | | 0.3 | | 0.3 | | 0.3 |
| Hybrid bond repayment, interests and expenses | | | | | -10.1 | -68.3 | -78.4 | | -78.4 |
| Proceeds from hybrid bond | | | | | | 120.0 | 120.0 | | 120.0 |
| **Shareholders´ equity 31 Dec 2012** | **75.4** | **168.1** | **0.1** | **247.2** | **112.5** | **171.1** | **774.4** | **0.9** | **775.3** |

Hybrid bond at the end of 2013 includes the 120 million euro hybrid loan issued in 2012, which after deduction of transaction costs amounts to 118.9 million euros. The decrease of 52.1 million euros in hybrid bond during 2013 relate to redemption of the outstanding share of the previous hybrid bond issued in 2009. More information on hybrid bond can be found in note 5.9 Equity-related information.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CONSOLIDATION

i Notes under Consolidation -section include basis of preparation and description of general accounting principles as well as notes that provide information relating to consolidation principles and methods. Aim of the section is to provide an overall picture of the group's structure and principles applied in preparing consolidated financial statements. Notes include in addition to general consolidation principles, 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

### 1.1 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. General consolidation principles are 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 the note in which each accounting principle is listed and for the relevant and material IFRS standard.

| Accounting principle | Note | Nr. | IFRS |
|---|---|---|---|
| Consolidation principles of subsidiaries | Subsidiaries | 1.3 | IAS 27 |
| Non-controlling interests and transactions with non-controlling interests | Subsidiaries | 1.3 | IAS 27 |
| Assets and liabilities held for sale | Non-current assets and liabilities held for sale | 1.5 | IFRS 5 |
| Associates and joint ventures | Investments in associates and joint ventures | 1.6 | IAS 28 |
| Segment reporting | Segment information | 2.1 | IFRS 8 |
| Revenue recognition, other income and trade receivables | Operating income | 2.2 | IAS 18, IAS 39, IFRS 7 |
| Inventories | Inventories | 3.6 | IAS 2 |
| Provisions | Provisions | 3.7 | IAS 37 |
| Employee benefits and share-based payments | Employee benefits | 3.9 | IAS 19, IFRS 2 |
| Pensions | Pensions | 3.9.2 | IAS 19 |
| Intangible assets | Intangible assets | 4.1 | IAS 38 |
| Tangible assets | Tangible assets | 4.2 | IAS 16 |
| Depreciation and amortization, Impairment testing | Intangible assets, Tangible assets | 4.1, 4.2 | IAS 16, IAS 36, IAS 38 |
| Operating and finance lease arrangements | Leasing arrangements | 4.4 | IAS 17 |
| Interest and dividend income | Financial income and expenses | 5.1 | IAS 18, IAS 39 |
| Financial assets and impairment of financial assets, cash and cash equivalents | Financial assets | 5.2 | IAS 39, IFRS 7 |
| Financial liabilities | Financial liabilities | 5.3 | IAS 39, IFRS 7 |
| Contingent liabilities | Contingent liabilities | 5.4 | IAS 37 |
| Derivative contracts and hedge accounting | Derivatives | 5.8 | IAS 39, IFRS 7 |
| Equity, dividend and treasury shares | Equity-related information | 5.9 | IAS 32, IAS 33 |
| Income and deferred taxes | Income taxes | 6.1 | IAS 12 |

#### DESCRIPTION OF THE COMPANY

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's operations are divided into the Airline Business, Aviation Services and Travel Services business areas. 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 10 February 2014. Under Finland's Limited Liability Companies Act, shareholders have the option to accept 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 2013 have been prepared according to the International Financial Reporting Standards (IFRS) and IFRIC interpretations in effect on 31 December 2013 and as adopted by the European Union. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law.

The 2013 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognisable through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been valued 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

The IAS 1 Presentation of Financial Statements standard does not define 'operating result.' The Group has defined it as follows: operating profit is the net amount including turnover and other operating income, less purchase costs adjusted by change in inventories and costs arising from production for own use, less costs arising from employee benefits, depreciation and possible impairment losses as well as other operating expenses. Exchange rate differences and changes in fair values of derivatives are included in operating profit 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, operational result which is presented to better reflect the Group's business performance when comparing results to previous periods. Operational result doesn't 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 non-recurring items.

In Consolidated balance sheet, assets and liabilities are classified as current when they are expected to realize within 12 months or when they are classified as liquid funds or financial assets or liabilities classified as at fair value through profit or loss. Other assets and liabilities are classified as non-current assets or liabilities.

#### 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 note 1.2 Critical accounting estimations and sources of uncertainty.

i = Content of the section

**Application of new and amended IFRS standards and IFRIC interpretations**

The following standards have been adopted by the group for the first time for the financial year beginning on 1 January 2013:

- IAS 19, 'Employee benefits' was revised in 2011, and it changed accounting for defined benefit plans by eliminating the corridor approach. Accordingly actuarial gains and losses are immediately recognised in the period they occur in equity. The revised standard did not have material effect to group's results; however it impacted equity through other comprehensive income (OCI).
- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from the amendments is a requirement to classify items presented in 'other comprehensive income' (OCI) to those that are potentially reclassifiable to profit or loss subsequently and to those that cannot be reclassified through profit and loss. The amendment changed presentation of other comprehensive income and did not have impact on group's results and financial position.
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosure and it did not impact group's results or financial position.
- IFRS 13, 'Fair value measurement', aims to improve consistency by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The change did not impact group's results or financial position.
- Annual Improvements to IFRSs 2009-2011 Cycle, issued in May 2012 . The improvements primarily remove inconsistencies and clarify wording of standards. Amendments did not have an impact on Finnair's financial statements.

Finnair will apply the following new or amended standards and interpretations starting from 1 January 2014.

- IFRS 10, 'Consolidated financial statements' identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for using the equity method. Due to new standard, IAS28 was revised to be in consistent with new standard.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

Finnair has assessed the effect of the new standards by evaluating the nature of ownership interests in its current holdings. Based on the evaluation, new standards of IFRS 10, 11 and 12 will not change the existing consolidation method for currently held subsidiaries, associated companies and joint ventures. Those that have currently been classified as joint ventures will continue to be accounted for by using equity method.

Other amendments, interpretations or new standards effective on or after 1 January 2014 are not expected to have any significant impact on Finnair's financial statement.

## GENERAL CONSOLIDATION PRINCIPLES

**Consolidation**

Consolidation, consolidation method and classification of ownership interests depends on whether group has power to control, 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 1.3 Subsidiaries. When group has significant influence over an entity but does not have power to control, entity is accounted with equity method according to principles set in note 1.6 Investments in associates and joint ventures. If group does not have power to control nor significant influence in entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 5.2 Financial assets.

**Translation of foreign currency items**

Items included in each subsidiary's financial statements are valued in the foreign currency that is the main currency of operating environment of each subsidiary ("operational currency"). The consolidated financial statements have been presented in euros, which is the parent company's operational and presentation currency. The income statements and Balance Sheets of foreign subsidiaries have been translated into euros using following principles:

- Monetary items denominated in foreign currency have been translated into the operating currency using the mid-market exchange rates on the closing date.
- Advance payments made and received are entered at the exchange rate of the operating currency on the date of payment.
- Non-monetary items have been translated into the operating currency using the exchange rate on the date of the transaction.
- Translation differences on operations are included in the income statement's operating profit, and translation differences on foreign currency loans are included in financial items.

Translation differences of shareholders' equity items arising from eliminations of the acquisition cost of foreign subsidiaries are recognised in the other comprehensive income. When a foreign subsidiary is sold, related translation differences are recognised in the income statement as part of the gain or loss arising from the sale. Goodwill arising from an acquisition of a foreign entity is treated as an asset of that entity and translated at the closing rate.

## 1.2 CRITICAL ACCOUNTING ESTIMATIONS AND SOURCES OF UNCERTAINTY

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcomes 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 view on the closing date. Possible changes in estimates and assumptions are entered into the accounts in the financial period during which the estimates and assumptions are adjusted and in all 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 estimations and sources of uncertainty | Note number | Note |
|---|---|---|
| Impairment testing | 4.1, 4.2 | Intangible assets, Tangible assets |
| Judgements of classifying lease arrangements | 4.4 | Leasing arrangements |
| Finnair Plus Customer Loyalty Program | 2.2 | Operating income |
| Deferred taxes | 6.1 | Income taxes |
| Pension obligations | 3.9.2 | Pensions |

! = Critical accounting estimates

### 1.3 SUBSIDiARIES

**A Consolidation principles of subsidiaries**

Finnair Plc's consolidated financial statements include the parent company Finnair Plc and all its subsidiaries. The subsidiaries are defined as companies where the parent company directly or indirectly 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 intercompany 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 recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree'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. Transactions with non-controlling interests are regarded as transactions with equity owners. A

**Principal subsidiaries**

| Name of the company | Group ownership % | Name of the company | Group ownership % |
|---|---|---|---|
| Finnair Cargo Oy, Helsinki | 100.00 | FTS Financial Services Oy, Helsinki | 100.00 |
| Finnair Cargo Terminal Operations Oy, Helsinki | 100.00 | Finnair Travel Retail Oy, Helsinki | 100.00 |
| Amadeus Finland Oy, Helsinki | 95.00 | LSG Sky Chefs Finland Oy (Finnair Catering Oy), Vantaa * | 100.00 |
| Suomen Matkatoimisto Oy (Matkatoimisto Oy Area), Helsinki | 100.00 | Finnair Aircraft Finance Oy, Helsinki | 100.00 |
| A/S Estravel Ltd, Estonia | 72.02 | Finnair ATR Finance Oy, Helsinki | 100.00 |
| Backoffice Services Estonia Oü, Estonia | 100.00 | Finnair Technical Services Oy, Helsinki | 100.00 |
| Oy Aurinkomatkat - Suntours Ltd Ab, Helsinki | 100.00 | Finnair Engine Services Oy, Helsinki | 100.00 |
| Toivelomat Oy, Helsinki | 100.00 | Finnair Flight Academy Oy, Helsinki | 100.00 |
| OOO Aurinkomatkat, Russia | 100.00 | Finncatering Oy, Vantaa | 100.00 |
| OOO Aurinko (Calypso World of Travel), Russia | 100.00 | Northport Oy, Helsinki | 100.00 |
| Matkayhtymä Oy, Helsinki | 100.00 | Finland Travel Bureau Ltd, Helsinki | 100.00 |
| Aurinko Oü (Horizon Travel Oü), Estonia | 100.00 | IC Finnair Ltd, Great Britain ** | 100.00 |

* The group has made an co-operation agreement which includes a call option and ceased control over the company.
** IC Finnair Ltd is a fully owned captive insurance company in Guernsey which rearnings are subject to normal taxation in Finland.

### 1.4 ACQUISITIONS AND DISPOSALS

During the financial year 2013 and 2012 the Group didn't have any acquisitions. During 2013 Finnair Group didn't have any disposals. During 2012 Finnair signed a co-operation agreement related to transferring of business operations of Finnair Catering Oy to LSG Sky Chefs. Due to contractual arrangements, Finnair Group has no power to control Finnair Catering Oy and the company has not been consolidated into Finnair Group from 1 August 2012 onwards.

### 1.5 NON CURRENT ASSETS AND LIABILITIES HELD FOR SALE

**A Accounting principles**

Non-current 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

Non-current assets and liabilities held for sale for 2013 and 2012 include inventories and tangible asset related to Finnair technical operation's restructuring. In addition, non-current assets and liabilities held for sale include figures of subsidiary Finncatering Oy.

**The book value of the assets held for sale**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Tangible assets | 9.8 | 16.7 |
| Inventories | 5.4 | 12.3 |
| Trade and other receivables | 2.5 | 2.9 |
| **Total** | **17.7** | **31.9** |

**The book value of the liabilities held for sale**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Trade payables and other liabilities | 2.3 | 2.2 |
| **Total** | **2.3** | **2.2** |

A = Accounting principles

## 1.6 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

A Associates are companies in which the Group usually holds 20–50% 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 recognised 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 and joint ventures 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 or joint ventures 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 recognized in share of profits from associates and joint ventures.

Accounting policies of associates and 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 company or joint venture is included in the consolidated accounts based on the preliminary financial statements or latest available information. A

The Group's share of the result in associates and joint ventures, and information on assets and liabilities of principal associates and joint ventures are presented in the following tables.

| EUR mill. | 2013 | 2012 |
|---|---|---|
| At the beginning of the financial year | 12.3 | 13.7 |
| Shares of results | -4.0 | -1.4 |
| Additions | 0.0 | 3.3 |
| Disposals | 0.0 | -3.3 |
| **At the end of the financial year** | **8.2** | **12.3** |

**Financial Statement information on the Group's principal associates and joint ventures 31.12.2013**

| EUR mill. | Domicile | Assets | Liabilities | Turnover | Profit/Loss | Holding % |
|---|---|---|---|---|---|---|
| Amadeus Estonia | Estonia | 0.7 | 0.3 | 1.2 | 0.4 | 33.25 |
| Nordic Global Airlines Oy | Finland | 8.0 | 5.0 | 27.7 | 0.0 | 40.00 |
| Flybe Nordic Ab * | Sweden | 43.6 | 54.6 | 236.1 | -15.8 | 40.00 |
| Kiinteistö Oyj Lentäjäntie 1 | Finland | 26.5 | 20.2 | 1.5 | 0.0 | 28.33 |
| **Total** | | **78.7** | **80.1** | **266.5** | **-15.5** | |

* According to official financial statment of Flybe Finland Oy as per 31 March 2013, which is holding-company Flybe Nordic Ab's subsidiary and responsible of the operations in the Flybe Nordic group.

**Financial Statement information on the Group's principal associates and joint ventures 31.12.2012**

| EUR mill. | Domicile | Assets | Liabilities | Turnover | Profit/Loss | Holding % |
|---|---|---|---|---|---|---|
| Amadeus Estonia | Estonia | 0.7 | 0.4 | 0.7 | 0.2 | 33.25 |
| Nordic Global Airlines Oy | Finland | 7.2 | 4.2 | 28.6 | 0.6 | 40.00 |
| Flybe Nordic Ab | Sweden | 11.2 | 7.6 | 26.6 | -5.5 | 40.00 |
| Kiinteistö Oyj Lentäjäntie 1 | Finland | 27.4 | 19.5 | 1.4 | 0.0 | 28.33 |
| **Total** | | **45.8** | **31.3** | **56.6** | **-4.9** | |

All the associated companies and joint ventures of Finnair are unlisted. Amadeus Finland's associated company Amadeus Estonia ensures consistent products and services to Finnish travel companies operating in Estonia and helps to increase cooperation between Estonian travel agencies and Finnish travel service providers. Nordic Global Airlines Oy is a freight airline co-owned by Finnair Cargo Oy, Ilmarinen and Neff Capital Management. Flybe Nordic, owned by Finnair Plc and Flybe UK, is a regional airline operating in the Nordic countries and the Baltic states. During 2012 the shares of the Finnish Aircraft Maintenance Oy were exchanged to Flybe Nordic shares. The transaction did not effect the share of ownerships.

A = Accounting principles

## 2 SEGMENTS AND INCOME

i Segments and income include segment information and notes related to revenue and other operating income both from income statement and balance sheet perspective. i

### 2.1 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 Board of Directors. Segments are defined based on Group's business areas. A

Reporting segments are based on the Group's business area based internal organisational structure and financial reporting to management. The reporting segments are Airline Business, Aviation Services and Travel Services.

Airline Business is responsible for scheduled passenger and charter traffic as well as cargo sales, customer service and service concepts, flight operations and activity connected with the procurement and financing of aircraft. The Airline Business segment comprises Finnair air traffic, Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy, Finnair Flight Academy Oy and Finnair Aircraft Finance Oy.

Aviation Services consists after the structural changes in 2012 of aircraft maintenance and the operations of Finncatering Oy and Finnair Travel Retail Oy. The business operations of Finnair Catering Oy, which were transferred to LSG Sky Chefs on 1 August 2012, are included in the segment's figures for the comparison year until 31 July 2012. In addition, most of Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities also belong to the Aviation Services business area.

Travel Services consists of the Group's domestic and foreign travel agency operations as well as tour operations and travel sector software business operations. The following companies belong to the Travel Services segment: Oy Aurinkomatkat-Suntours Ltd Ab, Matkayhtymä Oy, Toivelomat Oy, Horizon Travel Oü, OOO Aurinko, Amadeus Finland Oy, Finland Travel Bureau Ltd, Matkatoimisto Oy Area and A/S Estravel.

Transactions between segments are based on commercial terms. Items excluded from operating profit are not allocated to segments. Personnel working in group functions is presented separately, but costs from group functions are allocated to segments.

**Business segment data 2013**

| EUR mill. | Airline Business | Aviation Services | Travel Services | Group eliminations | Group functions | Group total |
|---|---|---|---|---|---|---|
| External turnover | 2,052.5 | 96.8 | 251.0 | | | 2,400.3 |
| Internal turnover | 121.4 | 99.4 | 0.7 | -221.6 | | 0.0 |
| Turnover | 2,174.0 | 196.3 | 251.7 | -221.6 | | 2,400.3 |
| **Operating profit** | **24.8** | **-35.2** | **1.6** | | | **-8.8** |
| **Operational result** | **5.7** | **-13.6** | **3.1** | | | **-4.8** |
| Share of profits from associates and joint ventures | | | | | | -4.0 |
| Financial income | | | | | | 42.6 |
| Financial expenses | | | | | | -19.7 |
| Income taxes | | | | | | 1.0 |
| Non-controlling interests | | | | | | -0.3 |
| **Profit for the financial year** | | | | | | **10.8** |
| | | | | | | |
| Depreciation and impairment | 113.2 | 7.4 | 1.5 | | | 122.1 |
| | | | | | | |
| Average number of employees | 3,619 | 1,215 | 751 | | 274 | 5,859 |
| Employees at the end of year | 3,677 | 1,106 | 730 | | 290 | 5,803 |

**Business segment data 2012**

| EUR mill. | Airline Business | Aviation Services | Travel Services | Group eliminations | Group functions | Group total |
|---|---|---|---|---|---|---|
| External turnover | 2,050.5 | 116.0 | 282.9 | | | 2,449.4 |
| Internal turnover | 136.5 | 203.5 | 1.5 | -341.5 | | 0.0 |
| Turnover | 2,187.0 | 319.5 | 284.4 | -341.5 | | 2,449.4 |
| **Operating profit** | **30.2** | **-1.3** | **4.9** | | | **33.8** |
| **Operational result** | **39.6** | **-2.0** | **5.6** | | | **43.2** |
| Share of profits from associates and joint ventures | | | | | | -1.4 |
| Financial income | | | | | | 7.9 |
| Financial expenses | | | | | | -25.5 |
| Income taxes | | | | | | -4.3 |
| Non-controlling interests | | | | | | -0.3 |
| **Profit for the financial year** | | | | | | **10.2** |
| | | | | | | |
| Depreciation and impairment | 112.9 | 16.5 | 1.4 | | | 130.8 |
| | | | | | | |
| Average number of employees | 3,660 | 1,984 | 855 | | 285 | 6,784 |
| Employees at the end of year | 3,784 | 1,518 | 810 | | 256 | 6,368 |

i = Content of the section
A = Accounting principles

### 2.2 OPERATING INCOME

i Operating income -section includes both income statement and balance sheet notes that relate to turnover and operating income, 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 comprises the fair value consideration received or receivable at the time of delivery of products or upon fulfilment of services. Revenue is shown net of discounts and indirect taxes. Revenue is recognised as described below.

Airline Business sales are recognised as revenue when the flight is flown in accordance with the flight traffic program. The recognition as revenue of unused flight tickets is based on the expiry dates of the tickets.

Finnair Plus' Customer Loyalty Program offers to customers a possibility to use earned loyalty points to acquire services or goods from the Group's supply of services. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. The arrangement is a multiple-element arrangement and the revenue is recognised partly when the original acquisition is purchased and the rest when the accrued points are used to acquire a service or a good.

Aviation Services provide aircraft maintenance services mainly for group companies and due to restructurings decreasingly to external parties. The related revenue is recognised when the service has been completely performed. Revenue related to travel retail and catering businesses are mostly sale of goods and recognised at the moment the goods are transferred to the buyer.

Revenue related to Travel Services is recognised when the service has been performed, i.e. in case of tour operation services at the date of departure and in commission sales at the time of sale. In commission based sales, only the part of commission is included in the revenue.

**Public grants**

Public grants, for example government aid for professional training, have been recognised in other operating income. Public grants that the Group may receive for tangible asset acquisitions are recognised as a reduction in original acquisition cost and depreciated along with the original asset during the useful life.

**Trade receivables**

Trade receivables are recognised at fair value. When the Group has objective evidence that it may not be able to collect all trade receivables that are due, a bad debt provision is recognised. Financial difficulties that indicate that a customer is going into bankruptcy, financial restructuring or substantial delays in payments are examples of objective evidence that might cause trade receivables to be impaired. Impairment of trade receivables is recognised in other operating expenses. A

**! Finnair Plus Customer Loyalty Program**

Valuation and revenue recognition related to Finnair Plus -debt requires judgement of management especially related to fair valuation of unused points and timing of revenue recognition related to points expected to expire. The points of the Finnair Plus Customer Loyalty Program are valued according to the IFRIC 13 to the market value. The market value is determined from the allocation of the used points. Each form of uses is valued using the best estimates for the market value. The liability recognised is the total of accumulated points where the points expected to lapse are decreased. The net amount of points are valued using the above explained method and that amount is recognised as a liability in balance sheet. !

#### 2.2.1 Turnover by currency

| EUR mill. | 2013 | 2012 |
|---|---|---|
| EUR | 1,389.7 | 1,387.0 |
| JPY | 230.4 | 305.3 |
| CNY | 135.3 | 72.2 |
| SEK | 115.0 | 106.1 |
| USD | 83.4 | 75.4 |
| Other currencies | 446.6 | 503.5 |
| **Total** | **2,400.3** | **2,449.4** |

Currency hedging policies are described in the note 5.5 Management of financial risks.

#### 2.2.2 Other operating income

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Rental income | 10,6 | 8,4 |
| Other income | 8,2 | 12,4 |
| **Total** | **18,8** | **20,8** |

#### 2.2.3 Trade and other receivables

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Trade receivables | 123.2 | 120.7 |
| Prepaid expenses, accrued income and other receivables total | 113.9 | 96.8 |
| Receivables from associates and joint ventures | 36.1 | 22.5 |
| Other prepaid expenses, accrued income and other receivables | 77.8 | 74.3 |
| **Total** | **237.1** | **217.5** |

The fair value of trade receivables do not materially differ from balance sheet value.
Receivables from associates and joint ventures are mainly receivables from Flybe.
Prepaid expenses, accrued income and other receivables include mainly aircraft lease prepayments.

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

| Aging analysis of trade receivables | 2013 | 2012 |
|---|---|---|
| Not overdue | 112.6 | 116.3 |
| Overdue less than 60 days | 5.1 | 0.8 |
| Overdue more than 60 days | 5.5 | 3.6 |
| **Total** | **123.2** | **120.7** |

The Group has recognised credit losses from trade receivables 0.8 million euros (3.6) 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 value of each class of receivable mentioned above. The Group does not hold any collateral as security.

**Trade receivables by currency**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| EUR | 60.6 | 61.6 |
| USD | 15.8 | 16.9 |
| JPY | 8.3 | 7.8 |
| CNY | 5.5 | 4.2 |
| SEK | 5.1 | 4.5 |
| Other currencies | 27.8 | 25.8 |
| **Total** | **123.2** | **120.7** |

### 2.2.4 Deferred income

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Unflown air transport revenues | 255.6 | 204.6 |
| Advances received for tour operations | 32.7 | 35.8 |
| Loyalty program Finnair Plus | 32.2 | 32.5 |
| Other items | 20.3 | 15.0 |
| **Total** | **340.8** | **288.0** |

Deferred income includes prepaid, yet unflown flights (255,6) and package tours (32,7), whose departure date is in future. Finnair Plus liability (32,2) comprises unused points accumulated by the air travel and purchases of loyalty customers. These points are recognised at fair value based on the estimated timing and value of their realisation.

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

i = Content of the section

## 3 OPERATING EXPENSES

i Operating expenses -section include the income statement and balance sheet notes related to operating expenses, aiming to provide better overview of business operations and related expenses. Inventories, that inherently relate to overhaul expenses, as well as heavy maintenance provisions of aircraft are included in the 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 in 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 balance sheet, and information on management remuneration. i

### 3.1 PRODUCTION FOR OWN USE

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Component production | 2.0 | 1.4 |
| Heavy maintenance | 0.6 | 0.3 |
| **Total** | **2.5** | **1.7** |

### 3.2 OPERATIONAL EXPENSES BY CURRENCY

| EUR mill. | 2013 | 2012 |
|---|---|---|
| EUR | 1,302.5 | 1,254.1 |
| USD | 983.9 | 1,036.9 |
| JPY | 31.6 | 34.8 |
| CNY | 15.9 | 10.7 |
| SEK | 13.2 | 14.1 |
| Other currencies | 79.5 | 78.0 |
| **Total** | **2,426.5** | **2,428.7** |

Currency hedging policies are described in the note 5.5 Management of financial risks.

### 3.3 OTHER RENTS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Rental of cargo capasity | 18.7 | 18.4 |
| Other rental of flight capasity | 93.2 | 63.3 |
| Office and other rents | 40.1 | 41.5 |
| **Total** | **152.0** | **123.2** |

### 3.4 OTHER EXPENSES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| IT expenses and booking fees | 82.3 | 84.5 |
| Other items | 135.8 | 145.7 |
| **Total** | **218.1** | **230.2** |

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

**Audit fees in other expenses**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| PricewaterhouseCoopers Oy | | |
| Auditor's fees | 0.2 | 0.2 |
| Tax advising | 0.1 | 0.0 |
| Other fees | 0.1 | 0.1 |
| **Total** | **0.4** | **0.3** |

### 3.5 ACCRUALS RELATED TO OTHER EXPENSES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Jet fuels and traffic charges | 78.3 | 80.8 |
| Aircraft materials and overhaul | 11.9 | 12.0 |
| Expenses for tour operations | 10.3 | 11.9 |
| Other items | 68.6 | 64.7 |
| **Total** | **169.0** | **169.3** |

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

### 3.6 INVENTORIES

**A Inventories**

The Group's inventories include the aircraft spare parts and work in progress related to overhaul of aircrafts. Inventories are carried at the lower of acquisition cost and net realisable value. Inventory valuation is based on the average cost method. The acquisition costs of inventories also include a proportion of variable and fixed production overheads. A

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Materials and supplies | 19.8 | 15.1 |
| Work in progress | 0.1 | 2.0 |
| **Total** | **19.9** | **17.1** |

The cost of inventories recognised as expense and included in aircraft materials was 33.6 million euros (32.5). In the financial year a write-down of 0.1 million euros (2.1) was recognised as expense related to inventories. Inventories recognised as assets held for sale were 1.3 million euros in financial year 2013 (12.3).

### 3.7 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 provisions 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.

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 restructuring plan must include at least the following information: the operations affected, the main operating points affected, the workplace locations, working tasks and estimated number of the people who will be paid compensation for the ending of their employment, the likely costs and the date of implementation of the plan.

The Group is obliged to return leased aircraft at the required redelivery condition. To fulfil these maintenance obligations the Group has recognised airframe heavy maintenance, engine maintenance and engine life limited part provisions. The basis for the provision is flight hours flown during the maintenance period. A

| EUR mill. | Aircraft maintenance provision | Restructuring provision | 2013 | Aircraft maintenance provision | Restructuring provision | 2012 |
|---|---|---|---|---|---|---|
| Provision at the beginning of period | 109.7 | 10.8 | **120.5** | 115.8 | 17.1 | 132.9 |
| Provision for the period | 20.2 | 17.4 | **37.6** | 19.2 | 10.8 | 30.0 |
| Provision used | -33.1 | -10.8 | **-43.9** | -24.1 | -17.1 | -41.2 |
| Exhange rate differences | -4.5 | | **-4.5** | -1.2 | | -1.2 |
| **Total** | **92.4** | **17.4** | **109.8** | **109.7** | **10.8** | **120.5** |
| | | | | | | |
| Of which non-current | 69.3 | | **69.3** | 82.3 | | 82.3 |
| Of which current | 23.1 | 17.4 | **40.5** | 27.4 | 10.8 | 38.2 |
| **Total** | **92.4** | **17.4** | **109.8** | **109.7** | **10.8** | **120.5** |

Non-current aircraft maintenance provisions are expected to be used by 2020.
The restructuring provision for personnel and the rents of empty premises is part of the structural change of the Group.

A = Accounting principles

### 3.8 ITEMS EXCLUDED FROM OPERATIONAL RESULT

Operational result do not include non-recurring items and other items affecting comparability. Fair value changes of derivatives recognised through income statement and fair value changes of foreign currency denominated fleet maintenance reserves are considered as items affecting comparability in Finnair.

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Fair value changes of derivatives | 17.2 | -5.2 |
| Fair value changes of foreign currency denominated fleet maintenance reserves | 4.5 | 1.2 |
| Capital gains on sales of tangible assets | 1.1 | 22.2 |
| Non-recurring items | -26.8 | -27.6 |
| **Total** | **-4.0** | **-9.4** |

### 3.9 EMPLOYEE BENEFITS

### 3.9.1 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. For the awards to be paid on share-based incentive plans for key personnel, performance criteria set by the Board of Directors need to be met. Share-based savings plan for employees (FlyShare) requires the employees to remain in Finnair's service for the defined period but 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 recognized 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 when the entity 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.

For accounting principles related to **Pensions, see** note 3.9.2 for more information A

**Staff costs**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Wages and salaries | **304.4** | **341.8** |
| Pension expenses | 58.6 | 64.1 |
| Defined contribution schemes | 51.1 | 57.3 |
| Defined benefit schemes | 7.5 | 6.8 |
| Other social expenses | 20.9 | 23.3 |
| **Total** | **383.9** | **429.2** |
| Staff costs included in non-recurring items | 17.9 | 12.2 |
| **Total staff costs in income statement** | **401.8** | **441.4** |

In Finnair, the total salary of personnel consists of fixed pay, short- and long-term incentives, fringe benefits and other personnel benefits. The total amount of short-term incentives recognised for 2013 were 5.1 million euros (8.2). In addition to staff costs, non-recurring items include personnel related restructuring costs of 17.9 million euros (12.2) as agreed in the Group's statutory employer-employee negotiations. Including non-recurring items, total staff costs amounted to 401.8 million euros (441.4).

**Transfer to Personnel Fund**

Finnair has a Personnel Fund that is owned and controlled by 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 the targets set by the Board of Directors. The CEO and other members of the Executive Board are not members of the Personnel Fund. Personnel Fund is obliged to invest part of the bonus in Finnair Plc's shares. In 2013 profits were not allocated to the fund. From 2012 results a total of 5 million euros were transferred to the fund, of which 4.8 million euros was recognised during 2012 and 0.2 million euros in 2013 results.

**Employee benefit related accruals**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Holiday payments | 66.4 | 66.0 |
| Other employee related accrued expenses | 28.3 | 38.3 |
| **Employee benefit related accruals total** | **94.7** | **104.3** |

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs. In addition, restructuring provisions included in the current provisions amounted to 15.7 million euros (10.8).

### Management remuneration

#### The President and CEO and Executive Board remuneration

| Employee benefits recognised | President and CEO Pekka Vauramo | Deputy CEO Ville Iho | President and CEO Mika Vehviläinen | Excecutive Board* | Total 2013 | President and CEO Mika Vehviläinen | Excecutive Board | Total 2012 |
|---|---|---|---|---|---|---|---|---|
| **Thousand EUR** | | | | | | | | |
| Fixed pay | 361 | 225 | 178 | 1,620 | **2,384** | 576 | 1,739 | 2,315 |
| Short-term incentives ** | 64 | 30 | 0 | 180 | **274** | 202 | 557 | 759 |
| Fringe benefits | 0 | 13 | 7 | 60 | **80** | 38 | 87 | 125 |
| Termination benefits | 0 | 0 | 0 | 502 | **502** | - | 231 | 231 |
| Share-based payments *** | 0 | 33 | 4 | 206 | **242** | 147 | 775 | 922 |
| Pensions (statutory) **** | 62 | 49 | 48 | 340 | **499** | 133 | 396 | 529 |
| Pensions (voluntary defined benefit) | 0 | 0 | 0 | 53 | **53** | 0 | 122 | 122 |
| Pensions (voluntary defined contribution) | 0 | 22 | 0 | 95 | **117** | 115 | 165 | 280 |
| **Total** | **487** | **371** | **236** | **3,057** | **4,151** | **1,211** | **4,072** | **5,283** |

* Salary and remuneration of Acting CEO Ville Iho for 2013 is not included in Executive Board figures. His salary and remuneration is presented separately for the whole year of 2013.
** Short-term incentives for the financial year 2013 are estimates as at the balance sheet date the final review of targets has not been done.
*** Related to former President and CEO Mika Vehviläinen, a total amount of 328,158 euros was recognised as share-based payment expense in 2012, but due to his resignment during 2013, he was not paid a share-based bonus and related cost of 178,011 euros was reversed during 2013. According to rules of the 2010-2012 plan, Mr. Vehviläinen was paid in 2013 an incentive bonus of 150,147 euros based on the purchase of shares earned in 2012.
**** Statutory pensions include Finnair's share of contribution paid related to Finnish statutory "Tyel" pension plan.

Management remuneration is presented on accrual basis. Share-based payments in 2013 and 2012 relate to Finnair's share-based bonus scheme 2010–2012. The shares earned were paid during 2013, but the income statement effect is accrued to vesting period for 2010–2016 up to ending of lock-up period, according to IFRS 2. Performance share plan for key personnel 2013–2015 didn't cause any income statement effect as the performance targets set for 2013 were not met. Management has not been provided any other long-term incentives in addition to share-based payments. More information on share-based payment schemes can be found in the note 3.9.2 and in a separate Remuneration statement, which also provides additional information on management cash-based remuneration.

The pension plans of the members of the Executive Board have been arranged through Finnish pension insurance company, and the retirement age is 63. All management pension schemes taken after 1 October 2009 are defined contribution plans and from 2013 onwards new excecutive service contracts do not include defined benefit supplementary pensions. Voluntary defined benefit pension plans for Excecutive Board will cease during 2014.

#### The Board of Directors remuneration

| Compensation paid for board service, EUR | Total 2013 | Fixed remuneration | Meeting compensation | Fringe benefits | Total 2012 |
|---|---|---|---|---|---|
| Board of Directors total | **382,410** | 245,400 | 105,600 | 31,410 | 349,715 |
| Friman Maija-Liisa | 53,022 | 30,000 | 12,300 | 10,722 | |
| Heinemann Klaus | 75,000 | 53,400 | 21,600 | 0 | |
| Itävuori Jussi | 55,180 | 30,000 | 21,600 | 3,580 | |
| Karhapää Merja | 43,529 | 30,000 | 10,800 | 2,729 | |
| Kerminen Harri | 51,295 | 34,200 | 15,300 | 1,795 | |
| Kronman Gunvor | 49,707 | 30,000 | 12,000 | 7,707 | |
| Kuosmanen Antti, from 27 March 2013 on | 33,487 | 22,500 | 7,800 | 3,187 | |
| Sailas Harri, till 27 March 2013 | 21,190 | 15,300 | 4,200 | 1,690 | |

### 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 2013–2015

On 7 February 2013, Finnair's Board of Directors decided to launch a new performance share plan for key personnel for 2013–2015. The share plan replaces the previous program, which expired at the end of 2012. The purpose of the share plan is to encourage the management to work to increase long-term shareholder value. The share plan is in line with the statement by the Finnish Cabinet Committee on Economic Policy regarding the remuneration of executive management and key individuals. The program consists of annually commencing individual plans. The commencement of each new plan is subject to separate decision made by Finnair's Board of Directors.

Each 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.

The potential reward will be delivered in Finnair shares. The share delivery is split into three share tranches that will be delivered to the participants during the three years following the performance period: 50% in 2016, 30% in 2017 and 20% in 2018. No shares will be delivered under the long-term incentive plan in 2014 and 2015. As Finnair is adopting a program consisting of annually commencing individual plans, in which the shares are paid in three tranches, the program also includes a bridge element to supplement payments in 2016 and 2017. This takes into consideration the fact that the share savings plan will not be in full effect until 2018.

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 program will be 30% of his or her annual base salary. 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 target level for incentives for other key personnel is 20–25% of the person's average annual base salary according to the job grade. If the performance criteria set out for 2013-2015 plan are met at the target level, the estimated value of the shares to be paid would be approximately 2.6 million euros, corresponding to 0.9 million shares based on share price at the balance sheet date, and if the maximum targets would be met, estimated value of shares to be paid would be approximately 5.2 million euros (approximately 1.9 million shares).

According to the rules of the share program, the maximum value of shares delivered to an individual participant based on the share program in any given year may not exceed 60% of the person's annual base salary. The amounts of shares above 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 plan for 2013–2015 are the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria are assigned weights of 60% and 40%, respectively. The performance criterion for the share plan's bridge element is the operating EBIT margin. 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. In 2013 the performance criteria were not met and therefore the plan did not effect 2013 results or financial position.

**FlyShare employee share savings plan 2013–2014**

On 27 March 2013, Finnair's Board of Directors decided to launch FlyShare, an employee share savings plan. 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.

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% and the minimum 2% of each participant's gross base salary per month, with the annual maximum savings set at EUR 8,000 per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the publication dates of Finnair's interim reports. The first purchases of shares were made in October–November 2013.

To increase the attractiveness of the plan, Finnair awarded 20 bonus shares in October 2013 to each employee that participated in at least the first three months of the plan. The related effect has been recognised as expense during period. In spring 2016, Finnair will award each participating employee one share for each two shares purchased. The awarded additional shares are taxable income for the recipient. The cost related to additional shares delivered at 2016 is recognised as expense during vesting period.

Total savings during 2013-2014 cannot exceed 2.5 million euros, which calculated with the closing share price of 30 December 2013 (2.77 euros per share) would correspond approximately 0.9 million shares.

| Effect of FlyShare share savings plan on Group's results and financial position, thousand EUR | 2013 |
|---|---|
| Fair value of matching rights delivered during period | 275 |
| Total income statement effect of share-based payments | 76 |
| Share-based payments, share-settled | 69 |
| Liabiltity related to share-based payments at the closing date | 7 |

**Finnair Plc's share-based bonus scheme 2010–2012**

The Board of Directors of Finnair Plc approved a share-based bonus scheme for 2010–2012 on 4 February 2010. In the share bonus scheme, key individuals had the possibility of receiving company shares and cash for a three-year performance period according to how financial targets set for the performance period have been achieved.

The Board of Directors decided annually the financial targets to be set for each performance period. Achieving the targets set for the performance period determined how large proportion of the maximum bonus and of the incentive based on the acquisition of Finnair shares will be paid. In a three-year period, the total of the share bonuses, however, could not exceed three years' gross earnings.

**Incentive bonus based on the purchase of shares**

If key individuals belonging to the share bonus scheme purchased Finnair Plc shares during 2010-2012, they were paid a cash incentive bonus in the spring of the year following the acquisitions. The incentive bonus was equal to the proportion of the value of the shares, acquired by the key individual, corresponding to the percentage fulfilment of set targets. This bonus will be supplemented by a cash sum, which in most cases will correspond to taxes and tax-related payments arising to key individuals from the receipt of their bonus. In any single year of the performance period the number of shares acquisition taken into account is at most half of the key individual's share bonus allocation, i.e. the number of shares that the key individual can at most receive as a share bonus for the year in question. The size of the cash bonus is determined as follows: number of shares acquired by key individual x the company's share price at the time of payment x the target realisation percentage x 2.5.

**Shares delivered based on the plan and effects of the plan on results and financial position**

Shares were earned annually in the period 2010–2012. The long-term incentive for the three-year period was achieved at an average level of 43%. This share-based incentive for the full three-year period was paid in spring 2013, and total amount of 708,679 shares were delivered. At the same time, a cash bonus intended for payment of taxes was paid, amounting to 1.5 times the value of the shares at the time of payment. After the payment of shares, there is a three-year embargo on their sale and shares are held in lock-up. A total amount of 5,297,346 euros was paid related to the plan, of which 1,795,580 euros was delivered as shares, 2,693,370 euros paid as cash to cover tax payments and 808,396 euros paid as incentive bonus based on the purchase of shares.

The income statement effect related to the plan has been accrued to vesting period 2010-2016 based on the applied IFRS 2 standard. The effect on 2013 results for the program totalled 857,134 euros (2,450,437) of which the amount settled in shares amounted to 534,461 euros.

### 3.9.2 PENSIONS

**A Change in accounting principles**

Finnair has adopted the revised standard concerning employee benefits (IAS19 revised) from 2013 onwards due to which accounting principles of pensions have changed. Previously applied corridor method in recognising actuarial gains and losses is no longer used. All the actuarial gains and losses are recognised as they occur through other comprehensive income. Items recognized in other comprehensive income are no longer recycled through profit and loss. The standard has been applied retrospectively and comparative figures of 2012 have been restated to be in line with the new changed accounting principles. The effect of the restatement is presented in the note 6.5 Change of accounting principle.

**Revised accounting principles**

Pension schemes 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 employee benefit expense. 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 description of exposure to most significant risks and sensitivity analysis on impacts of changes in actuarial assumptions. !

**Description of pension plans in Finnair**

The statutory pension plan of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The statutory pension plan 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 schemes of the parent company's five members of the Excecutive Board are arranged in a pension insurance company and the retirement age under these agreements is in average 63 years. These pension schemes are also defined contribution schemes except for 2 persons who have a defined benefit scheme, that will end during 2014. Other (voluntary) pension plans of the Group's domestic companies have been arranged in Finnair Plc's Pension Fund, in which the pension schemes are defined benefit plans. These pension plans cover old age pensions, disability and survivors' pensions. According to Finnish legislation the pension fund is fully funded.

A = Accounting principles
! = Critical accounting estimates

**Exposure to most signifigant risks**

Volatility of plan assets: Some of the plan assets are invested in equities which causes volatility but which are in the long run expected to provide higher returns than corporate bonds. Discount rate of plan obligations is defined based on 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. The increase is partly netted with the increase of bond fair values 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 schemes**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Items recognised in the income statement** | | |
| Current service costs | 8.0 | 7.2 |
| Past service cost | -0.4 | 2.3 |
| Settlements and curtailments | 0.0 | -0.3 |
| **Service cost total** | **7.6** | **9.2** |
| Net interest expenses | -0.1 | -2.3 |
| **Included in personnel expenses total** | **7.5** | **6.8** |
| | | |
| **Amounts recognised through other comprehensive income** | | |
| Experience adjustment on plan obligation | 16.5 | 18.1 |
| Changes in financial actuarial assumptions | 0.2 | 64.9 |
| Changes in demographical actuarial assumptions | -0.8 | 0.0 |
| Net return on plan assets | -16.3 | -35.1 |
| **Amounts recognised through other comprehensive income total** | **-0.4** | **47.8** |
| | | |
| Number of persons involved, pension fund | 5,048 | 5,271 |
| Management pension (defined benefit), persons involved | 2 | 4 |

**Items recognised in the balance sheet**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Present value of funded obligations | 406.9 | 392.5 |
| Fair value of scheme assets | -396.3 | -388.8 |
| **Net defined benefit liability** | **10.6** | **3.6** |

The net defined benefit liability in 2013 includes 10.5 million euros (3.1) related to defined benefit plans insured through pension fund and 0.1 million euros (0.5) related to defined benefit plans of management.

Plan assets of the pension fund include Finnair Plc shares with a fair value of 0.4 million euros (0.3) and buildings used by the Group with a fair value of 36.2 million euros (36.2).

**Changes in pension obligations**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Net present value of pension obligations at 1 January | 392.5 | 309.4 |
| Current service cost | 8.0 | 7.2 |
| Past service cost | -0.4 | 2.3 |
| Settlements and curtailments | 0.0 | -0.7 |
| Interest expense | 12.4 | 14.1 |
| **Expenses recognised in income statement** | **19.9** | **22.8** |
| Changes in actuarial assumptions | -0.6 | 64.9 |
| Experience adjustment on plan obligation | 16.5 | 18.1 |
| **Remeasurements recognised through OCI** | **15.9** | **82.9** |
| Benefits paid | -21.5 | -22.7 |
| **Net present value of pension obligations** | **406.9** | **392.5** |

**Changes in plan assets**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Fair value of plan assets at 1 January | 388.8 | 352.9 |
| Expected return on plan assets | 12.5 | 16.5 |
| Settlements and curttailments | 0.0 | -0.4 |
| **Items recognised through profit and loss** | **12.5** | **16.0** |
| Acturial gain (loss) on plan assets | 16.3 | 35.1 |
| **Items recognised through OCI** | **16.3** | **35.1** |
| Contributions paid | 0.2 | 7.5 |
| Benefits paid | -21.5 | -22.7 |
| **Fair value of plan assets at 31 December** | **396.3** | **388.8** |

**Plan assets are comprised as follows**

| % | 2013 | 2012 |
|---|---|---|
| Listed shares | 22.0 | 18.8 |
| Debt instruments | 50.0 | 55.7 |
| Property | 17.0 | 17.2 |
| Other | 11.0 | 8.3 |
| **Total** | **100.0** | **100.0** |

**Defined benefit schemes: principal actuarial assumptions**

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 3.25% | 3.25% |
| Inflation | 2.0% | 2.0% |
| Annual rate of future salary increases | 3.00% | 3.00% |
| Future pension increases | 2.10% | 2.10% |
| Estimated remaining years of service | 13 | 12 |

## Sensitivity analysis

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

**Defined benefit schemes: 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% | -13.4 | -3.29 | 13.0 | 3.19 |
| Inflation | 0.25% | 14.1 | 3.47 | -13.6 | -3.35 |
| Annual rate of future salary increases | 0.25% | 3.8 | 0.93 | -3.8 | -0.92 |
| Future pension increases | 0.25% | 10.3 | 2.53 | -10.1 | -2.47 |
| Life expectancy at birth | 1 year | 10.8 | 2.67 | -10.6 | -2.61 |

According to Finnish legislation, pension fund needs to be fully funded. Expected contribution payments for future five years are approximately 38 million euros. The amount of payments depends on future returns on plan assets.

The weighted average duration of defined benefit obligation is 13.92 years. The weighted average duration is calculated with discount rate 3.25%.

## 4 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, are combined in this section so that the overview of the fleet would be easier to perceive. i

### 4.1 INTANGIBLE ASSETS

A Intangible assets are stated at historical cost less accumulated amortisation and impairment loss if applicable. Depreciation and impairment of intangible assets are based on the following expected economic lifetimes:

- Goodwill: impairment testing
- Computer software: 3–8 years
- Other intangible assets: 3–10 years

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**Other intangible assets**

Other intangible assets include mainly computer software, capitalised renovation costs of office rentals and connection fees. Major software development costs are capitalised when they are expected to generate economic value over a one year period. Acquired user rights and licenses are as computer software at the acquisition cost, including the costs of making the license and software ready for use. Maintenance and and minor development costs are recognised as expense at the time they occur. Computer software and other intangible assets are depreciated over a useful life of 3-10 years, except for connection fees which are not depreciated.

**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.

**Impairment**

On every closing date the Group reviews individual intangible 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 estimated recoverable amount. The need for impairment is examined on the cash generating unit level.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. A

i = Content of the section
A = Accounting principles

**Intangible assets 2013**

| EUR mill. | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| Acquisition cost 1 Jan 2013 | 1.2 | 97.6 | 98.8 |
| Additions | | 1.5 | 1.5 |
| Disposals | | -5.3 | -5.3 |
| Transfer between items | | 0.5 | 0.5 |
| **Acquisition cost 31 Dec 2013** | **1.2** | **94.2** | **95.5** |
| | | | |
| **Accumulated depreciation and impairment** | | | |
| Accumulated depreciation and impairment 1 Jan 2013 | 0.0 | -73.4 | -73.4 |
| Depreciation | | -8.1 | -8.1 |
| Accumulated planned depreciation of disposals | | 5.3 | 5.3 |
| **Accumulated depreciation and impairment 31 Dec 2013** | **0.0** | **-76.2** | **-76.2** |
| | | | |
| **Book value 31 Dec 2013** | **1.2** | **18.0** | **19.3** |

**Intangible assets 2012**

| EUR mill. | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| Acquisition cost 1 Jan 2012 | 1.2 | 100.2 | 101.4 |
| Additions | | 4.8 | 4.8 |
| Disposals | | -7.4 | -7.4 |
| **Acquisition cost 31 Dec 2012** | **1.2** | **97.6** | **98.8** |
| | | | |
| **Accumulated depreciation and impairment** | | | |
| Accumulated depreciation and impairment 1 Jan 2012 | 0.0 | -69.1 | -69.1 |
| Depreciation | | -11.1 | -11.1 |
| Accumulated planned depreciation of disposals | | 6.8 | 6.8 |
| **Accumulated depreciation and impairment 31 Dec 2012** | **0.0** | **-73.4** | **-73.4** |
| | | | |
| **Book value 31 Dec 2012** | **1.2** | **24.3** | **25.5** |

The goodwill is recognised 0.5 million euros in Airline Business and 0.7 million euros in Travel Services. The recoverable cashflows used in the impairment test are determined based on value-in-use calculations in both segments. The cash-flow projections for the next year are based on forecasts approved by management and after that period the cashflows are extrapolated by using 2 % growth factor.

Travel Services' goodwill is allocated to the business operations of Aurinko Oü (former Horizon Travel Oü) and the key assumptions used for value in use calculations are as follows:
WACC pretax 10.0%
EBITDA 1.0%
Growth rate 2%

The increase of WACC by 27.5 per cent points in the whole period under review or the decrease of EBITDA by 67 % means that the recoverable amount is equal to carrying amount for the asset.

### 4.2 TANGIBLE ASSETS

A Tangible assets are stated at historical cost less accumulated depreciation and impairment loss if applicable. The cost of an asset includes costs directly attributed to preparing an asset for its intended use. Tangible assets comprise mainly aircraft and buildings. The acquisition cost of aircraft is allocated to the aircraft body, engines and heavy maintenance and these are depreciated as separate assets. Depreciation of tangible assets is based on the following expected economic lifetimes:

- Buildings, over 50 years from time of acquisition to a residual value of 10% or 3-7% of the diminishing balances
- Aircraft and engines (aircraft) as well as flight simulators (other equipment) on a straight-line basis as follows:
  - 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%
  - New Airbus A340 family aircraft, over 15 years to a residual value of 10%
  - Used jet aircraft more than six years old, over 10 years to a residual value of 10%
  - Turboprop aircraft, over 12 years to a residual value of 10%
  - Aircraft to be withdrawn, fully on a straight-line basis during the useful life outlined in the fleet modernization plan
- Heavy maintenance of aircraft, on a straight-line basis during the maintenance period
- Embraer components (aircraft), over 20 years to a residual value of 10%
- Airbus components (aircraft), over 15 years to a residual value of 10%
- Other tangible assets, 23% of the diminishing balances

Land areas are not depreciated. The residual values and estimated useful lives of assets are assessed at each closing date and if they differ significantly from previous estimates, the depreciation periods and residual values are changed accordingly.

Significant expenses of modernisation and improvement projects (mainly aircraft modifications) are recognised as a separate asset when it is probable that future economic benefits associated with the item will flow to the Group and the acquisition cost can be measured reliably. The carrying amount of the replaced parts is written down. Other repair and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Gains on disposal of tangible assets are included in operating income in the income statement, and losses in non-recurring items. Gains and losses are not included in operational result.

#### 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 estimated recoverable amount. The need for impairment is examined on the cash generating unit level.

The recoverable amount is the higher of the asset's fair value less costs to sell and 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. An impairment loss is recognised in the income statement when the carrying amount of the asset is greater than the recoverable amount. If the recoverable amount of the asset has changed after the impairment loss was recognised, the impairment loss is reversed up to the carrying amount, excluding impairment loss, of the asset. A

#### ! Impairment testing

The recoverable amounts of cash generating units have been determined in calculations based on value in use. 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. !

**Tangible assets 2013**

| EUR mill. | Land | Buildings | Aircraft | Other equipment | Advances paid | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Acquisition cost 1 Jan 2013 | 0.7 | 148.0 | 1,987.3 | 84.3 | 32.7 | 2,253.0 |
| Additions | | 0.1 | 33.5 | 2.2 | 37.9 | 73.7 |
| Disposals | | | -1.8 | -12.7 | | -14.5 |
| Transfer between items | | | 3.4 | 1.9 | -4.7 | 0.6 |
| Transfer to assets held for sale | | | -5.6 | | | -5.6 |
| **Acquisition cost 31 Dec 2013** | **0.7** | **148.1** | **2,016.9** | **75.7** | **66.0** | **2,307.3** |
| | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | |
| Accumulated depreciation and impairment 1 Jan 2013 | 0.0 | -110.5 | -729.7 | -50.2 | | -890.4 |
| Depreciation | | -1.8 | -107.5 | -5.9 | | -115.2 |
| Accumulated planned depreciation of disposals | | | 1.7 | 6.3 | | 8.0 |
| Accumulated depreciation of assets classified as held for sale | | | 0.0 | | | 0.0 |
| **Accumulated depreciation and impairment 31 Dec 2013** | **0.0** | **-112.3** | **-835.5** | **-49.8** | **0.0** | **-997.6** |
| | | | | | | |
| **Book value 31 Dec 2013** | **0.7** | **35.8** | **1,181.4** | **25.9** | **66.0** | **1,309.8** |

**Tangible assets 2012**

| EUR mill. | Land | Buildings | Aircraft | Other equipment | Advances paid | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Acquisition cost 1 Jan 2012 | 0.7 | 160.4 | 2,022.1 | 98.7 | 6.5 | 2,288.4 |
| Additions | | 0.2 | 33.5 | 3.3 | 26.2 | 63.2 |
| Disposals | | -12.6 | -53.9 | -8.0 | | -74.5 |
| Transfer to assets held for sale | | | -14.4 | -9.7 | | -24.1 |
| **Acquisition cost 31 Dec 2012** | **0.7** | **148.0** | **1,987.3** | **84.3** | **32.7** | **2,253.0** |
| | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | |
| Accumulated depreciation and impairment 1 Jan 2012 | 0.0 | -108.4 | -658.1 | -53.7 | | -820.2 |
| Depreciation | | -2.2 | -110.8 | -6.6 | | -119.6 |
| Accumulated planned depreciation of disposals | | 0.1 | 35.2 | 3.5 | | 38.8 |
| Accumulated depreciation of assets classified as held for sale | | | 4.0 | 6.6 | | 10.6 |
| **Accumulated depreciation and impairment 31 Dec 2012** | **0.0** | **-110.5** | **-729.7** | **-50.2** | **0.0** | **-890.4** |
| | | | | | | |
| **Book value 31 Dec 2012** | **0.7** | **37.5** | **1,257.6** | **34.1** | **32.7** | **1,362.6** |

The value of aircraft that have been pledged as a security for external loans amount to EUR 599.7 million (740.9). Other equipment includes office equipment, furnishings, cars and transportation vehicles used at airports.

A = Accounting principles
! = Critical accounting estimates

### Impairment test

The impairment test of the aircraft based on the fair value and value-in-use has been prepared on the closing date. The test based on value-in-use did not cause any need for impairment.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations, which are based on Groups' assumptions. These calculations are prepared based on management estimate of future pre-tax cash flow and profit for 2014. The forecast for the years 2015–2020 is based on the main assumptions and fleet forecast used as the basis for the best estimate. The residual value used in the calculation represents the estimated value of aircrafts in 2020. The fair values of aircrafts are based on bulletins of two independent aircraft valuators.

The key assumptions used for value-in-use calculations are as follows:
WACC pretax 8.00%
EUR USD 1.34 exchange rate
Inflation 2%
RASK base level 6.17 (c/ASK)

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Fuel, USD/ton | 980 | 980 | 980 |
| RASK change, % | 2.0% | 2.0% | 2.0% |

The value-in-use calculation is sensitive to all key assumptions. The most sensitive is RASK (revenue per available seat kilometer), and after that the fuel price and exchange rate EUR/USD. The decrease of RASK by 3 per cent during the period under review will decrease the recoverable amount to equal the carrying amount for the asset. The average fuel price increase by 11 per cent decrease the recoverable amount so that it would equal the carrying amount.

The value-in-use calculation of aircraft is sensitive to USD exchange rate, the USD strengthening of 11 per cent will decrease the recoverable amount so that the impairment should be recognised. However, the strengthening of the USD by 6 per cent would increase the euro equivalent of the current market values of the aircraft above the carrying value. The decrease of yen by 40 per cent during the period under review will decrease the recoverable amount to equal to the carrying amount of the asset.

### Investment commitments

At the end of financial year investment commitments totalled 974 million euros (1,000) including 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.

## 4.3 DEPRECIATION AND IMPAIRMENT

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Depreciation of tangible assets** | | |
| Buildings | 1.8 | 2.2 |
| Aircraft | 107.5 | 110.8 |
| Other equipment | 4.7 | 6.6 |
| | **114.0** | **119.6** |
| **Depreciation of intangible assets** | | |
| Other intangible assets | 8.1 | 11.2 |
| | | |
| **Total** | **122.1** | **130.8** |

In addition, non-recurring items include depreciation of other equipment 1.2 million euros (0,1).

## 4.4 LEASING ARRANGEMENTS

### A The Group as the lessee

Lease agreements of 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. The lease payments are allocated between finance charges and the reduction of the outstanding liability. The corresponding rental obligations, net of finance charges, are included in the non-current or current interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease term so as to achieve a constant interest rate on the remaining balance of the liability for each period. Asset items acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Lease agreements of tangible assets, where the lessor retains a substantial part of the risks and rewards, are classified as operating leases. Payments under operating leases are charged to the income statement over the lease term.

### The Group as the lessor

The 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 additional rent or maintenance reserve which accumulate funds for maintenance related to the usage of the aircraft. The Company's obligations to make contributions or reimbursements for such maintenance are recognised as liabilities. Contributions or reimbursements to the lessee upon acceptance of evidence of qualifying maintenance work are charged against the existing liabilities. The rents for premises are recognized in income statement as other operating income over the lease term and the rents for aircraft as turnover.

### Sale and leaseback

If sale and leaseback transaction is resulting 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 sale and leaseback transaction is resulting 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

! The classification of lease arrangements in Group's Airline Business to financial and other leases requires management discretion in interpretation and application of accounting standards. 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. !

A = Accounting principles
! = Critical accounting estimates

**Finance lease arrangements**

Assets acquired under finance leases are included in tangible assets and depreciation.

**Finance leases 2013**

| EUR mill. | Buildings | Aircraft | Other equipment | Total |
|---|---|---|---|---|
| Acquisition cost 1 Jan 2013 | 6.5 | 197.2 | 28.0 | 231.7 |
| Additions | 0.0 | 0.0 | 1.1 | 1.1 |
| Disposals | 0.0 | 0.0 | -6.3 | -6.3 |
| **Acquisition cost 31 Dec 2013** | **6.5** | **197.2** | **22.8** | **226.6** |
| | | | | |
| Accumulated depreciation and impairment 1 Jan 2013 | -1.8 | -26.5 | -17.3 | -45.6 |
| Depreciation | -0.6 | -13.6 | -1.0 | -15.2 |
| Accumulated depreciation of disposals | 0.0 | 0.0 | 0.0 | 0.0 |
| **Accumulated depreciation and impairment 31 Dec 2013** | **-2.4** | **-40.1** | **-18.3** | **-60.8** |
| **Book value 31 Dec 2013** | **4.0** | **157.2** | **4.6** | **165.8** |

**Finance leases 2012**

| EUR mill. | Buildings | Aircraft | Other equipment | Total |
|---|---|---|---|---|
| Acquisition cost 1 Jan 2012 | 28.2 | 197.2 | 35.3 | 260.7 |
| Additions | 0.0 | 0.0 | 1.6 | 1.6 |
| Disposals | -21.7 | 0.0 | -8.9 | -30.6 |
| **Acquisition cost 31 Dec 2012** | **6.5** | **197.2** | **28.0** | **231.7** |
| | | | | |
| Accumulated depreciation and impairment 1 Jan 2012 | -9.9 | -16.6 | -19.4 | -45.9 |
| Depreciation | -1.1 | -9.9 | -2.5 | -13.5 |
| Accumulated depreciation of disposals | 9.2 | 0.0 | 4.6 | 13.8 |
| Accumulated depreciation and impairment 31 Dec 2012 | **-1.8** | **-26.5** | **-17.3** | **-45.6** |
| **Book value 31 Dec 2012** | **4.7** | **170.7** | **10.7** | **186.1** |

Buildings in finance lease arrangements are depreciatedover the useful life in 6–21 years and other equipment is depreciated in 5–12 years. Aircrafts are depreciated over the useful life in 18 years. In the financial and comparison period no variable rents from finance leases have been recognised.

**Finance lease liabilities**

| | Minimum lease payments | | Future financial expenses | | Present value of minimum lease payment | |
|---|---|---|---|---|---|---|
| **EUR mill.** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| less than a year | 19.8 | 22.1 | 2.9 | 3.7 | 16.9 | 18.4 |
| 1-5 years | 79.8 | 87.2 | 9.0 | 10.6 | 70.8 | 76.6 |
| more than 5 years | 75.1 | 97.7 | 10.8 | 13.1 | 64.3 | 84.6 |
| **Total** | **174.8** | **207.0** | **22.8** | **27.4** | **152.0** | **179.6** |

**Other lease arrangements**

**The Group is the lessee**

**Minimum rental payments for irrevocable lease agreements are as follows:**

| | Aircraft | | Premises | | Other equipment | |
|---|---|---|---|---|---|---|
| **EUR mill.** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| less than a year | 53.6 | 52.0 | 19.1 | 19.6 | 6.8 | 7.0 |
| 1-2 years | 45.9 | 37.0 | 18.3 | 18.0 | 5.7 | 6.5 |
| 2-3 years | 35.1 | 30.4 | 17.8 | 16.5 | 1.2 | 5.8 |
| 3-4 years | 24.9 | 21.6 | 17.8 | 16.3 | 0.4 | 1.5 |
| 4-5 years | 19.2 | 13.5 | 17.6 | 16.3 | 0.0 | 1.1 |
| more than 5 years | 80.5 | 15.5 | 140.0 | 149.5 | 0.0 | 0.0 |
| **Total** | **259.2** | **170.0** | **230.7** | **236.2** | **14.1** | **21.9** |

The Group has leased premises as well as aircraft and other fixed assets with irrevocable lease agreements. These agreements have different renewal and other index-linked terms and conditions. The Group has leased 24 aircraft on leases of different lengths. Rental payments of aircraft have increased mainly because of the new Airbus A321 Sharklet aircraft received during the financial year.

**The Group is the lessor**

**Minimum rental payments for irrevocable lease agreements are as follows:**

| | Aircraft | | Premises | |
|---|---|---|---|---|
| **EUR mill.** | **2013** | **2012** | **2013** | **2012** |
| less than a year | 57.8 | 50.2 | 3.5 | 1.0 |
| 1-2 years | 56.7 | 48.4 | 3.4 | 1.0 |
| 2-3 years | 46.1 | 47.0 | 3.3 | 0.9 |
| 3-4 years | 37.3 | 41.9 | 3.3 | 0.9 |
| 4-5 years | 12.8 | 33.1 | 3.3 | 0.9 |
| more than 5 years | 8.4 | 12.5 | 36.4 | 9.0 |
| **Total** | **219.1** | **233.1** | **53.2** | **13.7** |

The Group has leased premises as well as aircraft with irrevocable lease agreements. These agreements have different levels of renewal and other index-linked terms and conditions. The Group has leased 33 aircraft on leases of different lengths. Rental payments of premises have increased mainly because of lease agreements with outsourcing partners.

# 5 CAPITAL STRUCTURE AND FINANCING COSTS

## 5.1 FINANCIAL INCOME AND EXPENSES

i The notes from financial assets and liabilities and equity has been gathered into capital structure and financing costs-section to give a better overall view of the Groups financial position. i

A **Interest income and expenses**
Interest income and expenses are recognised on a time-proportion basis using the effective interest method. More detailed information about financial assets in note 5.2 Financial assets and about interest bearing liabilities in note 5.3 Financial liabilities.

**Dividend income**
Dividend income is recognised when the company has acquired a legal right to receive the dividends. A

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Interest income from financial assets classified as held for trading | 2.6 | 4.5 |
| Other interest income | 1.7 | 1.2 |
| Dividend income | 0.1 | 0.1 |
| Exchange gains | 1.5 | 0.3 |
| Other financial income * | 36.7 | 1.8 |
| **Financial income total** | **42.6** | **7.9** |
| | | |
| Interest expenses for financial liabilities valued at amortised acquisition cost | -11.7 | -13.1 |
| Interest on finance leases | -2.5 | -5.5 |
| Exchange losses | -2.7 | -2.0 |
| Other financial expenses | -2.8 | -4.9 |
| Interest rate swaps, fair value hedges | 1.2 | 0.0 |
| Fair value adjustment to bond book value attributable to interest rate risk | -1.2 | 0.0 |
| **Financial expenses total** | **-19.7** | **-25.5** |
| | | |
| **Financial expenses, net** | **22.9** | **-17.6** |

* Other financial income in 2013 include a capital gain on the sale of Norwegian Air Shuttle ASA's shares of 34 million euros.

According to testing of the effectiveness of Group's hedge accounting both cash flow and fair value hedging are effective. Thus, as in the comparison year 2012, no inefficiency is included in financial items for 2013. Financial income includes an identical amount of profits and losses for fair value hedging instruments and for hedging items resulting from the hedged risk.

## 5.2 FINANCIAL ASSETS

A **Financial assets**
In the Group, financial assets have been classified according to the IAS 39 standard "Financial Instruments: Recognition and Measurement" into the following categories: financial assets at fair value through profit and loss (assets held for trading), held-to-maturity investments, loans and other receivables, as well as available-for-sale financial assets. The classification is made at the acquisition date based on purpose of the acquisition. All purchases and sales of financial assets are recognised on the trade date.

The financial assets recognised at fair value through profit and loss include assets held for trading purposes and assets measured at fair value through profit and loss on initial recognition. 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 meet the requirements for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued at each balance sheet date at fair value. 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. Unrealised gains are excluded from operational result, while realized are recognised either in other operating income and expenses or in financial items. Financial assets at fair value through profit and loss as well as those maturing within 12 months are included in current assets.

Held-to-maturity investments are financial assets that are not derivative contracts and which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are valued at amortised cost and they are included in non-current assets. On the closing date the Group had no assets belonging to the said group.

Investments which do not have a maturity date and which date of sales has not been decided are classified as available-for-sale financial assets. Available-for-sale financial assets are presented in the balance sheet in short-term financial assets. A change in the fair value of available-for-sale financial assets is recognised in the fair value reserve of other comprehensive income, from which it is transferred to the income statement when sold. Unquoted shares are valued in the Finnair Group at their acquisition price when fair value cannot be reliably measured.

Loan receivables and other receivables are recognised at amortised cost using the effective interest method. Loans and other receivables include trade receivables, deferred charges, other long term receivables and security deposits for aircraft operational lease agreements.

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

Finnair Group assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Principles of impairment of financial assets are described below. The loss is recognised through profit and loss.

**Impairment of financial assets**
The Group assesses at the end of each reporting period whether there is objective evidence that financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has reliably estimated impact on the estimated future cash flows of the financial asset or group of financial assets.

When a receivable is impaired, the carrying amount is written down to its recoverable amount. Recoverable amount is the estimated future cash flow discounted with the original effective interest rate of the instrument. The unwinding of discounting is recognised as interest income from there on. Interest income on impaired loans is recognised using the original effective interest rate.

**Cash and cash equivalents**
Cash and cash equivalents consist of cash reserves and short-term bank deposits maturity under three months. Foreign exchange-denominated items have been converted into euros using the mid-market exchange rates at the closing date. A

i = Content of the section
A = Accounting principles

### 5.2.1 Non-current loan and other receivables

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Loan receivables | 10.2 | 10.2 |
| Other receivables | 10.3 | 12.5 |
| **Total** | **20.5** | **22.7** |

Other receivables are lease collateral for aircraft operational lease agreements.

In the event that other contractual parties are not able to fulfil their obligations relating to financial instruments, the maximum amount of credit risk equals to balance sheet values excluding the fair value of guarantees. Receivables do not exposue the Group to significant credit risk. The fair values of receivables are presented in note 5.6 Classification of financial assets and liabilities.

### 5.2.2 Other current financial assets

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Commercial papers and certificates | 255.4 | 290.7 |
| Money market funds | 35.0 | 34.6 |
| Deposits, maturing after 3 months | 45.1 | 5.0 |
| Listed shares | 0.0 | 32.3 |
| Unlisted shares | 0.4 | 1.0 |
| **Total** | **335.9** | **363.5** |
| | | |
| **Ratings of counterparties** | | |
| Better than A | 89.7 | 38.9 |
| A | 81.3 | 117.6 |
| BBB | 63.7 | 40.7 |
| BB | 10.0 | 10.0 |
| Unrated | 91.3 | 156.4 |
| **Total** | **335.9** | **363.5** |

In year 2013 all of the listed shares which were classified as available for sale investments were sold. During year 2012 there have not been any acquisitions or sales and the change in value was caused by changes in currency exchange rates and stock prices. Investing of the Group's financial assets and risk management policy are described in more detail in note 5.5 Management of financial risks. IFRS classification and fair values of financial assets are presented in note 5.6 Classification of financial assets and liabilities.

### 5.2.3 Cash and cash equivalents

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Cash and bank deposits | 57.8 | 14.6 |
| Deposits, maturing in less than 3 months | 65.1 | 52.4 |
| **Total** | **122.9** | **67.0** |

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

## 5.3 FINANCIAL LIABILITIES

**A Financial liabilities**

Financial liabilities are initially recognised at fair value on the basis of the original consideration received. Transactions costs have been included in the original book value of the 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 short-term liabilities. Foreign currency loans are valued at the mid-market exchange rate on the closing date and translation differences are recognised in financial items.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities takes place when Group has filled the contractual obligations. A

**Non-current liabilities**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Bank loans | 114.1 | 254.9 |
| Bonds | 150.6 | 0.0 |
| Finance lease liabilities | 120.8 | 139.8 |
| **Interest-bearing liabilities total** | **385.5** | **394.7** |
| Non-interest-bearing liabilities | 25.4 | 18.8 |
| **Total** | **410.9** | **413.5** |

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

**Current interest-bearing liabilities**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Bank loans | 139.6 | 66.2 |
| Commercial papers | 44.5 | 80.9 |
| Finance lease liabilities | 14.8 | 16.7 |
| Other loans | 8.6 | 10.4 |
| **Total** | **207.5** | **174.2** |

A = Accounting principles

**The currency mix of non-current interest-bearing liabilities (including cross currency interest rate swaps) is as follows:**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| EUR | 564.6 | 526.5 |
| USD | 29.0 | 42.4 |
| **Total** | **593.6** | **568.9** |

Weighted average effective interest rate on non-current interest-bearing liabilities was 3.1 % (2.1%).

**Interest rate re-fixing period of interest-bearing liabilities**

| | 2013 | 2012 |
|---|---|---|
| Up to 6 months | 64.2% | 87.0% |
| 6-12 months | 0.0% | 0.0% |
| 1-5 years | 35.0% | 12.0% |
| More than 5 years | 0.8% | 1.0% |
| **Total** | **100.0%** | **100.0%** |

| Maturity dates of interest-bearing financial liabilities 31 Dec 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Later | Total |
|---|---|---|---|---|---|---|---|
| Bank loans, fixed interest | 8.5 | 48.3 | 0.0 | 0.0 | 0.0 | 0.0 | 56.8 |
| Bank loans, variable interest | 131.1 | 14.7 | 14.7 | 12.2 | 9.8 | 14.4 | 196.9 |
| Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 151.2 | 0.0 | 151.2 |
| Commercial papers | 44.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 44.5 |
| Finance lease liabilities | 14.8 | 14.8 | 15.4 | 16.1 | 16.7 | 57.7 | 135.6 |
| Other loans | 8.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.6 |
| **Interest-bearing liabilities total** | **207.5** | **77.8** | **30.1** | **28.3** | **177.7** | **72.1** | **593.6** |
| Payments from currency derivatives | 844.1 | 273.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1,117.2 |
| Income from currency derivatives | -843.0 | -274.3 | 0.0 | 0.0 | 0.0 | 0.0 | -1,117.3 |
| Commodity derivatives | -10.1 | -4.3 | 0.0 | 0.0 | 0.0 | 0.0 | -14.4 |
| Interest rate derivatives | 0.0 | 0.5 | 0.0 | -0.2 | -1.2 | 0.0 | -0.9 |
| Trade payables and other liabilities | 696.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 696.9 |
| Interest payments | 13.5 | 8.6 | 7.3 | 6.2 | 6.1 | 0.0 | 41.7 |
| **Total** | **908.9** | **81.4** | **37.4** | **34.3** | **182.6** | **72.1** | **1,316.7** |

| Maturity dates of interest-bearing financial liabilities 31 Dec 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Later | Total |
|---|---|---|---|---|---|---|---|
| Bank loans, fixed interest | 10.5 | 40.8 | 18.0 | 0.0 | 0.0 | 0.0 | 69.3 |
| Bank loans, variable interest | 55.7 | 129.6 | 14.9 | 14.9 | 12.4 | 24.3 | 251.8 |
| Commercial papers | 80.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 80.9 |
| Finance lease liabilities | 16.7 | 16.6 | 16.1 | 16.7 | 16.0 | 74.4 | 156.5 |
| Other loans | 10.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.4 |
| **Interest-bearing liabilities total** | **174.2** | **187.0** | **49.0** | **31.6** | **28.4** | **98.7** | **568.9** |
| Payments from currency derivatives | 560.8 | 256.7 | 0.0 | 0.0 | 0.0 | 0.0 | 817.5 |
| Income from currency derivatives | -566.6 | -258.8 | 0.0 | 0.0 | 0.0 | 0.0 | -825.4 |
| Commodity derivatives | 2.4 | 0.7 | 0.1 | 0.0 | 0.0 | 0.0 | 3.2 |
| Trade payables and other liabilities | 650.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 650.3 |
| Interest payments | 9.3 | 5.3 | 0.9 | 0.4 | 0.2 | 0.2 | 16.3 |
| **Total** | **830.4** | **190.9** | **50.0** | **32.0** | **28.6** | **98.9** | **1,230.8** |

Part of the loans are secured by bank guarantees which are due earlier than underlining bank loans. Bank loan repayments include these loans 89 million euros in year 2014 and 37.8 million euros in year 2015. Bank loans include one non-current currency and interest rate swap and one interest rate swap that hedge two loans. Interest rate re-fixing period in variable interest loans is 3 or 6 months. Fixed interest bond maturing in 2018 does not include the amortized cost of 0.6 million euros which was paid in 2013. The minimum lease payments, discount values and present values of finance lease liabilities are presented in note 4.4 Leasing arrangements.

### 5.4 CONTINGENT LIABILITIES

A Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once the uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation or the amount of which cannot be reliably determined are also considered contingent liabilities. Conditional liabilities are presented in the notes. A

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Other pledges given on own behalf | 503.7 | 633.5 |
| Guarantees on behalf of group companies | 67.6 | 65.3 |
| Guarantees on behalf of others | 2.3 | 2.5 |
| **Total** | **573.6** | **701.3** |

Contingent liabilities include mainly pledging of aircraft for guarantee of loans and guarantees related to tour operations.

### 5.5 MANAGEMENT OF FINANCIAL RISKS

#### Principles of financial risk management

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

The management of financial risks is based on the risk management policy 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 Group. Practical implementation of risk management policy and risk management have been centralised in the parent company's finance department.

In the risk management of foreign exchange, interest rate and jet fuel positions, and electricity price risk, the company uses different derivative instruments, such as forward contracts, swaps and options. Derivatives are designated at inception as hedges for future cash flows (cash flow hedges), hedges for firm orders (hedges of the fair value of firm commitments) or as financial derivatives not qualifying for hedge accounting (economic hedges). In terms of the hedging of future cash flows (cash flow hedging), the Finnair Group implements, in accordance with IAS 39 hedge accounting principles, foreign exchange hedging of lease payments, interest rate hedging to issued bond (fair value hedging), hedging of jet fuel price and foreign exchange risks and hedging of electricity price risk and as hedges of the fair value of firm commitment aircraft purchases.

#### 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. As the underlying asset of jet fuel derivatives, the Jet Fuel CIF Cargoes NWE index is used, because around 65 per cent of Finnair's fuel purchase contracts are based on the benchmark price index for North and West Europe jet fuel deliveries.

Finnair applies the principle of time-diversification in its fuel hedging for Scheduled Passanger traffic, which makes up 90 per cent of the risk. The hedging horizon according to the risk management policy is two years. Under the risk management policy, hedging must be increased in each quarter of the year so that the hedge ratio for Finnair's Scheduled Passenger Traffic for the first six months is more than 60 per cent and so that thereafter a lower hedge ratio applies for each period. By allocating the 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. Finnair hedges the fuel price risk of Leisure traffic according to own policy, at least 60 per cent of the jet fuel consumption is hedged.

In terms of the accounting, the fuel hedges are recognised in Finnair in two different ways. In terms of the fuel consumption of Finnair, the first approximately 40 percentage points per period are treated in accounting as cash-flow hedging in accordance with IAS 39 hedge accounting principles. Changes in the fair value of derivatives defined as cash-flow hedging in accordance with IAS 39 are posted directly to the fair value reserve included in equity. The change in fair value recognised in the equity hedging reserve is posted to income statement at the period time as the hedged transaction. Changes in the fair value of hedges outside hedge accounting – which do not fulfil IAS 39 hedge accounting criteria – are recognised in other operating expenses over the tenor time of the derivative.

At the end of the financial year, Scheduled Passenger Traffic had hedged 74 per cent of its fuel purchases for the first six months of 2014 and 57 per cent for the second half of the year. The Leisure Traffic has hedged 60 per cent of its fuel purchases for the remaining winter season and 60 per cent of its purchases for the coming summer season. At the end of the financial year Leisure Traffic has no jet fuel price or exchange rates price clauses with tour operators.

In the financial year 2013, fuel used in flight operations accounted for somewhat over one fourth compared to the Group's turnover. At the end of the financial year, the forecast for 2014 is the same, somewhat over one fourth compared to the Group's turnover. On the closing date, a 10 per cent rise in the market price of jet fuel – excluding hedging activity calculated using Scheduled Passenger Traffic's forecasted flights for 2013 – increases annual fuel costs by an estimated 60 million euros. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers operating profit by around 29 million euros. Situation as at 31 December represents well the mean of a calendar year.

#### Electricity price risk

The costs of electricity are less than one per cent of the Finnair Group's costs but due to the high volatility the price risk is hedged. The Group applies the principle of time-diversification in its electricity price risk hedging. The hedging horizon is six years.

In terms of the accounting, the electricity hedges are recognised as cash flow hedges. Changes in the fair value of derivatives defined as cash-flow hedging in accordance with IAS 39 are posted directly to the fair value reserve included in equity. The change in fair value recognised in the equity hedging reserve is posted to income statement at the period time as the hedged transaction. Changes in the fair value of hedges outside hedge accounting – which do not fulfil IAS 39 hedge accounting criteria – are recognised in other operating expenses over the tenor time of the derivative.

#### Foreign exchange risk

Foreign exchange risk means the cash flow and financial performance uncertainty arising from exchange rate fluctuations.

Finnair Group's foreign exchange risk arises mainly from fuel and aircraft purchases, aircraft leasing payments and foreign currency incomes. Somewhat under 60 per cent of Group turnover is denominated in euros. The most important foreign sales currencies are the Japanese yen (10 %, percentage of turnover), the Chinese yuan (6 %), the Swedish crown (5 %) and the US dollar (4 %). 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 somewhat over 40 per cent of all operating costs. Significant dollar-denominated expense items are fuel costs and aircraft leasing payments. The largest investments - aircraft and their spare parts - also take place mainly in US dollars.

The risk management policy divides the foreign exchange position into two parts, a profit and loss position and an investment position.

The profit and loss position mainly consists of dollar costs and revenues in a number of different currencies. The purpose of currency risk hedging - for P&L exposure – is to cut the volatility of cash flows and operating income due to fluctuating currency prices. This is done by layering hedges for the biggest two currencies and utilising diversification benefits of the portfolio of various currencies. The hedging limits are set only for the main contributors of currency risk, the US dollar and the Japanese yen. For these two currencies, 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% with a decreasing slope ending at 0% for the fourth six-month period. Even though the policy doesn't 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 required.

The investment position includes all foreign exchange-denominated aircraft investments for which a binding procurement contract has been signed. According to the risk management policy, at least half of the investments recognised in the balance sheet must be hedged after the signing of a firm order. New hedges in investment position will be made as IAS 39 fair value hedge of a firm commitment.

At the end of the financial year, Finnair had a hedging ratio of 67 per cent in the USD-basket and 71 per cent in JPY for the coming 12 months. On the closing date – without hedging – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the annual result of around 68 million euros and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on the annual result of around 18 million euros. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 21 million euros and a 10 per cent weakening of the Japanese yen weakens the result by around 6 million euros. In the above numbers, the USD-basket risk includes also the Chinese yuan and the Hong Kong dollar, whose historical correlation with the dollar is high. Situation as at 31 December represents well the mean of a calendar year.

### Interest rate risk

Interest rate risk means the cash flow and financial performance 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 4 months and for interest-bearing liabilities approximately 16 months. On the closing date a one percentage point rise in interest rates increases the annual interest income of the investment portfolio about 3.0 million euros and the interest expenses of the loan portfolio about 3.1 million euros. Situation as at 31 December represents well the mean of a calendar year.

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

### Credit risk

The Group is exposed to counterparty risk when investing its cash reserves and in using derivative instruments. The credit risk is managed by making contracts, within the framework of risk management policy of counterparty risk limits, only with financially sound domestic and foreign banks, financial institutions and brokers. Liquid assets are also invested, within company-spesific limits, in bonds and commercial papers issued by conservatively selected companies. This way risk towards single counterparties are not significant. Change in fair value of groups loans rise from changes in FX and interest, not from credit risk. Groups' maximum exposure to credit risk is other financial assets presented in note 5.2.2, cash and cash equivalent presented in note 5.2.3 and trade receivables presented in note 2.2.3.

### Liquidity risk

The goal of the Finnair Group is to maintain good liquidity. Liquidity is ensured by cash reserves, bank account limits, liquid money market investments and committed credit facilities. With respect to aircraft acquisitions, the company's policy is to secure financing, for example through committed loans, at a minimum of 6 months before delivery. Counterparties of groups' long term loans are solid financial institutions with good reputation.

The Group's liquid assets were 458.4 million euros at the end of financial year 2013. Finnair Plc has a domestic commercial paper programme of 200 million euros, of which 44.5 million euros was used on the closing date. In addition, Finnair has a 180 million euro committed credit facility unused. The credit facility includes a finance covenant based on adjusted gearing. The covenant level of adjusted gearing is 175 per cent, while at the closing date the figure was 77.6 per cent. The maximum level set by the Board of Directors is 140 per cent.

### Capital management

The aim of the Group's capital management is, with the aid of an optimum capital structure, to support business operations by ensuring normal operating conditions and to increase shareholder value with the best possible return being the goal. An optimum capital structure also ensures lower capital costs. The capital structure is influenced for example via dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders or the amount of capital returned to them or the number of new shares issued, or can decide on sales of asset items in order to reduce debt. It is the aim the Finnair´s dividend policy 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 monitored continuously using 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 2013 was 77.6 per cent (76.8).

## 5.6 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

| EUR mill. | Hedge accounting items | Financial assets at fair value through profit and loss | Available for sale financial assets | Loans and receivables | Valued at amortised cost | Book value |
|---|---|---|---|---|---|---|
| **31 Dec 2013** | | | | | | |
| **Financial assets** | | | | | | |
| Receivables | | | | 20.5 | | 20.5 |
| Other financial assets | | 290.4 | | 45.0 | | 335.5 |
| Trade and other receivables | | | | 236.2 | | 236.2 |
| Derivatives | 18.2 | 26.8 | | | | 45.0 |
| Unlisted shares | | | 0.4 | | | 0.4 |
| Cash and cash equivalents | | | | 122.9 | | 122.9 |
| **Book value total** | **18.2** | **317.2** | **0.4** | **424.6** | | **760.4** |
| **Fair value total** | **18.2** | **317.2** | **0.4** | **424.6** | | **760.4** |
| **Financial liabilities** | | | | | | |
| Interest bearing liabilities | | | | | 457.4 | 457.4 |
| Finance lease liabilities | | | | | 135.6 | 135.6 |
| Derivatives | 21.6 | 7.9 | | | | 29.5 |
| Trade payables and other liabilities | | | | 36.0 | 774.9 | 810.9 |
| **Book value total** | **21.6** | **7.9** | | **36.0** | **1,367.9** | **1,433.4** |
| **Fair value total *** | **21.6** | **7.9** | | **36.0** | **1,372.7** | **1,438.2** |

* The issued bond was quoted at 103.6 as per 31.12.2013 which explains the difference between book value and fair value.

| EUR mill. | Hedge accounting items | Financial assets at fair value through profit and loss | Available for sale financial assets | Loans and receivables | Valued at amortised cost | Book value |
|---|---|---|---|---|---|---|
| **31 Dec 2012** | | | | | | |
| **Financial assets** | | | | | | |
| Receivables | | | | 22.7 | | 22.7 |
| Other financial assets | | 330.3 | | | | 330.3 |
| Trade and other receivables | | | | 217.4 | | 217.4 |
| Derivatives | 26.5 | 7.1 | | | | 33.6 |
| Listed shares | | | 32.3 | | | 32.3 |
| Unlisted shares | | | 1.0 | | | 1.0 |
| Cash and cash equivalents | | | | 67.0 | | 67.0 |
| **Book value total** | **26.5** | **337.4** | **33.3** | **307.1** | | **704.3** |
| **Fair value total** | **26.5** | **337.4** | **33.3** | **307.1** | | **704.3** |
| **Financial liabilities** | | | | | | |
| Interest bearing liabilities | | | | | 402.0 | 402.0 |
| Finance lease liabilities | | | | | 156.5 | 156.5 |
| Derivatives | 14.7 | 4.5 | | | | 19.2 |
| Trade payables and other liabilities | | | | | 786.8 | 786.8 |
| **Fair value total** | **14.7** | **4.5** | | | **1,345.3** | **1,364.5** |
| **Book value total** | **14.7** | **4.5** | | | **1,345.3** | **1,364.5** |

Interest rate derivatives (currency and interest-rate swaps) are included in derivatives. In other notes they are included in bank loans or bonds. The item other financial assets 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. Group has 72.6 million euros (91.6) of deferred tax liabilities that are not included in this note, but presented in the note 6.1 Income taxes. The valuation principles of financial assets and liabilities are outlined in the accounting principles in notes 5.2 Financial assets and 5.3 Financial liabilities.

**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 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Securities held for trading | 290.4 | 35.0 | 255.4 | |
| Derivatives held for trading | | | | |
| Currency and interest rate swaps | 1.4 | | 1.4 | |
| - of which in fair value hedge accounting | 1.2 | | 1.2 | |
| Currency derivatives | 27.9 | | 27.9 | |
| - of which in fair value hedge accounting | 4.4 | | 4.4 | |
| - of which in cash flow hedge accounting | 0.1 | | 0.1 | |
| Commodity derivatives | 15.7 | | 13.4 | 2.3 |
| - of which in cash flow hedge accounting | 12.5 | | 12.5 | |
| Financial assets available-for-sale | | | | |
| Share investments | | | | |
| **Total** | **335.4** | **35.0** | **298.1** | **2.3** |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities recognised at fair value through profit and loss | | | | |
| Derivatives held for trading | | | | |
| Interest rate swaps | 0.5 | | 0.5 | |
| - of which in fair value hedge accounting | 0 | | 0 | |
| Currency derivatives | 27.7 | | 27.7 | |
| - of which in fair value hedge accounting | 2.2 | | 2.2 | |
| - of which in cash flow hedge accounting | 18.7 | | 18.7 | |
| Commodity derivatives | 1.3 | | 1.3 | |
| - of which in cash flow hedge accounting | 0.7 | | 0.7 | |
| **Total** | **29.5** | | **29.5** | |

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 based fully on quoted (unadjusted) prices in active markets of the same assets and liabilities. The fair values of Level 2 instruments are based to a significant extent on input data other than the quoted prices included in Level 1, but however on data that are observable either directly (price) or indirectly (derived from price) for the said asset or liability. The fair values of Level 3 instruments on the other hand are based on asset or liability input data that are not based on observable market information (unobservable inputs), rather to a significant extent on confirmations supplied by counterparties based on generally accepted valuation models.

The fair value hierarchy level to which a certain item valued at fair value is classified in its entirety is determined in accordance with the requirements of IFRS 7 based on the lowest level of input significant to the overall fair value of the said item. The significance of the input data has been assessed in its entirety in relation to said item valued at fair value.

**Reconciliation of financial assets and liabilities valued at fair value according to Level 3**
**Fair value at the end of the reporting period**

| | Recognised at fair value through profit and loss | | Available-for-sale share investments | Total |
|---|---|---|---|---|
| **EUR mill.** | **Securities held for trading** | **Derivatives held for trading** | | |
| **Opening balance** | - | -1 | - | -1 |
| Profits and losses in income statement, total | - | 0.6 | 0 | 0.6 |
| In comprehensive income | - | 0 | - | - |
| Purchases (and sales) | - | - | - | - |
| Settlements (and issues) | - | 2.7 | - | 2.7 |
| Transfers to and from Level 3 | - | - | - | - |
| **Closing balance** | **0** | **2.3** | **0** | **2.3** |
| | | | | |
| **Total profits and losses recognised for the period for assets held at the end of the reporting period** | | | | |
| In other operating expenses | 0 | 0.6 | 0 | 0.6 |

During the financial year, no transfers took place to or from fair value hierarchy Level 3 in the fair value levels of financial assets and liabilities. According to management estimates, the changing of input data used in determining the fair value of financial instruments valued at Level 3 to some other possible alternative assumption would not significantly change the fair value of items valued at fair value in Level 3, given the relatively small amount of the said assets and liabilities.

## 5.7 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Derivative assets gross amounts | 46.1 | 37.7 |
| 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** | **46.1** | **37.7** |
| Enforceable master netting agreement | -30.7 | -21.3 |
| **Derivative assets net amount** | **15.4** | **16.4** |
| | | |
| Derivative liabilities gross amounts | 30.7 | 22.9 |
| 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** | **30.7** | **22.9** |
| Enforceable master netting agreement | -30.7 | -21.3 |
| **Derivative liabilites net amount** | **0.0** | **1.6** |

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make 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.

## 5.8 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 group's balance sheet items, currency denominated purchase contracts, anticipated currency denominated purchases and sales as well as future jet fuel purchases.

The derivatives are initially recognised in the balance sheet at original acquisition cost (fair value) and thereafter are subsequently valued at fair value in each financial statement and interim report. Derivative instruments are valued in the balance sheet at fair value, which is determined as the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion in the sales situation to sell or buy. 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 at the present value of future cash flows. The fair values of currency options are calculated using generally accepted option valuation models. The fair values of interest rate swap contracts are calculated at the present value of future cash flows. The fair values of interest rate and currency swap contracts are calculated at 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 at 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 recognised in accordance with the underlying asset being hedged. Derivative contracts are designated at inception 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 the net investment of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair Group documents the relationship 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. The Group documents and assesses, at the inception of hedging and at least in connection with each financial statements, the effectiveness of hedge relationships by examining the 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 item short-term financial asset and liabilities.

Finnair Group implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). Principles are applied to the price and foreign currency risk of jet fuel, price risk of electricity, foreign currency risk of aircraft lease payments and aircraft purchases.

The change in the fair value of effective portion of derivative instruments that fulfil the terms of cash flow hedging are entered directly 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 entered 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 remain in equity until the forecast transaction takes place. However, if the forecast hedged transaction is no longer expected to occur, the gain or loss accrued in equity is released immediately to the income statement.

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

Fair value hedging is implemented in respect of firm orders for new aircraft and to hedge the fixed interest rate bond. The binding purchase agreements for new aircraft´s are treated under IFRS as firm commitments in which fair value changes of 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 through profit and loss.

Changes in the fair value of derivatives to hedge the fixed interest rate bond that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged bond that is attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swap hedging fixed rate borrowings is recognised in the income statement within financial income and expenses. The gain or loss relating to the ineffective portion is recognised in the income statement within in other operating income and expenses. The change in fair value of the bond is recognised in the income statement within financial income and expenses.

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 amortised to profit or loss over the period to maturity.

Finnair Group uses foreign exchange and interest rate swap contracts in the hedging of the interest rate and foreign exchange risks of foreign currency denominated loans. The translation difference arising from foreign exchange and interest-rate swap contracts that fulfil the conditions of hedge accounting is recognised concurrently against the translation difference arising from the loan. Other changes in fair value are recognised in terms of the effective portion in the fair value reserve of other comprehensive income. Interest income and expenses are recognised in financial income and expenses.

Finnair Group uses jet fuel swaps (forward contracts) and options in hedging the price risk of jet fuel. Changes in the fair value of jet fuel hedging derivatives are recognised directly in the fair value reserve of other comprehensive income in respect of derivatives defined as cash-flow hedges that fulfil the requirements of IFRS hedge accounting. Accrued gains and losses on derivatives recognised in shareholders' equity are recognised in the income statement as income or expenses for the financial period in which the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, the accrued gains and losses reported in the shareholder's equity are presented directly as other income and expenses for the financial period. Changes in the fair value of derivative contracts, so far as the IFRS hedge accounting criteria are not fulfilled, are presented in other operating income and expenses during their term to maturity.

Finnair Group uses electricity derivative contracts in hedging the price risk of electricity. The electricity price risk hedges are recognised as cash flow hedges. Changes in the fair value of derivatives defined as cash-flow hedging in accordance with IFRS are posted directly to the fair value reserve of other comprehensive income. The recognised change in fair value is posted to income statement at the period time as the hedged transaction. Changes in the fair value of hedges outside hedge accounting (which do not fulfil IFRS hedge accounting criteria) are recognised in other operating expenses over the tenor time of the derivative.

The change in the fair value of derivatives not qualifying for hedge accounting and which are arranged to hedge operational cash flow are recognised in the income statement item other operating expenses. Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in the income statement's financial income and expenses. A

A = Accounting principles

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 *** | | | | | | | | |
| Hedge accounting items (forward contracts): | | | | | | | | |
| Jet fuel currency hedging | 370.5 | 0.0 | -17.1 | -17.0 | 413.5 | 5.7 | -5.4 | 0.3 |
| Hedging of aircraft acquisitions | | | | | | | | |
| Fair value hedging | 244.1 | 4.4 | -2.3 | 2.2 | 291.1 | 15.2 | -1.8 | 13.4 |
| Cash flow hedging | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hedging of lease payments | 58.3 | 0.1 | -1.7 | -1.6 | 40.3 | 0.3 | -0.5 | -0.2 |
| **Hedge accounting items total** | **672.9** | **4.5** | **-21.0** | **-16.4** | **744.9** | **21.2** | **-7.7** | **13.5** |
| | | | | | | | | |
| Items outside hedge accounting: | | | | | | | | |
| Operational cash-flow hedging (forward contracts) | 407.9 | 7.3 | -4.9 | 2.4 | 173.3 | 0.7 | -1.6 | -0.9 |
| Operational cash-flow hedging (options) | | | | | | | | |
| Call options | 149.8 | 16.1 | 0.0 | 16.1 | 105.5 | 5.9 | 0.0 | 5.9 |
| Put options | 169.5 | 0.0 | -0.8 | -0.8 | 110.5 | 0.0 | -0.8 | -0.8 |
| Balance sheet hedging (forward contracts) | 20.4 | 0.0 | -1.2 | -1.2 | 47.8 | 0.4 | -0.4 | 0.0 |
| **Items outside hedge accounting total** | **747.5** | **23.4** | **-6.9** | **16.5** | **437.1** | **7.0** | **-2.8** | **4.2** |
| | | | | | | | | |
| **Currency derivatives total** | **1,420.4** | **27.9** | **-27.8** | **0.1** | **1,182.0** | **28.2** | **-10.5** | **17.7** |
| | | | | | | | | |
| **Commodity derivatives **** | | | | | | | | |
| Hedge accounting items: | | | | | | | | |
| Jet fuel forward contracts, tonnes | 563,550 | 12.5 | -0.7 | 11.8 | 574,660 | 5.3 | -7.0 | -1.7 |
| Electricity derivatives, MWh | 17,568 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.0 |
| **Hedge accounting items total** | | **12.5** | **-0.7** | **11.8** | | **5.3** | **-7.0** | **-1.7** |
| | | | | | | | | |
| Items outside hedge accounting: | | | | | | | | |
| Jet fuel forward contracts, tonnes | 18,000 | 0.8 | 0.0 | 0.8 | 0 | 0.0 | 0.0 | 0.0 |
| Options | | | | | | | | |
| Call options, jet fuel, tonnes | 201,000 | 3.4 | 0.0 | 3.4 | 214,000 | 3.1 | 0.0 | 3.1 |
| Put options, jet fuel, tonnes | 201,000 | 0.0 | -1.1 | -1.1 | 301,000 | 0.0 | -4.1 | -4.1 |
| Electricity derivatives, MWh | 71,100 | 0.1 | -0.6 | -0.5 | 91,536 | 0.0 | -0.5 | -0.5 |
| **Items outside hedge accounting total** | | **4.3** | **-1.6** | **2.6** | | **3.1** | **-4.6** | **-1.5** |
| | | | | | | | | |
| **Commodity derivatives total** | | **16.8** | **-2.3** | **14.4** | | **8.4** | **-11.6** | **-3.2** |
| | | | | | | | | |
| **Interest rate derivatives** | | | | | | | | |
| Hedge accounting items: | | | | | | | | |
| Interest rate swaps | 150.0 | 1.2 | 0.0 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Hedge accounting items total** | **150.0** | **1.2** | **0.0** | **1.2** | | **0.0** | **0.0** | **0.0** |
| | | | | | | | | |
| Items outside hedge accounting: | | | | | | | | |
| Cross currency interest rate swaps | 17.3 | 0.2 | 0.0 | 0.2 | 22.9 | 1.0 | 0.0 | 1.0 |
| Interest rate swaps | 25.0 | 0.0 | -0.5 | -0.5 | 25.0 | 0.0 | -1.1 | -1.1 |
| **Items outside hedge accounting total** | **42.3** | **0.2** | **-0.5** | **-0.3** | **47.9** | **1.0** | **-1.1** | **-0.1** |
| | | | | | | | | |
| **Interest rate derivatives total** | **192.3** | **1.4** | **-0.5** | **0.9** | **47.9** | **1.0** | **-1.1** | **-0.1** |
| | | | | | | | | |
| **Derivatives total ***** | | **46.1** | **-30.7** | **15.4** | | **37.6** | **-23.2** | **14.4** |

* A change in the fair value of currency derivatives in hedge accounting is recognised in the hedging reserve of shareholders' equity, from where it is offset in the result against the hedged item. This is recognised as cash flow hegding. Exceptions to this are firm commitment hedges of aircraft purchases and hedging fixed interest rate bond qualifying for hedge accounting, whose fair value changes of hedged part arising from foreign currency movements (aircraft purchases) and fair value changes (fixed interest rate bond) is recognised in the balance sheet as an asset item and any corresponding gains or losses recognised through profit and loss. Similarly the fair value of instruments hedging these purchases and bond are presented in the balance sheet as a liability or receivable and the change in fair value is recognised through profit and loss. This is recognised as fair value hedging. A change in the fair value of operational cash flow hedging outside hedge accounting is recognised in the income statement's other operating income and expenses, and a change in fair value of balance sheet hedges is recognised in financial items.

** The effective portion of a change in the fair value of commodity derivatives in hedge accounting is recognised in the hedging reserve of shareholders' equity, from where it is offset against the hedged item when expired. A change in the fair value of commodity derivatives outside hedge accounting is recognised in the income statement other operating expenses. Realised gains and losses are instead recognised against the hedged item.The jet differential is the price difference between jet fuel and gasoil.

*** The positive/negative fair value of derivatives 31 Dec 2013 are shown as balance sheet receivables and liabilities. Jet fuel options 31 Dec 2013 were shown as a net amount in receivables.

**Ratings of derivative counterparties**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Better than A | 11.6 | 9.9 |
| A | 2.9 | 4.6 |
| BBB | 0.9 | -0.1 |
| BB | - | - |
| Unrated | - | - |
| **Total** | **15.5** | **14.4** |

## 5.9 EQUITY-RELATED INFORMATION

### A Shareholders' equity

The nominal value of shares has been recognised in the share capital before an amendment to the Articles of Association registered on 22 March 2007.

Share issue profits that arose related to increases in share capital between 1997-2006 have been recognised in the share premium account. In addition, before the change in Limited Liability Companies Act in 2006 the gains on sale of treasury shares were recognised in share premium.

Share issue profits that arose before 1997 have been recognised in the legal reserve.

The share issue profit from the 2007 share issue, less transaction expenses and tax, has been recognised in the invested unrestricted equity fund. The acquisitions of own shares can also be recognised unless they are recognised in retained earnings. In addition, share-based payments according to IFRS 2 are recognised in invested unrestricted equity fund.

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash-flow hedging, in addition to actuarial gains and losses related to defined benefit pension plans, fair value gains and losses of available for sale financial assets and translation differences arising from consolidating foreign subsidiaries that have another reporting currency than euro.

Retained earnings include profit from previous financial years, less dividends distributed and acquisitions of own shares unless they are recognised in the invested unrestricted equity fund. Changes in accounting principles and errors are also recognised in the results of previous financial years.

A hybrid bond on equity terms is recognised in shareholders' equity (after equity belonging to shareholders). The bond has no maturity date, but the company has the right to redeem it four years after the date of issue. The hybrid bond is unsecured and is in a weaker preference position than promissory notes. Its preference position is, however, better than other items listed in the company's shareholders' equity. A holder of a hybrid bond note has no shareholder rights, nor does the bond dilute the ownership of the company's shareholders. The bond is recognised originally at fair value. Transactions expenses have been included in the original carrying amount of the bond.

### Dividend

The dividend liability to the company's shareholders is recognised as a liability in the consolidated financial statements when the Annual General Meeting has decided on the dividend distribution.

### Treasury shares

When the company have acquired its own shares or subsidiaries have acquired the parent company shares, the company's shareholders' equity is deducted by an amount consisting of the consideration paid less transaction costs after taxes unless the own shares are cancelled. No gain or loss is entered in the income statement for the sale or issue of own shares; the consideration received is presented as a change in shareholders' equity. A

| | Number of registered shares | Share capital, EUR | Share premium, EUR | Legal reserve, EUR |
|---|---|---|---|---|
| 1 Jan 2012 | 128,136,115 | 75,442,904.30 | 20,407,351.01 | 147,712,376.39 |
| 31 Dec 2012 | 128,136,115 | 75,442,904.30 | 20,407,351.01 | 147,712,376.39 |
| **31 Dec 2013** | **128,136,115** | **75,442,904.30** | **20,407,351.01** | **147,712,376.39** |

| | Number of own shares | Price, EUR | Average price, EUR |
|---|---|---|---|
| 1 Jan 2012 | 410,187 | 3,179,335.94 | 7.75 |
| **31 Dec 2012** | **410,187** | **3,179,335.94** | **7.75** |
| Purchase of own shares | 600,000 | 1,684,650.10 | 2.81 |
| Assignment of own shares | -731,019 | -4,055,744.86 | 5.55 |
| **31 Dec 2013** | **279,168** | **808,241.18** | **2.90** |

All issued shares are fully paid. The share has no nominal value.

### Obligation to redeem clause

The Articles of Association have no obligation to redeem clause.

## CHANGES IN RESERVES INCLUDED IN SHAREHOLDERS' EQUITY

### Other restricted funds

There has been no changes during 2013 or 2012 in other restricted equity funds.

### Unrestricted equity funds

The changes in unrestricted equity funds during 2013 relate to purchase of treasury shares and share-based payments related to Group's long-term incentive plan 2010-2012.

### Hedging reserve and other OCI items

The items included in hedging reserve and other OCI items is presented below:

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Translation differences | -0.3 | -0.2 |
| Jet fuel price hedging | 11.8 | -1.7 |
| Jet fuel currency hedging | -17.0 | 0.3 |
| Hedging of lease payments | -1.6 | -0.2 |
| Electricity pricehedging | 0.0 | 0.0 |
| Available for sale financial assets | 0.0 | 13.8 |
| The actuarial gains and losses of defined benefit plan | -11.5 | -11.8 |
| Deferred tax asset (liability) | 3.7 | -0.1 |
| **Total** | **-15.0** | **0.1** |

A = Accounting principles

**Maturity dates of fair values recognised in the hedging reserve**

| EUR mill. | 2014 | 2015 | 2016 | 2017 | 2018 | Later | Total |
|---|---|---|---|---|---|---|---|
| Translation differences | | | | | | -0.3 | -0.3 |
| Jet fuel price hedging | 7.3 | 4.4 | 0.1 | | | | 11.8 |
| Jet fuel currency hedging | -14.0 | -3.0 | | | | | -17.0 |
| Hedging of lease payments | -1.4 | -0.2 | | | | | -1.6 |
| Electricity price hedging | | | | | | | 0.0 |
| Available for sale financial assets | | | | | | | 0.0 |
| The actuarial gains and losses of defined benefit plan | -11.5 | | | | | | -11.5 |
| Deferred tax asset (liability) | 3.9 | -0.2 | 0.0 | | | | 3.7 |
| **Total** | **-15.7** | **1.0** | **0.1** | **0.0** | **0.0** | **-0.3** | **-15.0** |

### Derivatives in income statement

During 2013, -3.9 million euros (50.0) has been recognised from fair value reserve as a change in expenses in the income statement. Of this, -3.4 million euros (47.8) is an adjustment of fuel expenses, -0.3 million euros (2.5) an adjustment of aircraft lease expenses and -0.2 million euros (-0.3) an adjustment of electricity expenses.

Finnair hedges against price fluctuation with derivatives based on its risk management policy. Hedge accounting is not or can not be applied to all hedging relationships. For this fuel purchases hedging outside IFRS hedge accounting, -0.6 million euros (3.7) was realised and recognised as an adjustment to fuel expenses and 18.8 million euros (9.3) in other operating expenses in the income statement during 2013.

### 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 40.5 million euros (43.2) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 40.5 million euros (43.2). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 42.6 million euros (45.1) and a 10 per cent stronger dollar would have had a positive impact of 42.6 million euros (45.1). Elctricity price hedging was ineffective at the end of the year 2013, thus their valuation would have had no impact to the balance of the fair value reserve (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).

### Own shares (Treasury shares)

The acquisition cost of own shares held by the Group is included in invested distributable funds. For further information on the share bonus scheme see Note 3.9.1. Total amount of the acquisition cost of own shares held by the Group is 0.8 million euros.

### Hybrid bond

Shareholders' equity (after equity belonging to shareholders) includes a 120 million euro hybrid bond issued in 2012. The hybrid bond coupon is fixed 8.875 per cent per year for the first 4 years and therafter at least 11.875 per cent per year. Finnair can postpone intrest 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 4 years after the date of issue. The hybrid bond is unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights.

### Earnings per share

The undiluted earnings per share figure is calculated by dividing the profit for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. 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. The fair value of the share is based on the weighted average price of the shares in trading.

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Profit for the financial year, EUR mill. | 10.8 | 10.2 |
| Interest of hybrid bond, EUR mill. | -8.5 | -8.5 |
| Weighted average number of shares, 1000 pcs | 128.1 | 128.1 |
| Undiluted and diluted earnings per share, EUR | 0.02 | 0.01 |
| Effect of own shares | 0.00 | 0.00 |

### Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2013. The Annual General Meeting on 27 March 2013 decided to distribute a dividend of 0.10 euros per share. The total dividend was 12.7 million euros, based on the number of shares registered on 3 April 2013. The dividend was paid on 10 April 2013.

**Finnair Plc's distributable equity**

| EUR mill. | 31 Dec 2013 |
|---|---|
| Retained earnings at the end of financial year | 0.0 |
| Unrestricted equity funds | 250.5 |
| Hedging reserve | -4.2 |
| Result for the financial year | 37.7 |
| **Distributable equity total** | **284.0** |

# 6 OTHER NOTES

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

## 6.1 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, revaluations of derivative contracts, defined benefit pension scheme and unused tax losses. Deferred tax is recognised for subsidiaries' undistributed earnings only when related tax effects are probable. A

! Utilising deferred tax assets related to tax losses requires management to make expectations of future performance of operations. !

**Income taxes**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Taxes for the financial year** | | |
| Current tax | 0.2 | 0.1 |
| Adjustments recognised for current tax of prior periods | 0.8 | 0.2 |
| Deferred taxes | -2.0 | 4.0 |
| **Total** | **-1.0** | **4.3** |

The table below explains the difference between teorethical tax cost calculated with Finnish nominal tax rate (24.5%) and tax expense in the consolidated income statement:

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Profit before taxes | 10.1 | 14.8 |
| Taxes calculated using the Finnish tax rate | 2.5 | 3.6 |
| Effect of the tax rate change | -4.5 | 0.0 |
| Different tax rates of foreign subsidiaries | 0.0 | 0.0 |
| Share of result in associates and joint ventures | 1.0 | 0.2 |
| Tax-exempt income | -0.4 | 0.3 |
| Non-deductible expenses | 0.5 | 0.0 |
| Adjustments recognised for taxes of prior periods | -0.1 | 0.2 |
| **Income taxes, total** | **-1.0** | **4.3** |
| Effective tax rate | -9.8% | 29.2% |

Effective tax rate was -9.8% (29.2%). Finnish Parliament decided in December 2013 to lower corporate income tax rate from 24.5% to 20%, which caused a one-time positive effect of 4.5 million euros in income statement 2013. Although the tax rate change is valid from 1 of January 2014 onwards, the change effected taxes in income statement already in 2013 due to revaluation of deferred taxes. Tax rate excluding the effect of tax rate change was 27.5%.

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

### DEFERRED TAX ASSETS AND LIABILITIES

**Changes in deferred taxes during 2013:**

| EUR mill. | 2012 | Recognised in the income statement | Recognised in shareholders' equity | 2013 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Confirmed losses | 69.6 | -12.4 | 1.5 | 58.6 |
| Employee benefits | 0.0 | -0.6 | 2.7 | 2.2 |
| Finance leasing | 0.9 | -0.3 | 0.0 | 0.6 |
| Capitalisation of overhead expenses | 1.1 | -0.1 | 0.0 | 1.0 |
| Heavy maintenance allocations | 0.5 | -0.5 | 0.0 | 0.0 |
| Engine maintenance allocations | 0.5 | -0.5 | 0.0 | 0.0 |
| Finnair Plus | 1.5 | -1.5 | 0.0 | 0.0 |
| Other temporary differences | 3.4 | -1.3 | 0.0 | 2.1 |
| Valuation of derivatives at fair value | 0.1 | 0.0 | 1.2 | 1.3 |
| **Total** | **77.6** | **-17.3** | **5.4** | **65.8** |
| | | | | |
| Deferred tax assets that can be used after more than 12 months | 8.5 | | | 0.6 |

| EUR mill. | 2012 | Recognised in the income statement | Recognised in shareholders' equity | 2013 |
|---|---|---|---|---|
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 2.5 | 0.0 | 0.0 | 2.5 |
| Gains from sale of tangible fixed assets | 81.4 | -15.5 | 0.0 | 65.9 |
| Employee benefits | -0.9 | -2.4 | 3.3 | 0.0 |
| Other temporary differences | 5.6 | -1.5 | 0.0 | 4.1 |
| Valuation of derivates at fair value | 3.0 | 0.0 | -3.0 | 0.0 |
| **Total** | **91.6** | **-19.3** | **0.3** | **72.6** |
| | | | | |
| Deferred tax liabilities that are expected to realise after 12 months or more | 88.6 | | | 69.6 |

Confirmed tax losses expire earliest within 6-10 years.
Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.4 million euros (0.8).

**Changes in deferred taxes during 2012:**

| EUR mill. | 2011 | Recognised in the income statement | Recognised in shareholders' equity | 2012 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Confirmed losses | 64.4 | 4.6 | 0.6 | 69.6 |
| Finance leasing | 1.1 | -0.2 | 0.0 | 0.9 |
| Revenue recognition | 0.1 | 0.0 | 0.0 | 0.1 |
| Capitalisation of overhead expenses | 0.6 | 0.5 | 0.0 | 1.1 |
| Heavy maintenance allocations | 1.0 | -0.5 | 0.0 | 0.5 |
| Engine maintenance allocations | 2.3 | -1.8 | 0.0 | 0.5 |
| Other temporary differences | 2.7 | 0.6 | 0.0 | 3.3 |
| Finnair Plus | 3.0 | -1.5 | 0.0 | 1.5 |
| Valuation of derivates at fair value | 0.0 | 0.0 | 0.1 | 0.1 |
| **Total** | **75.2** | **1.7** | **0.7** | **77.6** |
| | | | | |
| Deferred tax assets that can be used after more than 12 months | 10.8 | | | 8.5 |

| EUR mill. | 2011 | Recognised in the income statement | Recognised in shareholders' equity | 2012 |
|---|---|---|---|---|
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 2.5 | 0.0 | 0.0 | 2.5 |
| Gains from sale of tangible fixed assets | 80.1 | 1.3 | 0.0 | 81.4 |
| Other temporary differences | 3.7 | 0.8 | 0.4 | 4.9 |
| Hybrid bond, interest | 0.7 | 0.0 | 0.0 | 0.7 |
| Employee benefits | 1.8 | -2.7 | 0.0 | -0.9 |
| Valuation of derivates at fair value | 9.7 | 0.0 | -6.7 | 3.0 |
| **Total** | **98.5** | **-0.6** | **-6.3** | **91.6** |
| | | | | |
| Deferred tax liabilities payable after more than 12 months | 91.9 | | | 88.6 |

### 6.2 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 1.3 and associates and joint ventures in the note 1.6. Related party transactions include such operations that do not eliminate in 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. | 2013 | 2012 |
|---|---|---|
| **Sales of goods and services** | | |
| Associates | 4.7 | 4.5 |
| Joint ventures | 60.8 | 20.5 |
| **Purchases of goods and services** | | |
| Associates | 20.3 | 17.7 |
| Joint ventures | 85.5 | 81.2 |
| **Receivables and liabilities** | | |
| Current receivables from associates | 3.1 | 0.1 |
| Current liabilities to associates | 3.5 | 0 |
| Current receivables joint ventures | 32.9 | 22.4 |
| Current liabilities to joint ventures | 4.5 | 8.7 |

Transactions with related parties are with arms length, and are with similar terms than transactions carried out with independent parties. Guarantees and other commitments made on behalf of related parties are presented in note 5.4 Contingent liabilities. Management remuneration is presented in note 3.9. Management has not been granted any loans and there has not been any other transactions with management.

#### 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 2013 Finnair didn't pay any contributions to the fund (7.5).

### 6.3 DISPUTES AND LITIGATION

Finnair reports only cases of which the interest is 400,000 euros or more and that are not insured.

On 31 December 2013 there were no such disputes pending.

### 6.4 EVENTS AFTER THE CLOSING DATE

There have not been other remarkable events after closing date as told in the Board of Director's report

### 6.5 CHANGE OF ACCOUNTING PRINCIPLE

From 1 January 2013 Finnair Group has adopted the amendments to IAS 19 Employee Benefits. The change is allocated for the Airline Business segment. Previously applied corridor method in recognising actuarial gains and losses is no longer used. All the actuarial gains and losses are recognised as they occur through other comprehensive income. Items recognised in other comprehensive income are no longer recycled through profit and loss. The standard also requires net interest expense / income to be calculated as the product of the net defined benefit liability / asset.

The grouping of de-icing, cleaning of aircraft and a few other expenses have been changed.

**Effect of restatement to 2012 consolidated income statement**

| EUR mill. | Reported | IAS 19 Employee Benefits | De-icing and cleaning of aircraft | Other adjustment | Restated |
|---|---|---|---|---|---|
| **Operating income** | **2,494.1** | **0.0** | **0.0** | **0.0** | **2,494.1** |
| Staff costs | 426.9 | 1.7 | 0.0 | 0.6 | 429.2 |
| Fleet materials and overhaul | 156.0 | 0.0 | -22.9 | 0.0 | 133.1 |
| Ground handling and catering expenses | 224.3 | 0.0 | 22.9 | 0.0 | 247.2 |
| Sales and marketing expenses | 74.3 | 0.0 | 0.0 | 1.4 | 75.7 |
| Other expenses | 232.2 | 0.0 | 0.0 | -2.0 | 230.2 |
| Other expenses total | 1,344.9 | 0.0 | 0.0 | 0.0 | 1,344.9 |
| **Operating result, EBIT** | **35.5** | **-1.7** | **0.0** | **0.0** | **33.8** |
| | | | | | |
| **Profit before taxes** | **16.5** | **-1.7** | **0.0** | **0.0** | **14.8** |
| Income taxes | -4.7 | 0.4 | 0.0 | 0.0 | -4.3 |
| **Profit for the financial year** | **11.8** | **-1.3** | **0.0** | **0.0** | **10.5** |

**Effect of the restatement to the 2012 opening and closing date balance sheet**

| | 1 January 2012 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| EUR mill. | Reported | Adjustment | Restated | Reported | Adjustment | Restated |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Financial assets and pension receivables | 32.1 | 36.0 | 68.1 | 33.1 | -10.4 | 22.7 |
| Other non-current assets | 1,589,4 | 0.0 | 1,589.4 | 1,478.0 | 0.0 | 1,478.0 |
| Non-current assets total | 1,621.5 | 36.0 | 1,657.5 | 1,511.1 | -10.4 | 1,500.7 |
| Short-term receivables total | 735.5 | 0.0 | 735.5 | 730.6 | 0.0 | 730.6 |
| **Assets total** | **2,357.0** | **36.0** | **2,393.0** | **2,241.7** | **-10.4** | **2,231.3** |
| | | | | | | |
| **Shareholders' equity and liabilities** | | | | | | |
| Shareholders' equity | 75.4 | 0.0 | 75.4 | 75.4 | 0.0 | 75.4 |
| Other equity | 676.4 | 27.2 | 703.6 | 709.2 | -10.2 | 699.0 |
| Equity attributable to shareholders of the parent company | 751.8 | 27.2 | 779.0 | 784.6 | -10.2 | 774.4 |
| Non-controlling interests | 0.7 | 0.0 | 0.7 | 0.9 | 0.0 | 0.9 |
| **Equity total** | **752.5** | **27.2** | **779.7** | **785.5** | **-10.2** | **775.3** |
| Deferred tax liability | 98.5 | 8.8 | 107.3 | 94.9 | -3.3 | 91.6 |
| Pension obligations | 0.0 | 0.0 | 0.0 | 0.5 | 3.1 | 3.6 |
| Other long-term liabilities | 602.9 | 0.0 | 602.9 | 495.8 | 0.0 | 495.8 |
| Long-term liabilities total | 701.4 | 8.8 | 710.2 | 591.2 | -0.2 | 591.0 |
| Short-term liabilities total | 903.1 | 0.0 | 903.1 | 865.0 | 0.0 | 865.0 |
| **Liabilities total** | **1,604.5** | **8,8** | **1,613,3** | **1,456.2** | **-0.2** | **1,456.0** |
| **Shareholders' equity and liabilities total** | **2,357.0** | **36.0** | **2,393.0** | **2,241.7** | **-10.4** | **2,231.3** |

# 7 PARENT COMPANY FINANCIAL STATEMENTS

## FINNAIR PLC INCOME STATEMENT

| EUR mill. | Note | 2013 | 2012 |
|---|---|---|---|
| **Turnover** | **2** | **2,012.7** | **2,015.2** |
| Other operating income | 3 | 37.6 | 10,1 |
| **Operating income total** | | **2,050.3** | **2,025.3** |
| | | | |
| Materials and services | 4 | 1,125.9 | 1,098.9 |
| Staff costs | 5 | 272.9 | 287.4 |
| Depreciation | 6 | 8.1 | 6.3 |
| Other operating expenses | 7 | 718.4 | 702.7 |
| **Operating expenses total** | | **2,125.3** | **2,095.3** |
| | | | |
| **Operating profit/loss** | | **-75.0** | **-70.0** |
| | | | |
| Financial income and expenses | 8 | 30.2 | -6.0 |
| | | | |
| **Profit/loss before extraordinary items** | | **-44.8** | **-76.0** |
| | | | |
| Extraordinary items | 9 | 103.6 | 74.8 |
| | | | |
| **Profit/loss before appropriations and taxes** | | **58.8** | **-1.2** |
| | | | |
| Appropriations | 10 | 0.2 | 0.0 |
| Income taxes | 11 | 21.3 | -0.2 |
| | | | |
| **Profit/loss for the financial year** | | **37.7** | **-1.0** |

## FINNAIR PLC BALANCE SHEET

| EUR mill. | Note | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | 12.0 | 13.2 |
| Tangible assets | 13 | 39.7 | 2.0 |
| Investments | 14 | | |
| Shares in group companies | | 449.1 | 489.7 |
| Shares in associated companies | | 15.4 | 13.1 |
| Other investments | | 0.4 | 0.7 |
| Loan and other receivables | 15 | 68.9 | 299.9 |
| **Non-current assets total** | | **585.5** | **818.6** |
| | | | |
| **Current assets** | | | |
| Current receivables | 16 | 915.0 | 478.8 |
| Marketable securities | 17 | 335.5 | 362.6 |
| Cash and bank equivalents | 18 | 118.2 | 62.1 |
| **Current assets total** | | **1,368.7** | **903.4** |
| | | | |
| **ASSETS TOTAL** | | **1,954.1** | **1,722.0** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| | | | |
| **Equity** | 19 | | |
| Share capital | | 75.4 | 75.4 |
| Share premium account | | 24.7 | 24.7 |
| Legal reserve | | 147.7 | 147.7 |
| Hedging reserve | | -4.2 | 9.3 |
| Unrestricted equity funds | | 250.5 | 250.4 |
| Retained earnings | | 0.0 | 13.7 |
| Profit/loss for the financial year | | 37.7 | -1.0 |
| **Equity total** | | **531.9** | **520.3** |
| | | | |
| Accumulated appropriations | 20 | 9.1 | 0.0 |
| | | | |
| Provisions | 21 | 94.0 | 109.7 |
| | | | |
| **Liabilities** | | | |
| Non-current liabilities | 22 | 322.3 | 237.3 |
| Current liabilities | 23 | 996.8 | 854.7 |
| **Liabilities total** | | **1,319.1** | **1,092.0** |
| | | | |
| **EQUITY AND LIABILITIES TOTAL** | | **1,954.1** | **1,722.0** |

## FINNAIR PLC CASH FLOW STATEMENT

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit/loss before extraordinary items | -44.8 | -76.0 |
| Depreciation | 8.1 | 6.3 |
| Other non-cash transactions | -39.7 | 4.7 |
| Financial income and expenses | -30.2 | 6.0 |
| Changes in working capital | -18.9 | -0.5 |
| Interest and other financial expenses paid | -26.6 | -23.9 |
| Received interest and other financial income | 12.0 | 18.7 |
| Taxes paid | 0.0 | -0.1 |
| **Cash flow from operating activities** | **-140.0** | **-64.8** |
| | | |
| **Cash flow from investing activities** | | |
| Investments in intangible and tangible assets | -3.6 | -4.1 |
| Other investments | 0.0 | -3.8 |
| Proceeds from sales of other investments | 54.1 | 0.0 |
| Dividends received | 5.1 | 0.1 |
| Change in long-term receivables | 26.4 | 25.3 |
| **Cash flow from investing activities** | **82.0** | **17.5** |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from loans | 150.0 | 70.8 |
| Loan repayments and changes | -71.1 | -152.8 |
| Hybrid bond repayments | -52.4 | -67.7 |
| Proceeds from hybrid bond | 0.0 | 120.0 |
| Received group contributions | 74.8 | 105.0 |
| Purchase of own shares | -1.7 | 0.0 |
| Dividends paid | -12.7 | 0.0 |
| **Cash flow from financing activities** | **87.0** | **75.3** |
| | | |
| **Change in cash flows** | **28.9** | **28.0** |
| | | |
| **Change in liquid funds** | | |
| Liquid funds, at beginning | 424.7 | 396.7 |
| Change in cash flows | 28.9 | 28.0 |
| **Liquid funds, at end** | **453.6** | **424.7** |

## NOTES TO FINNAIR PLC FINANCIAL STATEMENTS

### 1. ACCOUNTING PRINCIPLES

The financial statements of Finnair Plc have been prepared in accordance with the Finnish Accounting Standards (FAS).

#### 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 risks which arise from the company's currency denominated purchase contracts, forecasted purchases and sales as well as future jet fuel purchases. Derivative contracts are valued using the rates on the balance sheet date according to Accounting Act 5:2 a §. The accounting principles related to derivative contracts and hedge accounting are described more specifically in Group's accounting principles in the section 5.8 Derivatives.

#### Financial assets and liabilities

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss (assets held for trading), held-to-maturity investments, loans and other receivables. The classification is made on the basis of the purpose of the acquisition of the financial assets in connection with the original acquisition. 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 liabilities.

Finnair assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. If there is objective evidence that an impairment loss has arisen for loans and other receivables entered at amortised acquisition cost on the balance sheet or for held-to-maturity investments, the size of the loss is determined as the difference of the book value of the asset item and the present value of expected future cash flows of the said financial asset item discounted at the original effective interest rate. The loss is recognised through profit and loss.

Other financial assets and liabilities are recognised at fair value. Other financial assets include trade receivables, accrued income and prepaid expenses as well as other non-current receivables like loan receivables and other investments as well as the securities for aircraft leases. Other financial liabilities include trade payables, accruals and deferred income.

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

#### Fixed assets and depreciation

The balance sheet values for fixed assets are based on original acquisition costs less planned depreciation. Land areas are not depreciated. Planned depreciation is based on the expected economic lifetimes:

- IT software: 3–8 years
- Other intangible assets: 3–10 years
- Buildings: over 50 years from time of acquisition to a residual value of 10% or 3–7% of the diminishing balances
- Other tangible assets 23% of the diminishing balances

**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.

**Extraordinary items**
Extraordinary items consist of income and expenses which deviate from the ordinary activities of the company, such as group contributions.

**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.

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

**2. TURNOVER AND OPERATING PROFIT BY BUSINESS AREA**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Turnover by division | | |
| Airline Business | 2,012.7 | 2,015.2 |
| | | |
| Distribution of turnover by market areas based on flight routes, % of turnover | | |
| Finland | 17% | 17% |
| Europe | 38% | 37% |
| Other countries | 45% | 46% |
| **Total** | **100%** | **100%** |
| | | |
| Operating profit by business area | | |
| Airline Business | -75.0 | -70.0 |

**3. OTHER OPERATING INCOME**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Rental income | 28.5 | 0.0 |
| Capital gains on sales of tangible assets | 0.0 | 0.0 |
| Other income | 9.1 | 10.1 |
| **Total** | **37.6** | **10.1** |

**4. MATERIALS AND SERVICES**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Ground handling and catering expenses | 179.3 | 170.1 |
| Fuel costs | 667.4 | 639.1 |
| Aircraft materials and overhaul | 183.5 | 194.9 |
| IT expenses | 48.0 | 43.0 |
| Other items | 47.7 | 51.8 |
| **Total** | **1,125.9** | **1,098.9** |

**5. STAFF COSTS**

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Wages and salaries | 220.0 | 226.1 |
| Pension expenses | 36.4 | 44.1 |
| Other social expenses | 16.5 | 17.1 |
| **Total** | **272.9** | **287.4** |
| | | |
| Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors | | |
| Chief Executive Officer and his debuty | 0.9 | 0.8 |
| Board of Directors | 0.4 | 0.3 |
| | | |
| Personnel on average | | |
| Airline Business | 3,436 | 3,484 |
| Other functions | 139 | 144 |
| **Total** | **3,575** | **3,628** |

## 6. DEPRECIATION

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Planned depreciation and amortisation | | |
| On other long-term expenditure | 5.4 | 5.8 |
| On buildings | 0.8 | 0.0 |
| On other equipment | 1.8 | 0.5 |
| **Total** | **8.1** | **6.3** |

## 7. OTHER OPERATING EXPENSES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Lease payments for aircraft | 238.9 | 251.0 |
| Other rents for aircraft capacity | 93.0 | 63.3 |
| Office and other rents | 30.3 | 15.8 |
| Traffic charges | 218.3 | 220.1 |
| Sales and marketing expenses | 59.5 | 60.9 |
| Other expenses | 78.4 | 91.7 |
| **Total** | **718.4** | **702.7** |

## 8. FINANCIAL INCOME AND EXPENSES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Dividend income** | | |
| From group companies | 4.0 | 0.0 |
| From other companies | 1.1 | 0.1 |
| **Total** | **5.1** | **0.1** |
| | | |
| Interest income | | |
| From group companies | 10.6 | 14.5 |
| From associates and joint ventures | 0.6 | 0.0 |
| From other companies | 2.0 | 4.5 |
| **Total** | **13.3** | **18.9** |
| | | |
| Other financial income | | |
| From group companies | 8.4 | 0.0 |
| From other companies | 1.1 | 0.0 |
| **Total** | **9.4** | **0.0** |
| | | |
| Gains on disposal of shares | **35.2** | **0.0** |
| | | |
| Interest expenses | | |
| To group companies | -1.6 | -1.6 |
| To other companies | -20.1 | -17.3 |
| **Total** | **-21.6** | **-18.8** |
| | | |
| Other financial expenses | | |
| To group companies | -6.1 | 0.0 |
| To other companies | -2.9 | -4.9 |
| **Total** | **-9.0** | **-4.9** |
| | | |
| Exchange gains and losses | **-2.2** | **-1.2** |
| | | |
| **Financial income and expenses total** | **30.2** | **-6.0** |

## 9. EXTRAORDINARY ITEMS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Received group contribution | 103.6 | 74.8 |

## 10. APPROPRIATIONS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Change in depreciation difference | 0.2 | 0.0 |

## 11. DIRECT TAXES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Income taxes on regular business operations | -15.5 | -22.7 |
| Income taxes on extraordinary items | 25.4 | 18.3 |
| Change in deferred taxes | 11.5 | 4.1 |
| **Total** | **21.3** | **-0.2** |

## 12. INTANGIBLE ASSETS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Other long-term expenditure** | | |
| Acquisition cost 1 January | 39.1 | 35.2 |
| Additions | 0.4 | 3.9 |
| Effect of the merger | 5.0 | 0.0 |
| Disposals | -1.8 | 0.0 |
| **Acquisition cost 31 December** | **42.6** | **39.1** |
| | | |
| Accumulated depreciation 1 January | -25.9 | -20.1 |
| Accumulated planned depreciation of disposals | 1.8 | 0.0 |
| Effect of the merger | -1.1 | 0.0 |
| Depreciation | -5.4 | -5.8 |
| **Accumulated depreciation 31 December** | **-30.6** | **-25.9** |
| | | |
| **Book value 31 December** | **12.0** | **13.2** |

## 13. TANGIBLE ASSETS

### Tangible assets 2013

| EUR mill. | Land | Buildings | Other equipment | Advances paid | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 January 2013 | 0.0 | 0.0 | 8.5 | 0.0 | 8.5 |
| Additions | | | 2.1 | 1.1 | 3.2 |
| Effect of the merger | 0.7 | 51.0 | 3.0 | 3.0 | 57.8 |
| Disposals | | | -5.3 | | -5.3 |
| **Acquisition cost 31 December 2013** | **0.7** | **51.0** | **8.3** | **4.1** | **64.1** |
| | | | | | |
| Accumulated depreciation 1 January 2013 | 0.0 | 0.0 | -6.5 | 0.0 | -6.5 |
| Accumulated planned depreciation of disposals | | | 4.3 | | 4.3 |
| Effect of the merger | | -18.4 | -2.3 | | -20.7 |
| Depreciation | | -0.8 | -0.8 | | -1.6 |
| **Accumulated depreciation 31 December 2013** | **0.0** | **-19.3** | **-5.2** | **0.0** | **-24.5** |
| | | | | | |
| **Book value 31 December 2013** | **0.7** | **31.7** | **3.1** | **4.1** | **39.7** |
| | | | | | |
| The share of machines and equipment in the book value of tangible assets 31 December 2013 | | | 3.0 | | |

### Tangible assets 2012

| EUR mill. | Land | Buildings | Other equipment | Advances paid | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 January 2012 | | | 8.3 | | 8.3 |
| Additions | | | 0.2 | | 0.2 |
| Disposals | | | 0.0 | | 0.0 |
| **Acquisition cost 31 December 2012** | **0.0** | **0.0** | **8.5** | **0.0** | **8.5** |
| | | | | | |
| Accumulated depreciation 1 January 2012 | | | -6.0 | | -6.0 |
| Accumulated planned depreciation of disposals | | | 0.0 | | 0.0 |
| Depreciation | | | -0.5 | | -0.5 |
| **Accumulated depreciation 31 December 2012** | **0.0** | **0.0** | **-6.5** | **0.0** | **-6.5** |
| | | | | | |
| **Book value 31 December 2012** | **0.0** | **0.0** | **2.0** | **0.0** | **2.0** |
| | | | | | |
| The share of machines and equipment in the book value of tangible assets 31 December 2012 | | | 1.9 | | |

## 14. INVESTMENTS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| **Group companies** | | |
| Acquisition cost 1 January | 489.7 | 489.7 |
| Additions | 0.0 | 0.0 |
| Effect of the merger | -40.6 | 0.0 |
| Disposals | 0.0 | 0.0 |
| **Book value 31 December** | **449.1** | **489.7** |
| | | |
| **Associates and joint ventures** | | |
| Acquisition cost 1 January | 13.1 | 9.4 |
| Additions | 0.0 | 3.7 |
| Effect of the merger | 2.2 | 0.0 |
| **Book value 31 December** | **15.4** | **13.1** |
| | | |
| **Shares in other companies** | | |
| Acquisition cost 1 January | 0.7 | 0.7 |
| Additions | 0.0 | 0.0 |
| Effect of the merger | 0.0 | 0.0 |
| Disposals | -0.4 | 0.0 |
| **Book value 31 December** | **0.4** | **0.7** |

| **Associates** | Share of parent company % |
|---|---|
| Suomen Ilmailuopisto Oy, Pori | 49.50 |
| Flybe Nordic, Sweden | 40.00 |
| Kiinteistö Oyj Lentäjäntie 1, Vantaa | 28.33 |

| **Group companies** | Share of parent company % | | Share of parent company % |
|---|---|---|---|
| Finnair Cargo Oy, Helsinki | 100.00 | Finnair Technical Services Oy, Helsinki | 100.00 |
| Finnair Cargo Terminal Operations Oy, Helsinki | 100.00 | Finnair Engine Services Oy, Helsinki | 100.00 |
| Amadeus Finland Oy, Helsinki | 95.00 | Finnair Flight Academy Oy, Helsinki | 100.00 |
| Suomen Matkatoimisto Oy, Helsinki | 100.00 | Northport Oy, Helsinki | 100.00 |
| Area Baltica Reisiburoo AS, Estonia | 100.00 | Finland Travel Bureau Oy, Helsinki | 100.00 |
| Back Office Services Estonia Oü, Estonia | 100.00 | Kiinteistö Oy LEKO 8, Vantaa | 100.00 |
| Oy Aurinkomatkat - Suntours Ltd Ab, Helsinki | 100.00 | Kiinteistö Oy Air Cargo Center 1, Vantaa | 100.00 |
| FTS Financial Services Oy, Helsinki | 100.00 | IC Finnair Ltd, Great Britain ** | 100.00 |
| Finnair Travel Retail Oy, Helsinki | 100.00 | Finnvero Gmbh, Germany | 100.00 |
| LSG Sky Chefs Finland Oy, Helsinki * | 100.00 | A/S Aero Airlines, Estonia | 100.00 |
| Finnair Aircraft Finance Oy, Helsinki | 100.00 | Norvista Travel Ltd, Canada | 100.00 |

* The group has made an co-operation agreement which includes a call option and ceased control over the company

** IC Finnair Ltd is a fully owned captive insurance company in Guernsey which rearnings are subject to normal taxation in Finland.

Finnair Facilities Management Oy was merged with the parent company on 31 March 2013.

### 15. LOAN AND OTHER RECEIVABLES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Non-current loan receivables | | |
| From group companies | 14.5 | 223.5 |
| From associates and joint ventures | 9.9 | 9.9 |
| From other companies | 0.2 | 0.3 |
| **Total** | **24.7** | **233.7** |
| | | |
| Deferred tax assets 1 January | 66.2 | 65.7 |
| From profit/loss for the financial period | -9.8 | 4.3 |
| From temporary differences | -13.1 | -3.9 |
| From valuation of derivates at fair value | 1.1 | 0.0 |
| **Deferred tax assets 31 December** | **44.2** | **66.2** |
| | | |
| **Loan and other receivables total** | **68.9** | **299.9** |

### 16. CURRENT RECEIVABLES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Short-term receivables from group companies | | |
| Trade receivables | 33.7 | 25.1 |
| Accrued income and prepaid expenses | 106.2 | 73.8 |
| Other receivables | 379.9 | 172.2 |
| **Total** | **519.8** | **271.0** |
| | | |
| Short-term receivables from associates and joint ventures | | |
| Trade receivables | 0.0 | 0.0 |
| Accrued income and prepaid expenses | 206.6 | 38.6 |
| **Total** | **206.6** | **38.6** |
| | | |
| Short-term receivables from others | | |
| Trade receivables | 109.1 | 95.4 |
| Prepaid expenses | 69.1 | 34.0 |
| Other receivables | 10.3 | 39.7 |
| **Total** | **188.5** | **169.1** |
| | | |
| **Short-term receivables total** | **915.0** | **478.8** |

### 17. INVESTMENTS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Short-term investments at fair value | 335.5 | 362.6 |

### 18. CASH AND BANK EQUIVALENTS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Funds in group bank accounts and deposits maturing in three months | 118.2 | 62.1 |

### 19. SHAREHOLDERS' EQUITY

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Share capital 1 January | 75.4 | 75.4 |
| **Share capital 31 December** | **75.4** | **75.4** |
| | | |
| Share premium account 1 January | 24.7 | 24.7 |
| **Share premium account 31 December** | **24.7** | **24.7** |
| | | |
| Legal reserve 1 January | 147.7 | 147.7 |
| **Legal reserve 31 December** | **147.7** | **147.7** |
| | | |
| Hedging reserve 1 January | 9.3 | 28.1 |
| Change | -13.6 | -18.8 |
| **Hedging reserve 31 December** | **-4.2** | **9.3** |
| | | |
| Unrestricted equity funds 1 January | 250.4 | 250.4 |
| Purchase of own shares | -1.7 | 0.0 |
| Share-based payments | 1.9 | 0.0 |
| **Unrestricted equity funds 31 December** | **250.5** | **250.4** |
| | | |
| Retained earnings 1 January | 12.7 | 13.7 |
| Dividend | -12.7 | 0.0 |
| **Retained earnings 31 December** | **0.0** | **13.7** |
| | | |
| Profit/loss for the financial year | 37.7 | -1.0 |
| | | |
| **Shareholders' equity total** | **531.9** | **520.3** |
| | | |
| **Distributable equity** | | |
| Hedging reserve | -4.2 | 0.0 |
| Unrestricted equity funds | 250.5 | 250.4 |
| Retained earnings | 0.0 | 13.7 |
| Profit/loss for the financial year | 37.7 | -1.0 |
| **Total** | **284.0** | **263.1** |

### 20. ACCUMULATED APPROPRIATIONS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Accumulated depreciation difference 1 January | 0.0 | 0.0 |
| Effect of the merger | 9.3 | 0.0 |
| Change in depreciation difference | -0.2 | 0.0 |
| **Accumulated depreciation difference 31 December** | **9.1** | **0.0** |

### 21. PROVISIONS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Provisions 1 January | 109.7 | 115.8 |
| Provision for the period | 21.9 | 19.2 |
| Provision used | -33.1 | -24.1 |
| Exhange rate differences | -4.5 | -1.2 |
| **Provisions 31 December** | **94.0** | **109.7** |
| Of which long-term | 69.3 | 82.3 |
| Of which short-term | 24.8 | 27.4 |
| **Total** | **94.0** | **109.7** |

Long-term aircraft maintenance provisions are expected to be used by 2020.

### 22. NON-CURRENT LIABILITIES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Deferred tax liability from valuation of derivates at fair value | 0.0 | 3.0 |
| Loans from group companies | 1.0 | 1.0 |
| Loans from financial institutions | 48.2 | 58.7 |
| Bonds | 151.2 | 0.0 |
| Hybrid loan | 120.0 | 172.4 |
| Other liabilities | 1.8 | 2.1 |
| **Total** | **322.3** | **237.3** |
| | | |
| Maturity of interest-bearing liabilities | | |
| 2014 | 55.0 | |
| 2015 | 48.3 | |
| 2016 | 0.0 | |
| 2017 | 0.0 | |
| 2018 | 151.2 | |
| 2019 and later | 121.0 | |
| **Total** | **375.5** | |

### 23. CURRENT LIABILITIES

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Current liabilities to group companies | | |
| Trade payables | 25.7 | 34.4 |
| Accruals and deferred income | 24.5 | 23.0 |
| Other liabilities | 138.9 | 143.1 |
| **Total** | **189.1** | **200.5** |
| | | |
| Current liabilities to associates and joint ventures | | |
| Trade payables | 0.0 | 2.1 |
| Accruals and deferred income | 164.3 | 32.3 |
| **Total** | **164.3** | **34.4** |
| | | |
| Current liabilities to others | | |
| Loans from financial institutions | 10.5 | 32.7 |
| Commercial papers | 44.5 | 80.9 |
| Trade payables | 52.8 | 55.0 |
| Accruals and deferred income | 514.2 | 414.9 |
| Other liabilities | 21.5 | 36.4 |
| **Total** | **643.4** | **619.8** |
| | | |
| **Current liabilities total** | **996.8** | **854.7** |
| | | |
| Accruals and deferred income | | |
| Unflown air transport revenues | 255.6 | 204.6 |
| Jet fuels and traffic charges | 248.9 | 101.4 |
| Holiday payments | 52.3 | 50.2 |
| Loyalty program Finnair Plus | 32.2 | 32.5 |
| Other items | 114.1 | 81.4 |
| **Total** | **703.0** | **470.1** |

### 24. COLLATERAL, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Guarantees and contingent liabilities | | |
| On behalf of group companies | 571.3 | 698.8 |
| On behalf of associates | 2.0 | 2.0 |
| On others companies | 0.3 | 0.5 |
| **Total** | **573.5** | **701.3** |
| | | |
| Aircraft lease payments | | |
| Within one year | 223.6 | 239.4 |
| After one year and not later than 5 years | 658.3 | 721.0 |
| Later than 5 years | 139.9 | 184.4 |
| **Total** | **1,021.7** | **1,144.8** |

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

| EUR mill. | 2013 | 2012 |
|---|---|---|
| Other lease payments | | |
| Within one year | 27.5 | 6.3 |
| After one year and not later than 5 years | 80.9 | 10.5 |
| Later than 5 years | 140.0 | 0.0 |
| **Total** | **248.4** | **16.7** |

Operating lease obligations have increased due to the merger of the Group's facilities management subsidiary to parent company.

| | | |
|---|---|---|
| Pension obligations | | |
| Total obligation of pension fund | 317.8 | 302.2 |
| Mandatory portion covered | - | - |
| Non-mandatory benefit covered | -317.8 | -302.2 |
| Uncovered obligation of pension fund | 0.0 | 0.0 |
| Obligation for pensions paid directly by the company | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** |

### 25. DERIVATIVES

| | 31 Dec 2013 | | 31 Dec 2012 | |
|---|---|---|---|---|
| **EUR mill.** | **Nominal value** | **Fair value** | **Nominal value** | **Fair value** |
| **Currency derivatives** | | | | |
| Hedge accounting items: | | | | |
| Jet fuel currency hedging (forward contracts) | 370.5 | -17.0 | 413.5 | 0.3 |
| **Hedge accounting items total** | **370.5** | **-17.0** | **413.5** | **0.3** |
| Items outside hedge accounting: | | | | |
| Operational cash-flow hedging (forward contracts) | 407.9 | 2.4 | 173.3 | -0.9 |
| Operational cash-flow hedging (options) | | | | |
| Call options | 149.8 | 16.1 | 105.5 | 5.9 |
| Put options | 169.5 | -0.8 | 110.5 | -0.8 |
| **Items outside hedge accounting total** | **727.2** | **17.7** | **389.3** | **4.2** |
| **Currency derivatives total** | **1,097.7** | **0.7** | **802.8** | **4.5** |
| | | | | |
| **Commodity derivatives** | | | | |
| Hedge accounting items: | | | | |
| Jet fuel forward contracts, tonnes | 563,550 | 11.8 | 574,660 | -1.7 |
| Electricity derivatives, MWh | 17,568 | 0.0 | - | - |
| **Hedge accounting items total** | | **11.8** | | **-1.7** |
| Items outside hedge accounting: | | | | |
| Jet fuel forward contracts, tonnes | 18,000 | 0.8 | 0 | 0.0 |
| Options | | | | |
| Call options, jet fuel, tonnes | 201,000 | 3.4 | 214,000 | 3.1 |
| Put options, jet fuel, tonnes | 201,000 | -1.1 | 301,000 | -4.1 |
| Electricity derivatives, MWh | 71,100 | -0.5 | - | - |
| **Items outside hedge accounting total** | | **2.6** | | **-1.0** |
| **Commodity derivatives total** | | **14.4** | | **-2.7** |
| | | | | |
| **Interest rate derivatives** | | | | |
| Hedge accounting items: | | | | |
| Interest rate swaps | 150.0 | 1.2 | 0.0 | 0.0 |
| **Hedge accounting items total** | **150.0** | **1.2** | **0.0** | **0.0** |
| Items outside hedge accounting: | | | | |
| Interest rate swaps | 25.0 | -0.5 | 25.0 | -1.1 |
| **Items outside hedge accounting total** | **25.0** | **-0.5** | **25.0** | **-1.1** |
| **Interest rate derivatives total** | **175.0** | **0.7** | **25.0** | **-1.1** |
| | | | | |
| **Derivatives total** | | **15.8** | | **0.7** |

# CALCULATION OF KEY INDICATORS

**Operational result:**
Operating profit excluding capital gains, fair value changes in derivatives, changes in the exchange rates of fleet overhauls and non-recurring items

**Operational EBITDA:**
Operational result + depreciation

**Operational EBITDAR:**
Operational result + depreciation + lease payments for aircraft

**Shareholders' equity:**
Equity attributable to owners of the parent

**Gross capital expenditure:**
Investments in intangible and tangible assets - prepayments during the financial year

**Average capital employed:**
Balance sheet total - non-interest-bearing liabilities

**Interest-bearing net debt:**
Interest-bearing liabilities - other current financial assets - cash and cash equivalents

**Earnings/share:**

$$\frac{\text{Profit for the financial year - hybrid bond interest}}{\text{Average number of shares during the financial year, adjusted for share issues}}$$

**Equity/share:**

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

**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, %:**

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

**Gearing, %:**

$$\frac{\text{Net interest-bearing liabilities}}{\text{Shareholders' equity + non-controlling interests}} \times 100$$

**Adjusted gearing, %:**

$$\frac{\text{Net interest-bearing liabilities + 7 x lease payments for aircraft}}{\text{Shareholders' equity + non-controlling interests}} \times 100$$

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

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

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

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

**Board of Directors' proposal on the dividend**

Finnair Plc's distributable equity according to the financial statements on 31 December 2013 amounts to 284,038,140.67 euros.

The Board of Directors proposes to the Annual General Meeting that no dividend shall be paid and the profit for the fiscal year be retained and carried further in the unrestricted equity.

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

Helsinki, 10th February 2014

The Board of Directors of Finnair Plc

Klaus Heinemann
Harri Kerminen

Maija-Liisa Friman
Jussi Itävuori
Merja Karhapää

Gunvor Kronman
Antti Kuosmanen

Pekka Vauramo
President & CEO of Finnair Plc

# AUDITOR'S REPORT (TRANSLATION FROM THE FINNISH ORIGINAL)

## To the Annual General Meeting of Finnair Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Finnair Oyj for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Directors are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

## Other Opinions

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 Directors of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 28 February, 2014

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant

# FINANCIAL INDICATORS

## EC1

**Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments**

| EUR million | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Direct economic value** | | | |
| Consolidated turnover | 2,400.3 | 2,449.4 | 2,257.7 |
| Other operating income | 18.8 | 20.8 | 13.9 |
| Financial income | 42.6 | 7.9 | 9 |
| **Total** | **2,461.7** | **2,478.1** | **2,280.6** |
| | | | |
| **Distributed economic value*** | | | |
| Cash paid outside the company, materials and services, other operating expenses | 1,918.2 | 1,839.8 | 1,7486 |
| Payments to personnel** | 408.0 | 420.3 | 447.9 |
| Payments made to shareholders and loan providers | | | |
| Dividend*** | 12.8 | 0 | 0 |
| Interest and other financial expenses | 19.7 | 25.5 | 30.6 |
| Payments to government **** | 9.6 | 7.7 | 8.5 |
| Donations and other charitable payments | n/a | n/a | n/a |
| **Distributed, total** | **2,368.3** | **2,293.3** | **2,235.6** |
| **Economic value retained for operational development** | **93.4** | **184.8** | **45.0** |
| Investments in tangible and intangible assets as well as acquisitions of subsidiaries | 42.0 | 41,4 | 158,6 |
| Operational result | -4.8 | 43.2 | -60.9 |
| Return on capital employed (ROCE), % | 2.3 | 2.8 | -5.2 |

* Includes EUR 34 million capital gain from the sale of Norwegian Air Shuttle ASA's shares in 2013.

** 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 2013 Remuneration Statement on pages 147–155.

*** A dividend of EUR 0.10 per share was paid for 2012, amounting to EUR 12.8 million. The Board of Directors proposes to the Annual General Meeting 2014, that no dividend be paid for 2013.

**** Includes paid income taxes, social security payments and taxes on property.

## 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. Finnair's long-term goal is to reduce emissions per seat by 24 per cent by 2017, using 2009 as the baseline.

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 the global emissions trading scheme. Finnair operates a modern fleet and invests in fuel-efficient next-generation aircraft in the coming years to maintain its competitive advantage.

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. These measures are described on page 54 under the title "A global solution to climate change". In 2013, Finnair participated in European Union's Emissions Trading Scheme (EU-ETS), which concerned only Intra-European flights. The direct costs incurred by Finnair from emissions trading totalled approximately EUR 2.6 million in 2013. The direct costs of emissions trading in the coming years are difficult to estimate due to potential regulatory changes.

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. Finnair placed among the leading airlines in the Carbon Disclosure Project (CDP) 2013 report and was also included in the CDP Nordic 260 Climate Disclosure Leadership Index (CDLI) for the second consecutive year. The CDP is the world's only global environmental disclosure system and represents 722 international investors from around the world. Finnair has participated in the CDP since 2007.

## 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 amount to 16.8 per cent of salaries and 12.7 per cent of total personnel expenses. 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 46.3 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 EUR 333.9 million at the end of 2013. Pension liabilities are covered in full.

## 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 2013, the Finnair Aviation College received a total of approximately EUR 2.2 million.

## EC6

**Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation**

The key objective of procurement at Finnair is to secure competitiveness, customer experience, operational excellence and compliance with laws and regulations. The majority of Finnair purchases are determined by the Finnair flight network and related geographical scope of relevant service and goods suppliers. A considerable part of the services Finnair requires for flight operations are sourced locally because of the nature of the operations. At the group level, Finnair monitors and collects spend data on purchases from all suppliers and from all regions. Finnair supplier qualification principles include, both locally and globally, compliance with air operation laws and regulations, conformance to Finnair quality requirements, price competitiveness and general reliability and responsibility of a supplier toward the environment, employees and the local community. 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.

Finnair's largest single procurement item is jet fuel, which is also the most significant operational expense item. In jet fuel procurement, Finnair gives significant weight on financial factors and reliability of supply. The jet fuel is typically procured locally on each flight destination from some 60 different suppliers.

Most of the hotels used in the program of Finnair Group's subsidiary Aurinkomatkat-Suntours Ltd are small and medium-sized hotels, which are, as a rule, locally owned. For example, in Aurinkomatkat's biggest summer destination country, Greece, more than 90 per cent of the hotels used by Aurinkomatkat in summer 2013 were in local ownership.

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. Finnair's travel agency SMT, which was formed in 2013 by merging Finnair's subsidiaries Area Oy and Finland Travel Bureau Ltd, is specialised in business travel and also uses local agents when preparing travel programs and making group bookings.

## EC9

**Understanding and describing significant indirect economic impacts, including the extent of impacts**

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 up to 4 per cent of GDP, employment and tax revenue (Source: "Economic Benefits from Air Transport in Finland," Oxford Economics, 2012). Finnair's effective Asian strategy is a key element of the GDP contribution of aviation. More information on the economic impact of aviation is available on pages 51–57 in this report. Further information is also available at www.benefits ofaviation.aero and on the IATA website at www.iata.org.

# Governance

## MANAGEMENT PRINCIPLES

### General management principles

Responsibility is integral to all Finnair operations. Finnair's Code of Conduct is based on the principle that everything Finnair does must – and will be – evaluated against the highest ethical business standards.

#### CONFORMING WITH LAWS AND REGULATIONS

Business operations are based on internationally accepted ethical principles governing business partnerships and interest group relationships. Company specific authorities on the governance of Finnair include principles, policies and guidelines issued by Finnair's Board of Directors. 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 lies with the persons defined and approved by the authorities. Finnair is also subject to supervision relating to finances and information 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 131–141.

#### PUBLIC AFFAIRS AND LOBBYING

Aviation is a strictly regulated industry. As such, it is important for us to participate in discussions and decision-making that concern Finnair's operating conditions.

Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and technical expertise where necessary. The company does not pressurise or support political decision-makers in any way. Finnair monitors the legality and ethicality of public affairs and lobbying activities 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 co-operates with various organisations and chambers of commerce. Finnair is an active member of various aviation industry associations, such as AEA 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. Responsibility must also be reflected in all of the company's operations and strategy, including communications and brand building. Responsible communication is one of the fundamental requirements for maintaining good relations with all stakeholders.

Finnair's internal communications is 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.

#### CORRUPTION AND BRIBERY: ZERO TOLERANCE

Finnair does not condone corruption in any form. Identifying and assessing corruption risks are part of the general risk assessment carried out by the company and its business units.

Finnair's procurement policy sets clear principles to ensure ethical purchasing. Finnair expects its suppliers also to act in accordance with the company's ethical standards. Supervision relating to the prevention of corruption is the responsibility of each Finnair employee as well as those in charge of business functions and the internal audit. The internal audit monitors compliance with the key principles of the Code of Conduct as part of analysing and controlling business processes.

Accepting or giving bribes is strictly forbidden. Giving and accepting business gifts should be avoided where possible without acting contrary to good manners. Suspected cases of bribery must be reported to the company's Internal Auditing department and, where necessary, relevant training will be arranged for new recruits.

### FAIR COMPETITION

The airline industry is a highly competitive sector globally and new competitors are constantly entering the market. Finnair complies with competition law in all operations, and its Finnair Legal Affairs Department regularly assesses the risks related to competition law associated with partnership agreements and other operations. The department is responsible for issuing instructions and arranging training on competition law. Internal Auditing verifies compliance with competition law as part of general process and control audits.

## Economic responsibility

### ECONOMIC OPERATING PRINCIPLES

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 the environment and society. These effects are identified and assessed by the company's corporate social responsibility and risk management organisations, which work under the authority of the CEO.

Finnair's Board of Directors has set the company's financial targets, which are outlined in material directed at 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 provide, as transparently as possible, information about Finnair's financial position and development.

Finnair's strategy and market environment is described in this report on pages 5-8. Finnair's financial performance in 2013 is described on pages 58-124.

### ECONOMIC EFFECTS OF AN AIRLINE

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. The importance of air transport for Finland is more fully described on pages 51-55.

Profitability in a highly competitive industry that is sensitive to cyclical fluctuations requires structural changes, which Finnair, like other airlines, is implementing. The company's Career Gate operating model helps Finnair personnel find employment as quickly as possible when it is necessary to reduce staff. Significant changes in the company's operations are required in order to achieve the planned cost reductions. These changes also apply to the company's personnel, and personnel reductions cannot be avoided.

## Environmental responsibility

### THE PRINCIPLES APPLIED AND ENVIRONMENTAL ORGANIZATION

Finnair's goal is to be the leading airline in the field of environmental responsibility. We take environmental aspects into consideration in all our operations, and support the International Air Transport Association (IATA) target of zero-emission aviation. 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.

Our environmental organisation has existed in various forms since the late 1980s, and we have reported on our environmental impacts since 1997. The environmental organisation has nowadays been replaced by our corporate responsibility organisation, which in addition to environmental aspects also covers social responsibility. Finnair's corporate responsibility policy also defines our strategy for environmental management.

We manage corporate responsibility at the group level, and each unit has individuals responsible for environmental activities and guidelines. The Finnair Board of Directors has a nominated board member for corporate responsibility. In addition to group level, all units have named persons responsible for environmental operations and instructions. Environmental training is available for our entire personnel, and we highlight important themes and best practices with different internal and external campaigns.

In 2013 Finnair was certified as a Stage 1 operator in IATA's Environmental Assessment (IEnvA) Program, a new environmental management system designed to independently assess and improve the environmental management of an airline. The environmental standards that underpin IEnvA are based on recognised environmental management system (EMS) principles (such as ISO 14001) and have been developed by a joint team of environmental consultants and leading airlines, including Finnair. Airline assessments, however are undertaken by independent accredited Environmental Assessment Organisations that have demonstrated competencies in EMS auditing.

Finnair participates actively in IATA's environmental committee and AEA Environmental Committee, as well as in industry workgroups in Finland and the Nordic countries, promoting the reduction of the aviation sector's environmental load.

### MAIN AREAS IN ENVIRONMENTAL RESPONSIBILITY

Approximately 95 per cent of an airline's environmental impact arises from engine emissions. In addition to carbon dioxide emissions and noise, air transport causes other emissions that affect air quality and the climate, and an effort must be made to reduce them by all possible means. Our actions are focused on four areas: technological advances, operational improvements, infrastructure development and market-related means, such as emissions trading. In all these areas we cooperate closely with various players, such as aircraft and engine manufacturers, airports, air traffic control and the relevant authorities.

In all our operations, we strive to reduce waste and to lower our energy consumption. At Finnair's operating locations, whether on the ground or in the air, every effort is made to recycle glass, paper and metal and collect energy waste which can be used as an industrial energy source.

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 questions posed by interest groups.

For more information on measures to reduce fuel consumption and emissions, see pages 28-37.

## Social Responsibility

### MAIN AREAS IN SOCIAL RESPONSIBILITY

Finnair is a company in a complex, highly technical business, and it has operations and supply chain partners in dozens of different countries, each with varying laws and customs. The most important social responsibility areas concern personnel, supply chain personnel and-customers, particularly with respect to safety.

#### Human rights

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, which relate to human rights, labor, environment and anti-corruption.

Finnair's ethical guidelines (Finnair supplier code of conduct) set clear principles to ensure ethical purchasing. Finnair also expects its suppliers to act according to the company's ethical operating practices and its Supplier Code of Conduct. Conforming with the UN's Universal Declaration of Human Rights and all applicable laws and statutes is an absolute minimum requirement. A procurement steering group operating under Finnair's management is responsible for the steering, development and coordination of the group's procurement activity. The management of each business unit must ensure that individuals handling procurement activity have at their disposal up-to-date procurement guidelines and that the guidelines are adhered to. In addition, subsidiaries and business units have their own, more detailed, procurement guidelines, which specify more detailed criteria under the general procurement guidelines, taking into account the special needs of each operating unit.

Auditing is performed in certain product and service groups. Auditing focuses on quality and safety factors. With respect to procurement covered by official regulations, only operators approved by the International Air Transport Association (IATA) can act as suppliers or subcontractors to Finnair.

#### No child labour

Finnair does not condone the use of child or forced labour at any stage of its value chain.

### PERSONNEL

#### Management, development and training and employee well-being

Finnair's strategic focus areas related to management and work culture, staff development and training, occupational health and wellbeing, occupational safety and Finnair's Code of Conduct are described on page 41.

#### Promoting equality and zero-tolerance for 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.

Finnair does not condone disturbances or 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 an unequal status. Business unit managers are responsible for ensuring that any equality issues arising in their units are resolved. The group conducts equality planning and develops anti-discrimination practices continually as part of normal human resources management. The legality and regulatory compliance of operations is also monitored as part of the group's general monitoring and audit processes.

Finnair offers equal opportunities for everyone with regard to recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act.

Finnair gives both men and women equal opportunities for balancing work and family life. In 2011, Finnair became the first Finnish company to sign on to the United Nations Women's Empowerment Principles, which give guidance on the empowerment of women in the workplace, marketplace and community.

### No tolerance for harassment

Finnair complies with procedures jointly agreed by the employer and employees for the prevention of harassment and inappropriate conduct. The procedure is 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.

### 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 activity.

In Finland, all of Finnair's workers have the right and opportunity to agree on terms of employment collectively. Management's working terms are agreed on locally.

The dialogue between Finnair and its staff in 2013 is described on page 42. Personnel and management remuneration principles are described on pages 147–155.

## PRODUCT RESPONSIBILITY AND CUSTOMER CARE

As an airline, Finnair's mission is to carry customers and their goods safely and on time to their destinations. The Finnair Group's business units and subsidiaries play their part in supporting the comprehensive achievement of this goal. The objective is to ensure the wellbeing of customers and a smooth, trouble-free travel experience in every respect. 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 by Finnair.

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. As a result, Finnair pays great attention to the selection of partners and takes ultimate responsibility for the customer experience.

### Safety

Flight safety is always the highest priority in all operations, and in this area no compromises are made on any grounds. Safety is also Finnair's first priority in ground operations and at every stage of the customer journey.

Flight safety work extends to all operations that impact on flight safety. Risk prevention is built into the company's operating culture, and numerous official regulations guide the group's activities. In case of human error, various protection networks have been created in the company's operating systems with the key objective of stopping the advance of a possibly damaging course of events and the materialisation of risk.

The rules and regulations related to flight operations and Finnair's safety culture are described on pages 22–23.

At Finnair, responsibility for operational safety rests with the manager responsible for each area of operations. The Department of Safety and Quality produces risk information for management using the latest methods. A quality management system is used to monitor the effectiveness of all measures and general compliance with regulations. The operation of the quality system is the responsibility of the company's Quality Manager, who serves at the same time as the Flight Safety Director.

Within the framework of the quality management system, the company's safety-critical elements are audited annually. Everyone who works in roles that influence flight safety participates regularly in safety training courses, whose content and scheduling is monitored both internally and by the authorities. Safety-related information is disseminated throughout the organization via a dedicated safety magazine. In addition, separate safety bulletins are published for flight personnel as required.

At Finnair all safety reports are interpreted and given a risk classification according to the seriousness of the event. In serious cases, corrective measures are initiated immediately. A corrective measure may be, for example, the changing of a faulty component and immediate checking of the rest of the fleet to make sure that the same event does not recur. In risk assessment and classification we use the Event Risk Classification (ERC) method, created by the Airbus-led Airline Risk Management Solutions (ARMS) working group, which was introduced for airlines' use in 2009. This method represents the industry's latest risk knowledge and helps Finnair produce more standardised and objective risk information for management use. We examine risks identified by the ERC more deeply using the Safety Issue Risk Assessment (SIRA) method, which is also a tool produced by the ARMS working group. In the SIRA method, an attempt is made to identify all scenarios connected with the perceived risk, and numerical probabilities based on international data are assigned to all of these scenarios. The numerical possibilities obtained in this way must fulfil the requirements set by management and the authorities.

In addition to risks identified due to reporting, we survey flight safety risks monthly with flight personnel and flight safety professionals in a designated Hazard Identification Team (HIT) and by monitoring daily flights on the basis of flight recordings. The purpose is to identify risks and to make a deeper SIRA analysis of the risks identified. The interpretation of individual flights is called Flight Data Management (FDM). At best, an aircraft records in its "black box" more than one thousand flight parameters many times per second. The black box re-cordings are downloaded after flights and analysed by a special program. In this way, we can verify later that every flight has been carried out taking into account the company's methods and the limitations of each type of aircraft. Any anomalies are always investigated separately in cooperation with the flight crew in question and a safety analyst.

Events that seriously jeopardise safety are rare and almost without exception a separate safety investigation is launched in respect of them. A safety investigation may be carried out by the authority concerned (Accident Investigation Board of Finland). If the authority decides not to carry out an investigation, Finnair performs an internal safety investigation. In cases related to flying, the safety investigator is always an experienced pilot specially trained in the subject. The safety investigator (or investigators) always carries out the investigation independently and the company's management has no opportunity to influence the course of the investigation. This ensures independence and objectivity also in those cases where the perceived shortcomings may relate to the organisation's activities.

### Customer care

For exceptional situations, Finnair has its own cross-organisational unit. All flight traffic irregularities are handled centrally from Helsinki, thereby gathering all of the available 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 minimize 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 various surprise campaigns and measurements performed by external parties. 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. At all stages of travel we process personal details in compliance with the legislation on personal data and regulations issued by the authorities in the countries in which we operate.

### Package tours

It is in the interests of the group's tour operators to promote sustainable tourism, which benefits local businesses and organisations. Package travel operations carried out by Finnair subsidiaries comply with the Finnish Package Travel Act and general industry terms and conditions. The Finnish Consumer Ombudsman supervises the contractual practices of package travel service providers and compliance with the requirements concerning guarantees against bankruptcy. The guarantees of tour operators belonging to the Finnair Group are in the form of bank guarantees.

### 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 international and national regulations. The aim is to offer cargo customers efficient, trouble-free 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.

The Ground Operations unit, which belongs to the group's parent company, 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 that provide terminal and other ground handling services. 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 subcont-ractors' work.

Finnair Cargo and Ground Operations quality managers 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 operations' compliance 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.

**FURTHER INFORMATION:**
More information about IATA safety and quality audits: www.iata.org

# CORPORATE GOVERNANCE STATEMENT 2013

CONTENTS



## Regulatory framework

This Corporate Governance Statement is issued pursuant to the Finnish Corporate Governance Code 2010 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 regulation and guidelines issued by the Financial Supervision, the rules and instructions for listed companies issued by NASDAQ OMX Helsinki Exchange 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 principles, policies and guidelines issued by Finnair's Board of Directors.

The Articles of Association, the published policies and other additional information on Finnair's corporate governance can be found at Finnair's internet site at www.finnairgroup.com. The Corporate Governance Code is publicly available on the website of the Securities Market Association's website at www.cgfinland.fi.

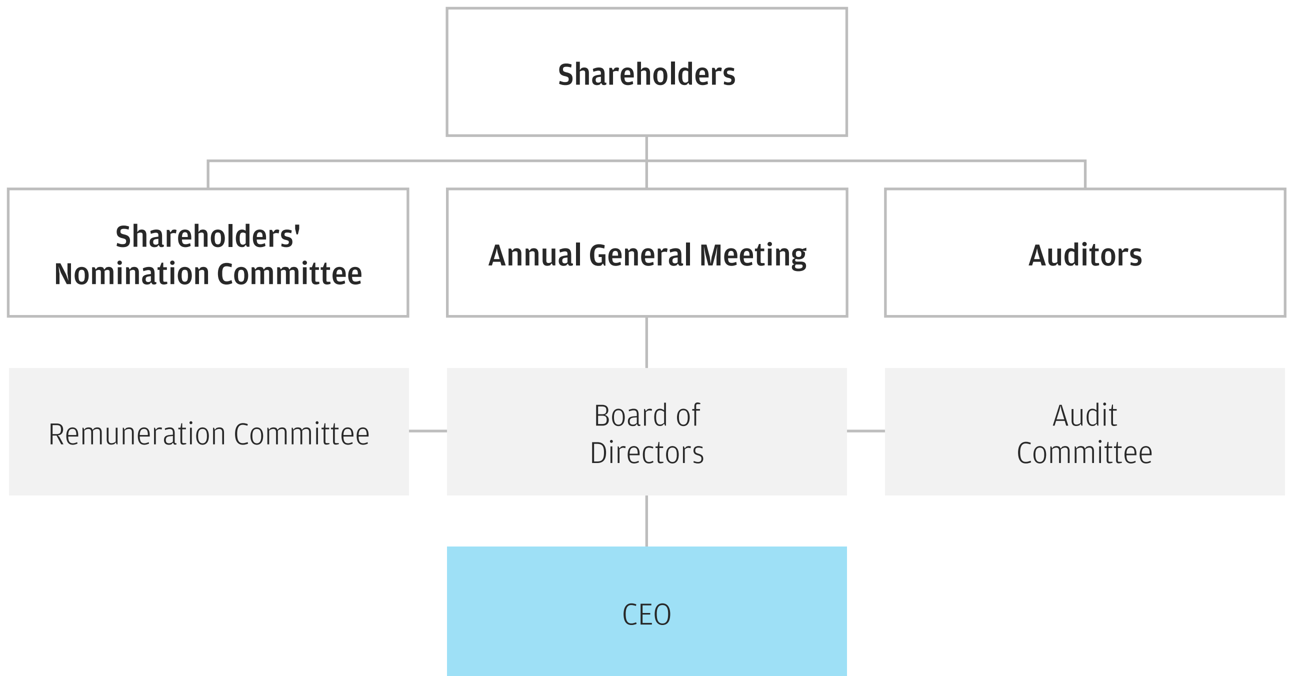
This statement has been approved by Finnair's Board of Directors and it has been prepared as a separate report from the Board of Directors' Report. Finnair's auditing firm, PricewaterhouseCoopers, has verified that the description of the main features of the internal control and risk management related to the financial reporting process contained herein are consistent with the financial statements.

## 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 Meetings

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 remunerations
- the election and remuneration of the auditor.

In accordance with Finnair's Articles of Association, the AGM elects also the Chairman of the Board.

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 internet site.

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair's internet site within two weeks of the meeting.

### 2013 Annual General Meeting

Finnair's AGM 2013 was held in Helsinki on 27 March. A total of 281 shareholders, representing close to 63 per cent of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members elected by the 2012 AGM and all candidates for Board membership in 2013 AGM were present in the meeting, as well as Finnair's Executive Board and the auditors of the company.

## Shareholders' Nomination Board

The AGM 2013 decided to establish a permanent Shareholders' Nomination Board. The term of the Nomination Board continues until the General Meeting of the company decides otherwise. 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 shall consist of four members, who shall be nominated annually. The company's three largest shareholders shall appoint three of the members, and the Chairman of the Board shall serve as the fourth member. The company's largest shareholders entitled to appoint members to the Nomination Board shall be determined on the basis of the registered holdings in the company's shareholder register held by Euroclear Finland Ltd 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 shall pass 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.

### 2012 Nomination Committee and 2013 Nomination Board

The proposal for the 2013 AGM was made by a Nomination Committee that was established by the 2012 AGM. Based on the largest shareholdings as at 1 November 2012, the Committee consisted of representatives of State of Finland, Keva and Skagen Global Verdipapirfond, and the Chairman of The Board of Finnair.

- Mr. Jarmo Väisänen, b. 1951, Licentiate in Political Science, Senior Financial Counsellor in Prime Minister's Office (Ch.);
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva;
- Mr. Per Wennberg, b. 1969, B. Sc. (Hon.) in Business Management, Skagen's Managing Director in Sweden; and
- Mr. Harri Sailas, see details on page 134.

The Committee convened two times and all members were present in the meetings. On 30 January, 2013, the Shareholders' Nomination Committee submitted to the Board its proposal for the AGM held on 27 March 2013.

The Nomination Board established by the 2013 AGM consisted of the representatives of three largest shareholders as at the first working day September and of the Chairman of the Board. The shareholders were the State of Finland, Keva and Skagen Global Verdipapirfond and the composition of the Nomination Board 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 (Ch.);
- Mr. Robin Backman, see details above;
- Mr. Per Wennberg, see details above; and
- Mr. Klaus Heinemann, see details on page 134.

The Nomination Board convened three times and all members were present in the meetings. On 31 January, 2014, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 27 March 2014. The Nomination Board proposed that present members of the Board of Directors Ms Maija-Liisa Friman, Mr Klaus W. Heinemann, Mr Jussi Itävuori, Mr Harri Kerminen and Ms Gunvor Kronman be re-elected, and that Ms Jaana Tuominen and Mr Nigel Turner be elected as new members to the Board of Directors. The Nomination Board further proposed that Mr Klaus W. Heinemann be re-elected as Chairman of the Board.

The Shareholders' Nomination Board proposed that the remunerations of the members of the Board would remain unchanged and thereby be the following: annual remuneration to the Chairman €61,200, to the Vice Chairman €32,400 and to other members €30,000 each. The Committee further proposes that for each meeting of the Board or the committees of the Board a fee of €600 be paid to the members of the Board that reside in Finland and a fee of €2,400 be paid to the members that reside abroad.

## 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 Deputy 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 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 policies issued by the Board, designed to enhance the internal controls. The policies are regularly updated and communicated to the personnel.

In addition to the Boards' statutory tasks, certain significant matters are reserved for Board decision, as set out in the Board's charter. The Board sets the company's strategic aims and monitors the implementation of the same by the management, approves other significant strategic matters, investments, divestments and capital commitments and approves the business and financial plans, significant partnerships and other major contracts. The Board reviews the performance of the management and it appoints and removes the CEO and other members of the executive management and determines their levels of remuneration. The Board also attends the succession planning of the management. The Board establishes and regularly evaluates the group's personnel policies, including the compensation structures. The Board's charter is available on Finnair's website in its entirety.

The Board evaluates its work annually. The Board's gender distribution in the composition elected by 2013 AGM is four men and three women.

## Members of the Board and their independence

The 2013 AGM held on 27 March elected Mr. Klaus Heinemann as Chairman of the Board and Ms. Maija-Liisa Friman, Mr. Jussi Itävuori, Ms. Merja Karhapää, Mr. Harri Kerminen, Ms. Gunvor Kronman and Mr. Antti Kuosmanen as other members of the Board. The Board elected Mr. Harri Kerminen as its Vice Chairman.

Board members represent a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations. The Board assessed the independence of its members and concluded that all other members are non-executive members independent of the Company and its major shareholders except Mr. Antti Kuosmanen. Based on the assessment Mr. Kuosmanen is non-executive member independent of the Company and dependent of its major shareholders, because he is employed by Finnair's largest shareholder the State of Finland.

All members of the Board elected in the 2012 AGM were independent of the company and its significant shareholders (see tables below).

## Members of the Board in 2013 and their attendance in Board and Committee meetings

In 2013, the Board met 11 times (eight meetings with the composition elected by the 2013 AGM and three meetings with the composition elected by the 2012 AGM). In addition, the Board made per capsulam decisions twice during the year. See the table below for information on the Board members' participation in the meetings during 2013.

### Members of the Board elected in the 2013 AGM

| | | Participation in Board meetings in 2013 | Participation in Committee meetings in 2013 | |
|---|---|---|---|---|
| Name | Personal Information | | Audit | Remuneration |
| Mr. Klaus W. Heinemann | • Chairman of the Board since 27 March 2013<br>• Member of the Board since 28 March 2012<br>• B. 1951, B.Sc. (Econ.)<br>• Main occupation: Board professional<br>• Committee membership: Audit Committee | 11/11 | 6/6 | |
| Mr. Harri Kerminen | • Member of the Board since 24 March 2011<br>• Vice Chairman of the Board since 28 March 2012<br>• B. 1951, M. Sc. Tech, MBA<br>• Main occupation: Board professional<br>• Committee memberships: Audit and Remuneration Committees | 11/11 | 6/6 | 5/6 |
| Ms. Maija-Liisa Friman | • Member of the Board since 28 March 2012<br>• B. 1952, M.Sc. (Eng.)<br>• Main occupation: Board professional<br>• Committee memberships: Audit Committee (Chairman) | 11/11 | 6/6 | |
| Mr. Jussi Itävuori | • Member of the Board since 28 March 2012<br>• B. 1955, M. Sc. (Econ.)<br>• Main occupation: Board professional<br>• Committee memberships: Remuneration Committee (Chairman) | 11/11 | | 6/6 |
| Ms. Merja Karhapää | • Member of the Board since 28 March 2012<br>• B. 1962, Master of Laws, PG IPR Diploma<br>• Main occupation: Chief Legal Officer, Sanoma Group<br>• Committee memberships: Audit Committee | 11/11 | 5/6 | |
| Ms. Gunvor Kronman | • Member of the Board since 28 March 2012<br>• B. 1963, Master of Arts<br>• Main occupation: CEO of Swedish-Finnish Cultural Centre<br>• Committee membership: Remuneration Committee from 27 March 2013 | 11/11 | | 6/6 |
| Mr. Antti Kuosmanen | • Member of the Board since 27 March 2013<br>• B. 950, BA, M.Sc. (Mathematics, Economics and Statistics).<br>• Main occupation: Ambassador<br>• Committee membership: Remuneration Committee (since 23 September 2013) | 8/8 | | 2/2 |

### Members of the Board until the end of the 2013 AGM

| | | Participation in Board meetings in 2013 | Participation in Committee meetings in 2013 | |
|---|---|---|---|---|
| Name | Personal Information | | Audit | Remuneration |
| Mr. Harri Sailas | • Chairman of the Board until 27 March 2013<br>• B. 1951, M. Sc. (Econ.)<br>• Main occupation: President and CEO of Ilmarinen Mutual Pension Insurance Company<br>• Committee membership: Remuneration Committee (Chairman until 27 March 2013) | 3/3 | | 2/2 |

More information on the Members of the Board is available on Finnair's website.

## The Board's work in 2013

The Board met 11 times in 2013. In addition to its regulatory duties, the Board's actions included the following:

- Appointed Mr Pekka Vauramo as the new CEO of the company in April. Mr. Ville Iho was appointed as deputy CEO for the period 1 March through 31 May 2013;
- Approved a share saving plan targeted to the entire staff and a long-term share incentive plan targeted to the key employees, and set the personnel fund's bonus criteria for 2013;
- Set the semi-annual short term incentive targets for the CEO and the Executive Board members and assessed their performance against the expiring targets.
- Approved a €29 million investment in improved travel comfort through a retrofit of full flat business class seats to Finnair's long-haul aircraft;
- Approved the entry into a joint business agreement on trans-Atlantic traffic with American Airlines, British Airways and Iberia;
- Approved the entry into a joint business agreement on Europe-Japan traffic with British Airways and Japan Airlines;
- Resolved to divest the company's stake in Norwegian Air Shuttle;
- Evaluated the company's strategy, followed the implementation of the existing strategic initiatives and set the focus areas for new initiatives;
- Approved the changes in the corporate structures in the group's cargo and travel service businesses as well in the facilities management;
- Reviewed the attainment of the targeted service levels and cost savings in the outsourced core services;
- Confirmed the company's financial risk management policies, reviewed the mid and long term investment and funding plans, approved the sale and leaseback agreements of new Airbus A321 Sharklet aircraft, approved the sale and leaseback agreements of four Airbus A330 aircraft and two new Airbus 350 aircraft, resolved to renew the Revolving Credit Facility of €180 million and to issue a €150 million senior bond as well as to buy-back the outstanding amount of the 2009 Hybrid Bond, ca. €52 million;
- Resolved to change the company's disclosure policy on financial guidance from quarterly to full-year guidance. Revised the financial guidance in October and November;
- Assessed and developed its working practices.

## The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the Remuneration 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 raised by the management or the 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.

According to the Corporate Governance Code, the members of the Committee must be sufficiently qualified to perform the responsibilities of the Committee.

### 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
- assess 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 ancillary 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.

In 2013, the Audit Committee members were Ms. Maija-Liisa Friman (Chairman), Mr. Klaus W. Heinemann, Ms. Merja Karhapää and Mr. Harri Kerminen. All Committee members were independent of the Company and of its significant shareholders.

The Audit Committee met six times in 2013 with an aggregate attendance rate of 96%. The CEO, the CFO, the Head of Internal Audit and Risk Management as well as external auditor also participated in the Committee's 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 Committee also performed its annual self-evaluation.

## The Audit Committee's activities in 2013

In addition to its customary tasks, the Audit Committee attended selected focus areas, such as revenue management and forecasting, fleet capacity allocation, procurement, financial processes and accounting principles, maintenance costs, and partner management.

The Audit Committee also:

- Reviewed the Treasury and other Financial Risk Policies and the mid and long term investment and funding plans;
- Reviewed the risk management process, the risk and control environment, the top risks for 2013 and the related risk management measures. The Committee reviewed and approved a risk-based internal audit plan and assessed the sufficiency of the resources in the internal control functions.
- Followed the progress of the risk management development project that was started in 2012;
- Discussed with the CEO, the CFO and the auditors the company's accounting policies and the estimates and judgements that were applied in preparing the reports;
- Recommended to the Board that its changed the financial guidance in October and November;
- Assessed the auditor's performance and Proposed to the 2013 AGM that PricewaterhouseCoopers was re-elected as the auditor for the fiscal year 2013. A tender process for the auditing services was last carried out in 2012;
- Performed an annual self-assessment at the end of 2013 and prepared an annual plan for 2014. The areas of specific attention in 2014 will comprise staff costs and productivity, trans-Atlantic and Europe-Japan joint businesses, financial risks management, internal controls, aircraft finance and impairment, and vendor management.

### Remuneration Committee

The Remuneration 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.

### The main duties of the Remuneration 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
- management's participation in the boards' of directors of the group and of external companies
- major organisational changes
- proposals of awarding the members of the management honorary decorations and titles.

The members of the Remuneration Committee elected after 2013 AGM were Mr Jussi Itävuori (Chairman), Mr Harri Kerminen and Ms Gunvor Kronman. Mr Antti Kuosmanen was appointed to the Committee in September 23, 2013. Before the 2013 AGM, the Committee comprised of Mr Harri Sailas (Chairman), Mr Jussi Itävuori, Mr Harri Kerminen and Ms Gunvor Kronman. All Committee members were independent of the Company and of its significant shareholders.

The Remuneration Committee met six times in 2013 with an aggregate attendance rate of 95%. Four of the meetings were held with the composition that was in place after the 2013 AGM and two with the composition in place after the 2012 AGM. The CEO and the Head of HR were invited to the meetings to assist the Committee. Finnair's General acted as the Committee's secretary.

## The Remuneration Committee's work in 2013

In 2013, the Committee prepared for the Board approval a share saving plan targeted to the entire staff and a long-term share incentive plan targeted to the key employees. The Committee also reviewed the senior management's compensation levels compared to the market and assessed their performance under the long and short term incentive targets, and assisted the Board in determining their semi-annual targets for 2013 as well as the personnel fund's bonus criteria for 2013. The Committee reviewed Finnair's compensation policies and practices, assisted the Board in determining the targets of the next rolling share bonus plan and assessed the development needs of the share bonus scheme.

The Committee discussed with the management the strategically vital labour cost savings and the targets and results of the collective labour agreement negotiations. The Committee assessed its meeting practices and tasks, and will propose a revised charter to the Board for approval early 2014.

# Company management

### Finnair's corporate structure

Finnair has three business areas: Airline Business, Aviation Services and Travel Services (tour operators and travel agencies) and its financial reporting is based on this grouping. Shared functions in Finnair's Group Administration are Finance and Control, Human Resources, Communications and Corporate Responsibility, Corporate Development, Legal Affairs and Internal Audit.

### 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 change 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 internet pages.

### Company management


The CEO of Finnair is Mr. Pekka Vauramo, b. 1957, M. Sc. (Mining). He started in his position in June 1, 2013. Mr. Mika Vehviläinen was the CEO until February 28, 2013, and between March 1 and May 31 Finnair's COO, Mr. Ville Iho was the Acting CEO.

### Executive Board

The Executive Board of the Company is led by the CEO and it comprises the senior management responsible for Finnair's business operations, finance and control, human resources, communications and corporate responsibility and legal affairs. The members' respective roles and their shareholdings in Finnair are more fully described on the company's web pages. The senior management is appointed and removed by the Board, which also determines their remuneration and other terms of employment.

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 2013, Finnair's Executive Board met twice a month on average. The main focus of the Executive Board was the leadership development of key personnel throughout the group, strategy assessment and development, risk management and the group's financial status. The Executive Board also sought to improve route profitability, fleet and crew utilisation, operational quality and customer service, In addition, the Executive Board met nearly every week to tend to Finnair's profitability and productivity improvement programs.

### Subsets of the Executive Board

The Executive Board delegates certain of its functions to four subsets. These Groups' decision making authority is derived from that of the Executive Board, set by the Board by way of the approval limits, policies and instructions.

**Network Planning Group** 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 SVP Resource Management and meets monthly.

**Process and IT Steering Group** makes decisions on IT and process development projects and sets the priorities, budgets and targets for the same. It also approves significant projects, investments and supplier contracts in the area of IT. The Group is headed by CFO and meets bi-monthly.

**Procurement Steering Group** is responsible for Finnair's Procurement Policy, procurement category structure and related development projects. It also approves significant supplier contracts (with the exception of IT contracts) and their related governance models. The Group is headed by the CFO and meets at least quarterly.

**Brand and Product Board** is responsible for strategic brand steering and management as well as product decisions. It decides, for example, on brand development activities, service identity and visual identity of Finnair. The Board is headed by the CEO and 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. 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 2013, the Management Board met seven 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 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 instructions issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2012 under Note 3.1 Subsidiaries.

### Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Flybe Finland Oy through Flybe Nordic AB (ownership 40%) and in Nordic Global Airlines Ltd (ownership 40%). Flybe Finland is a Finnish regional passenger airline operating ATR turboprop and Embraer 170 and 190 aircraft. Part of its route network is designed to provide convenient feeder connections to Finnair's European and long haul routes.  Nordic Global Airlines Ltd is a Finnish full freight airline and its home base is in Finland. Nordic Global Airlines provides cargo capacity mainly to Finnair Cargo Ltd. Finnair's influence over the governance of these companies is secured by shareholding and various contractual rights.

Finnair has entrusted certain important operational services to world class service providers. LSG Sky Chefs Finland Oy runs the former catering businesses of Finnair at Helsinki Airport. It supplies Finnair's catering services pursuant to a multi-year agreement designed to ensure Finnair's receipt of high quality services, cost savings and other benefits. Other similar long-term arrangements exist in the ground handling services, with Swissport Finland Ltd, and in the engine and component services with a Swiss company SR Technics. In addition to a requirement of continued cost competitiveness, these agreements contain service level requirements with baselines meeting or exceeding the levels achieved by Finnair prior to the outsourcing.

All Finnair's partners are expected to comply with Finnair's Code of Conduct and Finnair's Supplier Code of Conduct, and Finnair is entitled to audit the Supplier's governance and security practices to ensure this.

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.

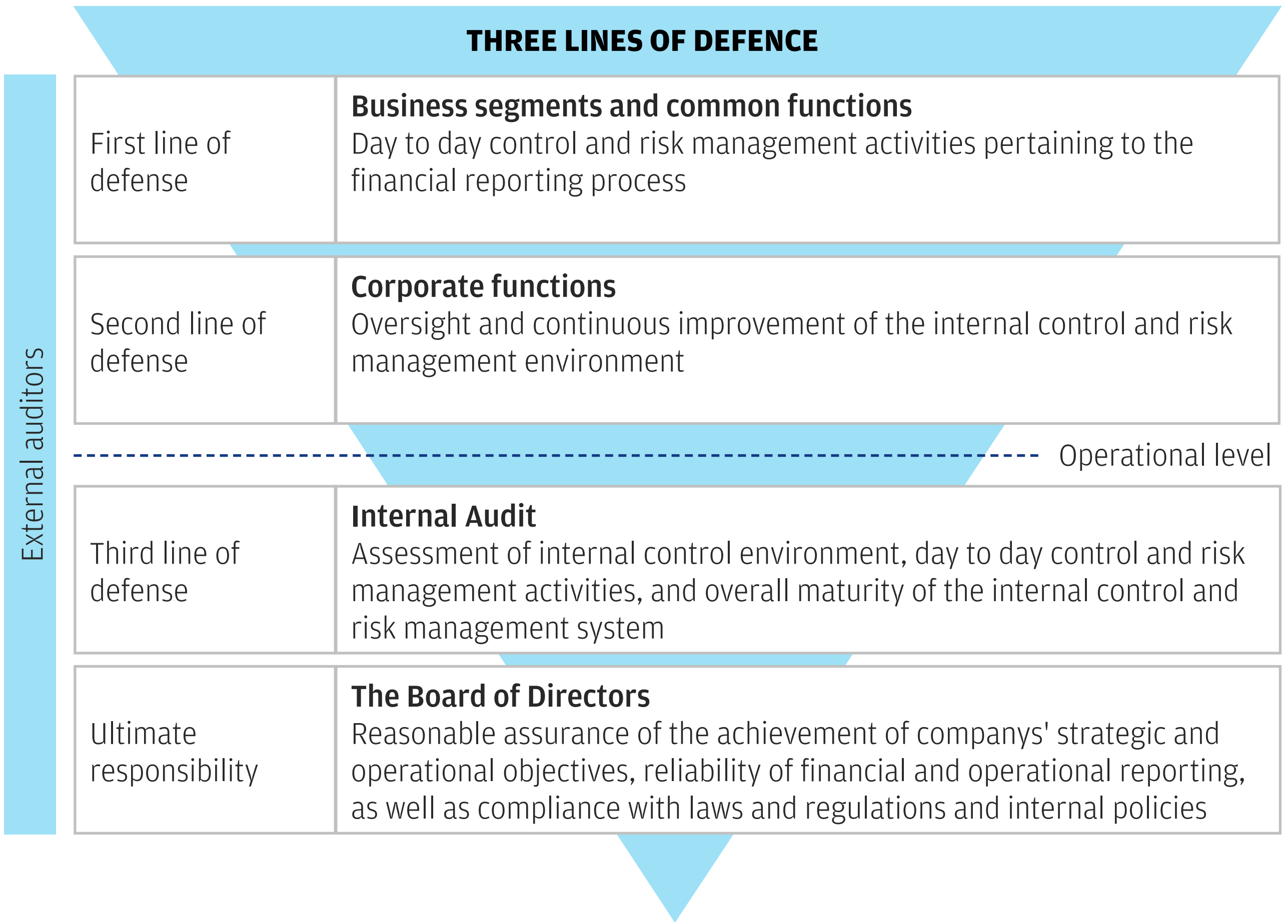
### Control environment

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, Annual Accounts drafting principles, Code of Conduct, Treasury Policy, Procurement Policy, Credit Policy and Disclosure 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. Group CFO is responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. The line organizations 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 following picture 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

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, reporting area, 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 shared service centre as part of their daily and weekly activities.

In 2013, as a part of internal controls development project, the processes with material impact on financial reporting were defined and risks threatening the reliability and accuracy of financial reporting were assessed in a coordinated manner. Changes in internal and external environment were taken into account as part of the process.

## 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 principles.

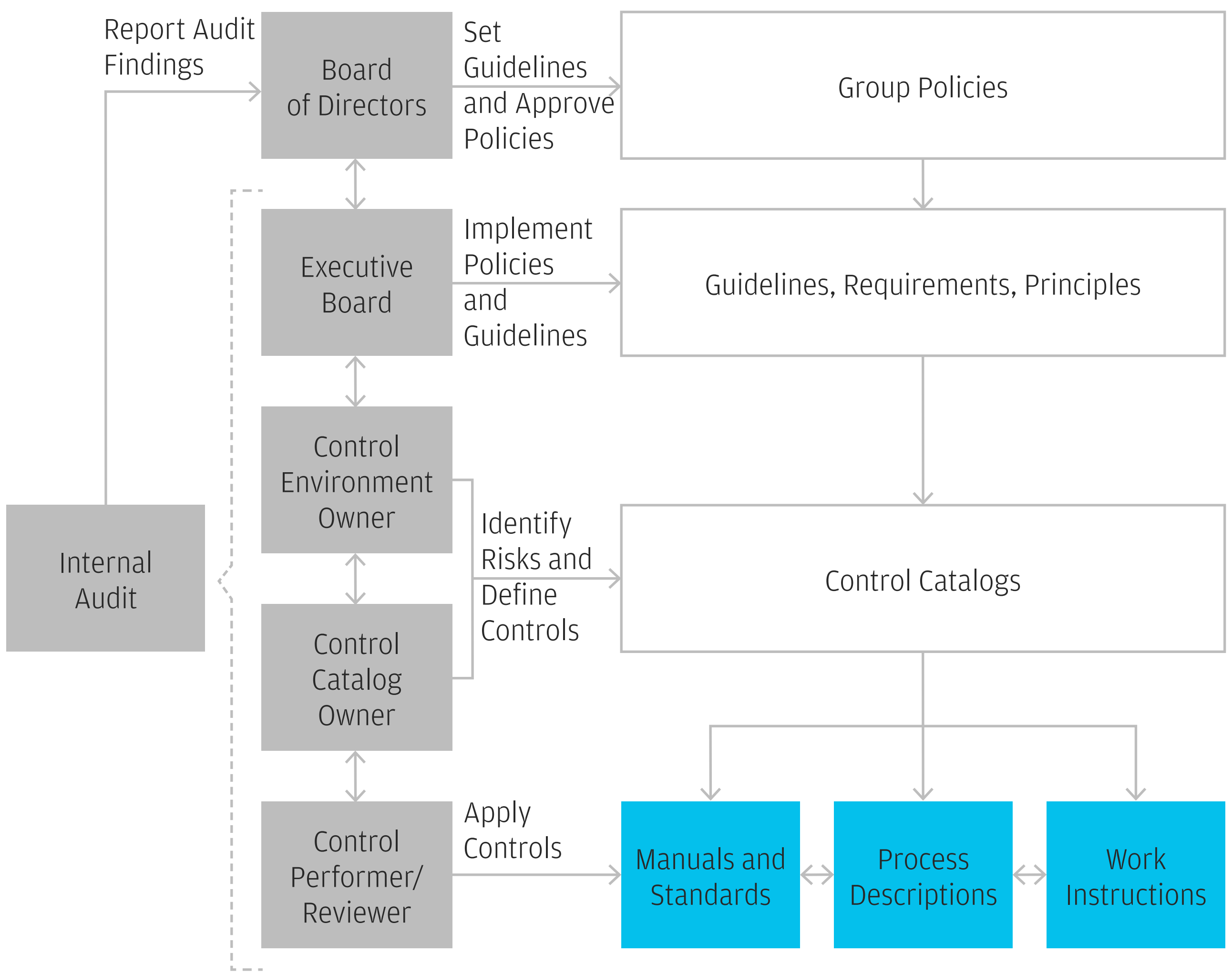
Risk related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for 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 Policies, Guidelines and Principles,
- captured in Control Catalogs;
- supported by Manuals and Standards, Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

As part of group-wide internal control development project in 2013, responsibilities over reporting controls were reviewed and updated to reflect the recent changes in the organization. These roles are illustrated in the below matrix:

| Role | Description |
|---|---|
| Control Environment Owner: Group CFO | Responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. |
| Control Catalog 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 in 2013 and 2014

**2013 Key Activities**

A development project on internal controls over financial reporting was conducted. As part of the development project the key processes with material impact on the financial reporting were defined and related risks were assessed and control activities reviewed.

In addition, internal control guidelines were defined and related governance model implementation was launched to enable structured approach for assessing risks and defining, monitoring and testing controls as well as reporting the outcome of control processes.

**2014 Key Activities**

Regular self-assessment of risks and controls will be performed as set in the annual calendar of internal control activities. Specific attention will be put into the critical process areas where changes in the roles and responsibilities have recently occurred.

Furthermore, control catalogue documentation in additional key process areas identified after the first phase implementation will be carried out to further extend the coverage of control framework and associated control activities.

## 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 organization's operations. Internal Audit helps the organization 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 2013 and 2014

**2013 Key Activities**

Finnair continued to implement and develop the revised mission, vision, strategy and operating model of its Internal Audit during 2013. Main focus areas of Internal Audit for the year 2013 were based on and aligned with corporate strategy, results of risk analysis and changes in internal processes. As part of the Audit Plan, special attention was given to IT environment, strategic partnerships and China sales units.

**2014 Key Activities**

Internal Audit Plan for 2014 has been approved by the Audit Committee of the Board of Directors in December 2013. Special audit focus areas will relate to sales strategy implementation and business resilience. Use of data analytics as part of audit work will be further enhanced and developed.

# 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 value creation opportunities, Finnair is prepared to take and manage risks within the limits of its risk-bearing capacity (rewarded risks). In relation to reliability of reporting, compliance with laws and regulations, and flight safety matters, 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 areas 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.

Group Risk Management Policy defines the overall framework for risk management in the whole of Finnair Group. The framework, while taking into account industry specific requirements, is aligned with commonly accepted COSO ERM framework and ISO 31000:2009 standard for risk management.

Dedicated Risk Management Principles have been established to support the implementation of Group Risk Management Policy in the following contexts: Treasury, New ventures, Programs and Projects, Supply Chain, Flight Safety, Corporate Security and Information Security.

## Policy implementation responsibilities

The Board of Directors holds the ultimate responsibility of Enterprise Risk Management system in Finnair. It is responsible for approving Group Risk Management Policy, setting Finnair Group`s Risk Appetite and overseeing the effectiveness of Risk Management.

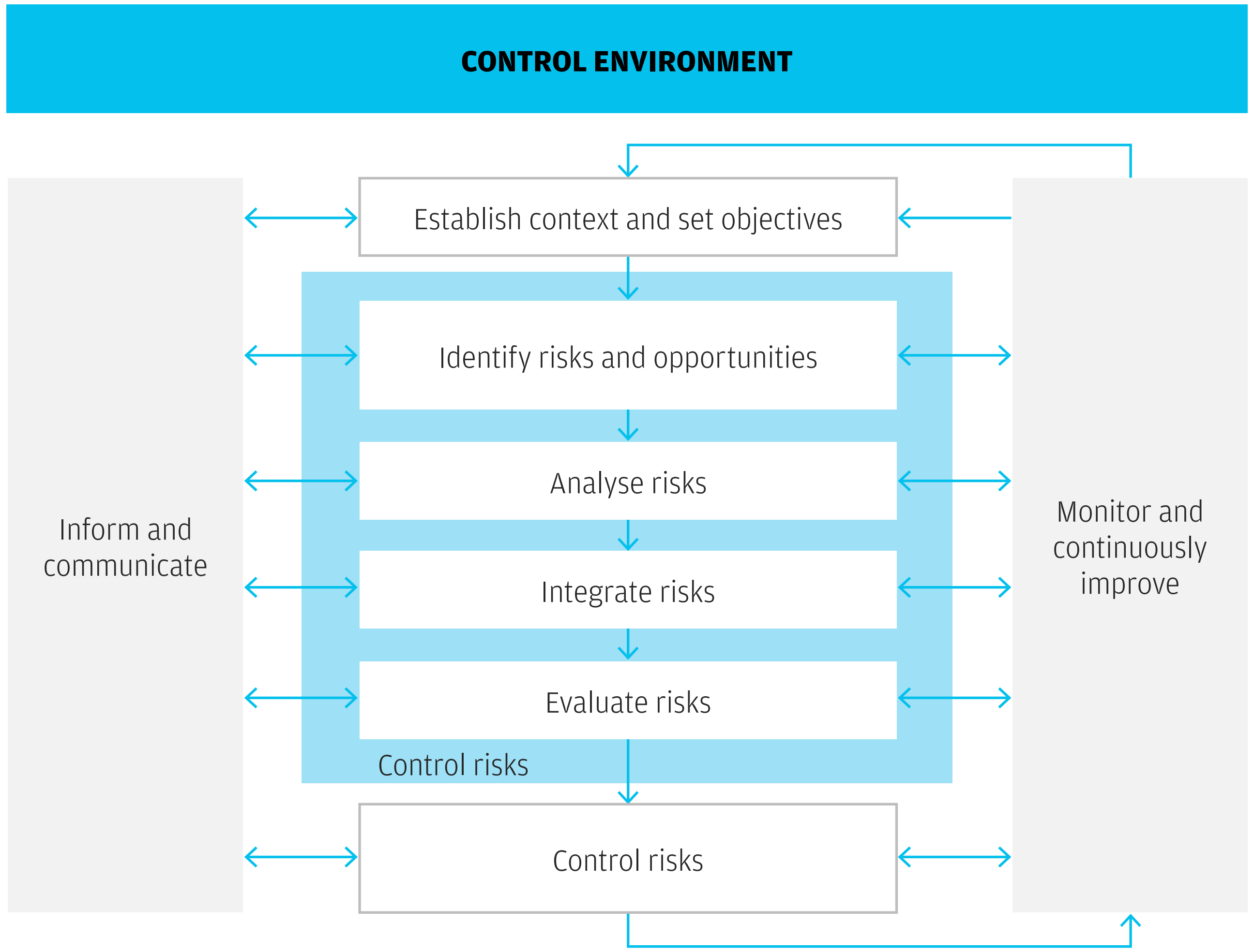
Finnair Group`s CEO holds the responsibility over the appropriateness of the Group`s Risk Management and oversight of Group Risk Management Policy implementation. The CEO, supported by the Risk Management Steering Group consisting of the members of Executive Board, is also responsible for reviewing Group Risk Management Policy and risk management priorities.

Business units, Group-wide functions and subsidiaries of Finnair Group are responsible for implementing Group Risk Management Policy into their management systems and aligning with it their risk management guidelines, procedures and strategies.

## Process

### Establish context and set objectives

Finnair Group`s Risk Management System ensures that management has a process in place to set objectives, that the chosen strategies support their achievement and associated uncertainties are analysed and managed within the boundaries of Finnair`s risk bearing capacity.



### Risk Assessment

Risk assessments are executed according to the Annual Cycle defined in Group 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 on risks and opportunities.

Risk assessment in Finnair Group 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 prioritisation of risks based on their significance and likelihood.

To ensure the coverage of risk identification and systematise the risk assessment activities, Finnair has established a common risk model, a common risk assessment criteria and a common risk repository. As part of strategic risk assessments, also strategic assumptions associated with company objectives are identified and their implications analysed.

A dedicated Risk Coordinator Forum has been established to support coordination of risk assessment activities in business segments, group-wide functions and subsidiaries and to ensure these activities conform to the requirements set in Group Risk Management Policy.

### Risk response and control activities

Risk management strategies shall be applied to prioritised risks in order to reach reasonable assurance that their outcomes fall within an acceptable level. These Risk management strategy options include:

- Acceptance of risk
- Avoidance of risk
- Transfer of risk
- Reduction of risk

The President and CEO, supported by the Risk Management Steering Group, is responsible for defining risk management strategies and procedures, and setting risk management priorities. Risk owners in business segments, group-wide functions and process levels hold the responsibility for planning and implementing control measures to ensure an acceptable level of residual risk and that the relevant risk interdependencies have been appropriately acknowledged.

### Information and communication

Risk management information system aims at providing means for Finnair's personnel to capture and communicate information related to execution of risk assessments and control activities across 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 analyse operational risk events and support associated operational audit activities. Risk management information system will be subject to further development during the year of 2014.

Risk reporting to the Board of Directors and to the Risk Management Steering Group takes place on quarterly basis under the coordination of Group Internal Audit and Risk Management function. Status of Risk Management development activities and implementation of strategic controls 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.

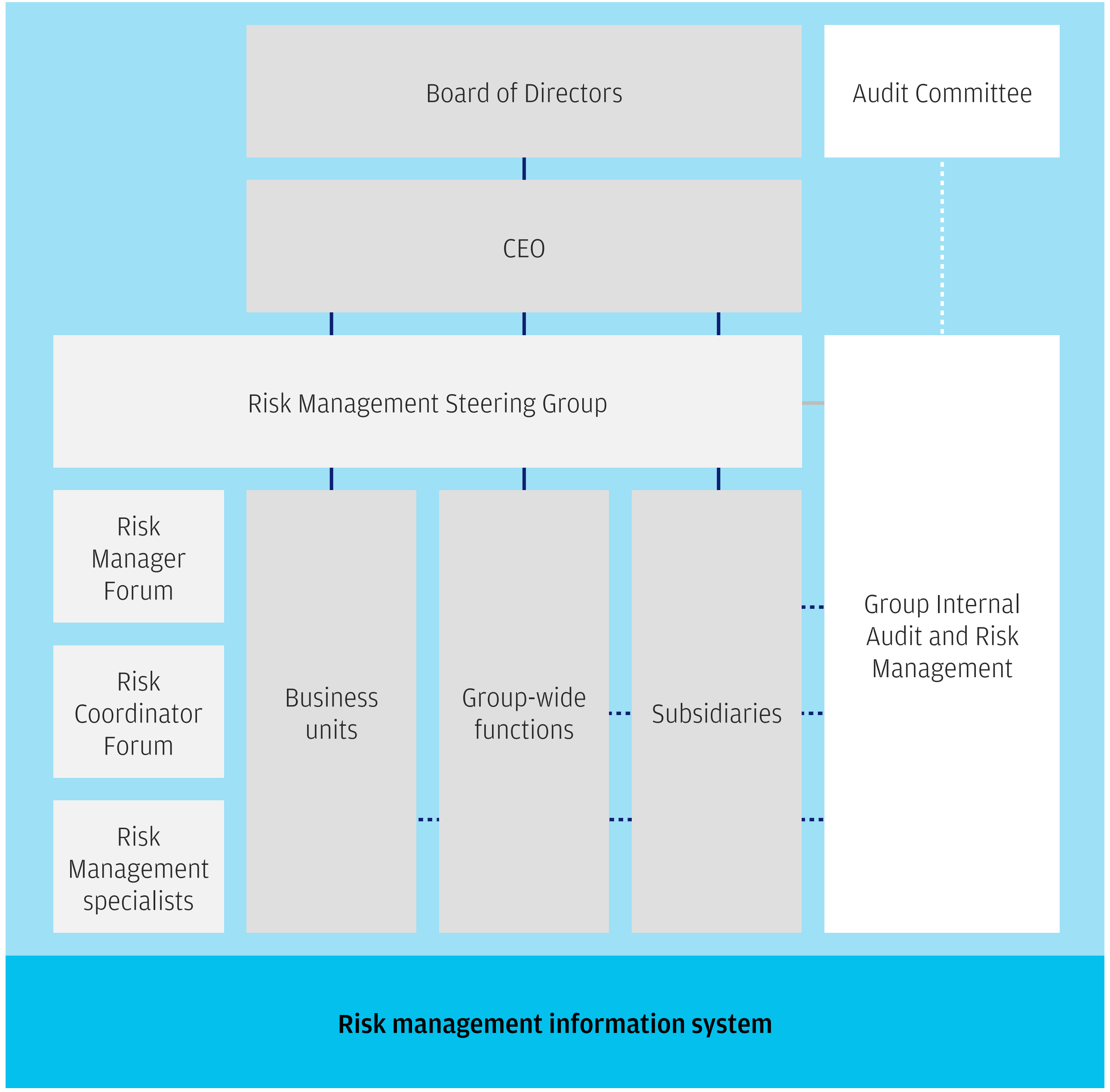
### Monitoring and continuous improvement

Finnair's risk management system is subject to both on-going and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. The continuous improvement activities associated with the risk management system are based on PDCA (Plan-Do-Check-Act) cycle consistent with ISO 31000:2009.

On-going monitoring is built into the normal, recurring processes and operational activities, and is the responsibility of corporate management, business segments and common functions. The effectiveness of all flight safety related control activities and the general compliance with official regulations are monitored through a quality system. Within the scope of the 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 implementation of Group Risk Management Policy and the Risk Management process. Group Internal Audit and Risk Management, in cooperation with Risk Management specialists is responsible for 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. The forum has meetings on quarterly basis.

**Governance model and reporting lines associated with FInnair Group`s Risk Management system**




## Focus areas in 2013 and 2014

In 2013 development activities were focused on the implementation of the revised internal Group Risk Management Policy in cooperation with business segments and common functions. As part of this work group-wide Risk Management governance model was established, strategic risk assessments were integrated into group strategy process and dedicated Risk Management Principles were formed to support the management of context specific risks.

As part of continuous improvement of the Risk Management system, the following activities have been planned for the year 2014: Formal Risk appetite and tolerance setting, gap analysis of Business Continuity Management capabilities as well as further development of group-wide risk management information system in cooperation with key internal stakeholders.

## Major risks

Globally, the airline industry is one of the sectors most sensitive to external shocks, seasonalities 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. A more detailed overview of the risk management process and internal control can be found in our Governance section of this document.

The risks and uncertainties described below are considered to have significant effect on Finnair's business, financial results and future prospects. This list is not intended to be exhaustive.

| Risk | Definition | Our risk responses include, but are not limited to: |
| --- | --- | --- |
| **External** | | |
| **Economic volatility** | The risk that major economic volatility or other large scale economic disturbances slow down travelling. | • On-going analysis of market trend development<br>• Periodical risk assessments<br>• Contingency planning<br>• Risk diversification through active vendor portfolio management<br>• Structural changes<br>• Fleet ownership strategy |
| **Traffic charges and flight permissions.** | The price and availability of over-flight rights as well as the price of traffic charges, such as arrival, departure and navigation charges result in a negative impact Finnair's business operations and profit margin. | • Continuous monitoring of political environment<br>• Lobbying<br>• Active cooperation with key stakeholders |
| **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 conduct business. | • Continuous monitoring and market intelligence<br>• Group level risk assessments<br>• Foreign unit risk assessments<br>• Contingency planning<br>• Crisis communication planning<br>• Network diversification |
| **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<br>• Scenario analysis<br>• Contingency planning<br>• Product development program(s)<br>• Cost-competitiveness program(s)<br>• Active alliance cooperation |
| **Alliances and Joint Businesses** | The risk that other alliances and/or joint businesses gain competitive advantage over oneworld, Finnair's joint businesses and/or lack of performance and missing of targets. | • Active alliance cooperation<br>• Joint business governance model<br>• Dedicated alliance and joint business teams<br>• Project and process management methodology implementation<br>• Joint continuous process improvement activities<br>• Internal controls over joint business processes |
| **Partners and suppliers** | The risk that quality and availability issues and/or unexpected costs associated with partnerships and suppliers have adverse effect on Finnair`s product and profit margin or suppliers gain bargaining power over Finnair. | • Supplier diversification<br>• Supplier relationship management program<br>• Supplier risk assessments<br>• Dedicated procurement specialists per supplier category<br>• Contingency planning |
| **Market risk** | The risk of incurring additional costs due adverse movements of the interest rates, unsuccessful currency position and/or rise of jet fuel price. | • Treasury policy approved by the Board of Directors<br>• Internal controls over Treasury policy implementation<br>• Continuous monitoring of hedging ratio(s)<br>• Scenario analysis |

| Risk | Definition | Our risk responses include, but are not limited to: |
| --- | --- | --- |
| **Internal** | | |
| **Strategy implementation** | The risk that the implementation of Finnair's strategic programs and projects fail. | • Formal project management methodology implemented in all strategic projects including risk identification, assessment and mitigation planning<br>• Program management office (PMO), project owner, project manager and experienced project teams are in place to oversee delivery and track progress of all projects<br>• Steering group in place with senior management involvement |
| **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<br>• Continuous improvement of HR processes<br>• Change management program<br>• Employee wellbeing strategy<br>• Internal communication management<br>• Union relations management<br>• Contingency planning<br>• Active and open communication with key stakeholders |
| **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<br>• Demand forecasting<br>• Route performance monitoring<br>• Deviation analysis<br>• Continuous process improvement |
| **Operational disruptions** | The risk that Finnair is unable to continue critical operations and processes due to unavailability of resources such as information and supporting information technologies. | • Business impact analysis<br>• Disruption risk and vulnerability assessments<br>• Business continuity planning and testing<br>• IT disaster recovery planning and testing<br>• Supplier portfolio diversification<br>• Third party requirements<br>• Third party audits |
| **Revenue management** | The risk that Finnair is not capable of performing competitive revenue management to optimize its revenues per seat kilometre. | • Revised global sales strategy and revenue optimization process<br>• Daily monitoring of booking trends, issued sales, advance booking reports<br>• Monitoring of key variables such as market shares, pricing structure and yields of other relevant airlines as well as route profitability<br>• Control measures to ensure timeliness and integrity of revenue management information<br>• Executive level monitoring and performance evaluation |

# REMUNERATION STATEMENT 2013

## CONTENTS



## Introduction

This remuneration statement describes Finnair's remuneration policies and the remuneration of the senior management, i.e. the Board of Directors, the CEO and the members of the Executive Board in 2013. Further information is also available on the company website at www.finnairgroup.com. We have prepared this remuneration statement based on Recommendation 47 of the 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 structure

Finnair's aim is to recruit, motivate and develop employees to allow 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. From the perspective of the competitive situation in the aviation industry and the implementation of Finnair's strategy, it is essential that the labour costs for all personnel groups are in line with market level.

Remuneration and incentive structures take into consideration the effectiveness and costs of different forms of remuneration. Finnair's remuneration policies are compliant with local legislation, regulations and practices. The overall remuneration of Finnair's different personnel groups are compared annually to the local pay levels in similar tasks in every country in which the company operates.

The salary and other incentive structures applicable to the CEO, the members of the Executive Board, senior salaried employees, engineers and personnel based in units abroad are as follows:

I. **Fixed pay**: base salary, based on Finnair's job grading
II. **Variable pay**: short and long-term incentives linked to company and individual performance
III. **Employee benefits**: perquisites and other personnel benefits

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. For these groups, Finnair's labour costs determined by collective agreements are substantially higher than current market levels. Outside Finland, Finnair follows the pay practices and collective agreements of each country of operation. At the end of 2013, Finnair's EUR 200 million performance improvement program had achieved the targeted cost reductions of approximately EUR 155 million in areas other than labour costs. The majority of the EUR 60 million supplementary cost reduction program, announced in October 2012, is targeted at personnel costs, with the aim of achieving labour costs that are in line with market levels. Collective labour agreements are available on the company website at www.finnairgroup.com

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 through not only monetary incentives, but also by offering opportunities for development and job rotation within the company. Finnair systematically develops the competencies of employees and aims to create opportunities for promotions according to employees' development. Employees are satisfied at Finnair, as evidenced by a high average duration of employment and a very low employee turnover.

## Computational monthly earnings of Finnair's Finnish personnel groups in 2013**

| Employee Group | 25% quartile* | Median* | 75% quartile* | 2012 Median* |
|---|---|---|---|---|
| Executive Board | 17,634 | 18,998 | 23,167 | 19,787 |
| Finnish Airline Pilots' Association (SLL) | 7,511 | 10,469 | 15,105 | 10,089 |
| Management positions | 7,502 | 9,004 | 12,502 | 9,118 |
| Finnair White-Collar Employees Association | 4,553 | 5,333 | 5,998 | 5,134 |
| Finnair Engineers' Association | 4,907 | 5,305 | 6,645 | 5,224 |
| Finnair Technical Employees' Association | 4,189 | 4,877 | 5,644 | 4,714 |
| Finnish Aviation Union (IAU), Technical services | 3,803 | 4,577 | 4,991 | 4,349 |
| Finnish Cabin Crew Union (SLSY) | 3,575 | 4,152 | 4,795 | 4,201 |
| Finnish Aviation Union (IAU), Ground services | 3,457 | 3,825 | 4,315 | 3,674 |
| Finnish Aviation Employees Association | 3,214 | 3,486 | 3,963 | 3,434 |

* The median pay describes the average salary of each group, or the point where half of the employees in the group earn more than the amount, and half earn less. One quarter of the employees earn less than the lowest quartile and one quarter of the employees earn more than the highest quartile.

** Computational monthly earnings: Taxable gross earnings divided by 12 months.

The calculations only include employees who earned pay for the full year. Temporary cabin crew layoffs have been eliminated from the calculations. The calculations do not include tax exempt benefits or other untaxed forms of compensation, such as daily allowances. Also rewards from the share plans (long-term incentive program for key personnel, employee share savings plan) are excluded. The data does not include pilots in supervisor roles.

## Average years of service in different personnel groups in 2013

| Personnel Group | Average Years of Service |
|---|---|
| Executive Board | 7.37 |
| Management positions | 13.65 |
| Finnish Airline Pilots' Association (SLL) | 15.20 |
| Finnair White-Collar Employees Association | 15.77 |
| Finnair Engineers' Association | 21.62 |
| Finnair Technical Employees' Association | 25.62 |
| Finnish Aviation Union (IAU), Technical services | 20.66 |
| Finnish Cabin Crew Union (SLSY) | 19.39 |
| Finnish Aviation Union (IAU), Ground services | 16.71 |
| Finnish Aviation Employees Association | 18.85 |
| **All** | **18.34** |

Finnair's goal is to have a motivating, fair, competitive and transparent remuneration structure

## Base salary is based on job grading

Finnair uses job grading as the basis for determining the base salary of the CEO, members of the Executive Board, senior salaried employees, engineers and personnel based in units abroad.

Job grading is based on the significance of the job and responsibility within the organisation, rather than hierarchical reporting relationships. Job grading is tied to the job. If a person changes from one job to another, his or her job grade may change. From the point of view of both personal and organisational development, maintaining mobility between grades is important. During his or her career, an employee can move horizontally between jobs with the same grade, or vertically between jobs with different grades.

## Variable pay linked to company and individual performance

The aim of variable pay in the form of short and long-term incentives is to achieve a flexible and incentivising pay structure that is linked to the company's success and the individual's own performance. In addition, long-term share-based incentives are aimed at committing key individuals and management to the company and to bring their interests in line with the interests of shareholders. Performance targets are set by Finnair's Board of Directors.

## Short-Term Incentives (STI)

### Short-term incentive scheme

Finnair utilises performance-driven short-term incentives throughout its management. The incentive scheme is comprised of a process of target setting, performance evaluation and performance review. At the target level, the short-term variable pay ranges from 2.5–30% of base salary, depending on the job grade. If an individual exceeds his or her targets substantially, the variable pay may, at a maximum, reach 5–60% of the annual base salary.

The final amount of the variable pay is determined by Finnair's result factor. The factor multiplies the pay-out by a factor of 0.5–1.5, depending on the company's financial result (operational EBIT). This multiplier is designed to adjust the variable pay to the company's financial performance. The short-term incentive scheme is based on the company's six-month budgeting period and the variable pay is paid semi-annually. The variable pay is calculated based on the individual's base salary for the period in question.

The short-term incentives for the CEO and other members of the Executive Board are determined on the basis of the half-year targets set by the Board of Directors. The targets are based on the company's business targets set by the Board of Directors for the period in question and on the targets set for the business area for which the individual in question is responsible. The short-term incentive for members of the Executive Board corresponded to 20% of the base salary at the target level in 2013 and 40% of the base salary at the maximum level. The corresponding figures for the CEO were 30% at the target level and 60% at the maximum level. The result factor described above also applies to the short-term incentive of the CEO and other members of the Executive Board.

According to the government guidelines issued by the Finnish Cabinet Committee on Economic Policy on 13 August 2013, the short-term incentive for an individual may not exceed 60% of the annual base salary in any given year.

### Personnel Fund

Finnair has a Personnel Fund that is owned and controlled by 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 the targets set by the Board of Directors. The CEO and other members of the Executive Board are not members of the Personnel Fund. In 2013, Finnair allocated EUR 5 million to the Personnel Fund based on the company's result in 2012.

## Long-Term Incentives

### FlyShare 2013–2014

On 27 March 2013, Finnair's Board of Directors decided to launch FlyShare, an employee share savings plan. 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.

Participation in the share savings plan is voluntary. The plan commenced on 1 July 2013, with the first savings period being 12 months. Over 1,000 Finnair employees, or approximately one fifth of all those invited to participate, participated in the first phase of the share savings plan. Subsequent savings periods will be decided on by the Board of Directors.

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% and the minimum 2% of each participant's gross base salary per month, with the annual maximum savings set at EUR 8,000 per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the publication dates of Finnair's interim results.

The first purchases of shares were made in October–November 2013. Any dividends paid on purchased shares during the savings period will be automatically reinvested in Finnair shares on the purchase date following the payment of dividend. In spring 2016, Finnair will award each participating employee one share for each two shares purchased. The awarded additional shares are taxable income for the recipient.

To increase the attractiveness of the plan, Finnair awarded 20 bonus shares in October 2013 to each employee that participated in at least the first three months of the plan.

### Performance share plan for key personnel 2013–2015

On 7 February 2013, Finnair's Board of Directors decided to launch a new performance share plan for key personnel for 2013–2015. The share plan replaces the previous program, which expired at the end of 2012. The purpose of the share plan is to encourage the management to work to increase long-term shareholder value. The share plan is in line with the government guidelines regarding the remuneration of executive management and key individuals.

The program consists of annually commencing individual plans within which the participants have the opportunity to earn Finnair shares as a long-term incentive reward, provided that the performance targets set by the Board of Directors are achieved. The commencement of each new plan is subject to separate decision by Finnair's Board of Directors.

Each 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 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.

The potential reward will be delivered in Finnair shares. For members of the Executive Board, the share delivery is split into three share tranches that will be delivered to during the three years following the performance period: 50% in 2016, 30% in 2017 and 20% in 2018. For other participants, the shares will be delivered in two tranches, 50% each, during the two years following the performance period.

As a consequence of transfer from previous fixed three year structure to rolling structure, new plan will not be in full effect until 2018. Because of this, a one-off bridge element has been added to the plan to supplement payments in 2016 and 2017 if separate performance target is reached. No shares will be delivered under the long-term incentive plan in 2014 and 2015.

If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the CEO or other member of the Executive Board participating in the plan will be 30% of his or her annual base salary. 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. For other key personnel, the target level for incentives is 20–25% and maximum 40–50% of the person's average annual base salary according to the job grade.

According to the rules of the share program, the maximum value of shares delivered to an individual participant based on the share program in any given year may not exceed 60% of the person's annual base salary.

The amounts of shares above 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.

A person is not entitled to the incentive if he or she resigns or is dismissed before the date of payment. In addition, during the restriction period the Board of Directors is entitled, at its discretion, to reclaim already delivered shares from a person included in the share plan who resigns or whose service in the company is terminated.

The Board of Directors is also entitled, subject to 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.

As of 31 December 2013, the share plan includes 51 persons, including the CEO and 7 members of the Executive Board.

The performance criteria applied to the plan for 2013–2015 are the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria are assigned weights of 60% and 40%, respectively. The performance criterion for the share plan's bridge element is the operating EBIT margin.

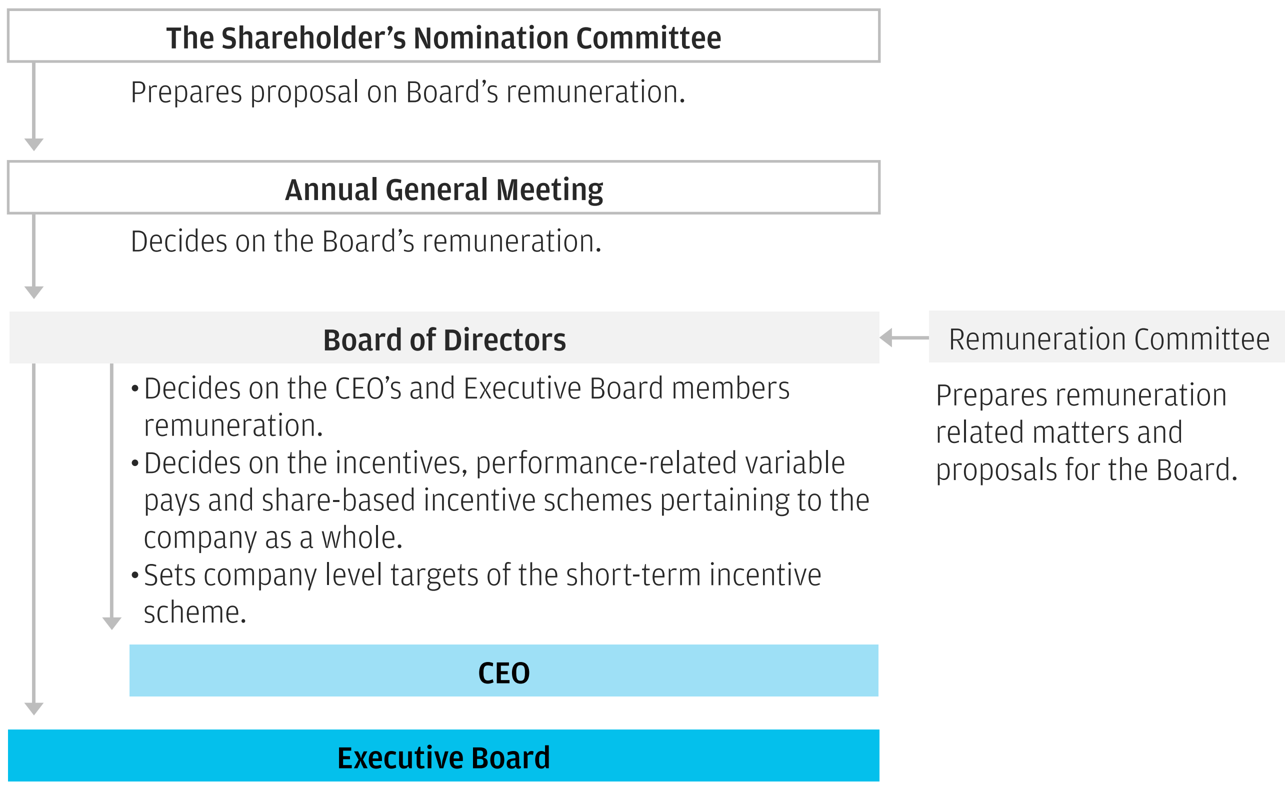
The target levels and maximum levels set for the criteria are based on long-term strategic objectives set by the company's Board of Directors. Performance against the criteria is monitored quarterly.

## Management remuneration decision-making procedure

**The Board of Directors' remuneration**: The Shareholders' Nomination Committee prepares annually 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 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 Remuneration Committee. Decisions on remuneration have been made with consideration of the government guidelines.

### Remuneration decision-making procedure



## Remuneration of the Board of Directors in 2013

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 Committee 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 2013 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
- Other Board members' annual remuneration, 30,000 euros
- Meeting compensation paid to members residing in Finland, 600 euros per Board or committee meeting
- Meeting compensation paid to members residing abroad, 1,200 euros per Board or committee meeting.

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. However, the members of the Board of Directors are not in an employment or service relationship with the company and therefore are not entitled to other financial benefits.

Finnair's remuneration for members of the Board of Directors has remained unchanged since 2008.

### Remuneration paid to Board of Directors in 2013

| | Annual remuneration* | Board meetings | Committee meetings | Meeting compensation | Meeting compensations in total | Taxable income** | Total |
|---|---|---|---|---|---|---|---|
| **Members 1.1.-31.12.2013** | | | | | | | |
| Klaus Heinemann (chairman from 27.3.2013) | 53,400 | 11/11 | 6/6 | 1,200 | 21,600 | 0 | 75,000 |
| Harri Kerminen (deputy chairman) | 34,200*** | 11/11 | 11/12 | 600 | 15,300 | 1,795 | 51,295 |
| Maija-Liisa Friman | 30,000 | 11/11 | 6/6 | 600 | 12,300 | 10,722 | 53,022 |
| Gunvor Kronman | 30,000 | 11/11 | 6/6 | 600 | 12,000 | 7,707 | 49,707 |
| Jussi Itävuori | 30,000 | 11/11 | 6/6 | 1,200 | 21,600 | 3,580 | 55,180 |
| Merja Karhapää | 30,000 | 11/11 | 5/6 | 600 | 10,800 | 2,729 | 43,529 |
| **Members 1.1.-27.3.2013** | | | | | | | |
| Harri Sailas (chairman) | 15,300 | 3/3 | 2/2 | 600 | 4,200 | 1,690 | 21,190 |
| **Members 27.3.-31.12.2013** | | | | | | | |
| Antti Kuosmanen | 22,500 | 8/8 | 2/2 | 1,200 | 7,800 | 3,187 | 33,487 |

Remunerations paid to the Board in 2013. Remuneration for some of the 2012 meetings was paid in early 2013 and is included in the reporting above.

* The remuneration is expressed at the annual level but paid in monthly instalments.

** Taxable benefits include Finnair staff tickets. The members of the Board have a right to use staff tickets in accordance with Finnair's staff ticket rule.

*** Annual remuneration of Harri Kerminen includes EUR 1,800 of unpaid remuneration from 2012.

## Management remuneration in 2013

In 2013, Finnair's CEO was Mr Mika Vehviläinen (until 28 February 2013) and Mr Pekka Vauramo (from 1 June 2013). Mr Ville Iho served as Acting CEO from 27 January 2013 to 31 May 2013. In 2013, the Executive Board comprised nine members in addition to the CEO. Anssi Komulainen resigned from the Executive Board during 2013. In addition, on 31 December 2013 Kaisa Vikkula announced that she will leave Finnair on 31 January 2014. The Executive Board is presented on page 157.

The long-term incentives paid to management and other key individuals in spring 2013 were based on the three-year share-based bonus scheme that started in 2010 and ended in 2012. The scheme is described in more detail in the remuneration statements for 2011 and 2012 as well as in the Financial Reports for 2010, 2011 and 2012, under Note 26, Share based payments. The Board of Directors approved the scheme on 4 February 2010, and its terms took into account the government guidelines regarding the remuneration of executive management and key individuals valid at the time.

The performance criteria for the three-year scheme were achieved as shown in the table on the following page. In spring 2013, the participants were paid the shares earned over the course of the three-year scheme as well as an incentive based on the purchase of shares during 2012. The incentive based on the purchase of shares for 2010 was paid in 2011. The incentive based on the purchase of shares for 2011 was not paid due to the targets for the period in question not being achieved. The shares paid in spring 2013 are subject to a restriction on their sale until the end of 2015. In addition, the shares for which incentive based on the purchase of shares were paid in 2011 and 2013 were subject to an embargo on their sale until the end of 2013.

After Mr Mika Vehviläinen resigned on 27 January 2013, the Board of Directors and Mr Vehviläinen agreed that the six-month notice period stipulated by his service contract would

### Summary of the remunerations paid to the CEO and other Executive Board members

| | | CEO | | | | Executive Board | |
|---|---|---|---|---|---|---|---|
| Salary and other remuneration paid, euros per year | | 2013 Mika Vehviläinen (CEO until 28.2.) | Ville Iho (Acting CEO 27.1.-31.5.) | Pekka Vauramo (CEO from 1.6.) | 2012 Mika Vehviläinen | 2013 | 2012 |
| **Base Salary** The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors. | **In total, euros** | **178,039** | **225,040** | **360,500** | **576,227** | **1,620,049** | **1,739,005** |
| **Employee benefits** Employee benefits are desrcribed on page 155 | Car benefit, taxable value | 1,890 | 12,540 | 0 | 11,340 | 58,080 | 84,083 |
| | Phone benefit, taxable value | 40 | 240 | 140 | 240 | 2,240 | 2,600 |
| | Housing benefit, taxable value | 4,699 | 0 | 0 | 26,816 | 0 | 0 |
| | **In total, euros** | **6,629** | **12,780** | **140** | **38,396** | **60,320** | **86,683** |
| **Short-term incentives** Principles are described on page 149. | Target payout, % | 20% | 20% | 30% | 20% | 20% | 20% |
| | Target achievement, % of base salary | 53% | 19% | 0% | 26% | 18% | 26% |
| | **In total, euros** | **94,382** | **43,299** | **0** | **147,442** | **289,699** | **445,807** |
| **Long-term incentives** Long-term incentive plan 2010-2012 | Share-based incentive, paid in cash | 0 | 102,850 | 0 | 0 | 640,910 | 0 |
| | Share-based incentive, paid in shares, in euros | 0 | 68,567 | 0 | 0 | 427,273 | 0 |
| | Purchasing incentive, in euros | 150,147 | 49,572 | 0 | 0 | 265,766 | 0 |
| | **In total, euros** | **150,147** | **220,989** | **0** | **0** | **1,333,949** | **0** |
| SALARY AND OTHER REMUNERATION PAID IN TOTAL | | **429,197** | **502,108** | **360,640** | **762,065** | **3,304,017** | **2,271,495** |

Salary and remuneration of Acting CEO Ville Iho for 2013 not included in Executive Board figures. His salary and remuneration is presented separately for the whole year of 2013. Salary and remuneration of Anssi Komulainen in 2013 is included in Executive Board figures for his Executive Board membership period only (1.1.-31.8.2013). Base salary includes pay for holiday period and additional holiday pay. Base salary 2013 of CEO Mika Vehviläinen, who left Finnair on 28 February 2013, includes compensation of 88,000 EUR for accumulated holiday.

Earnings period for short term incentives paid in 2012 was 1 Jul 2011 - 30 Jun 2012 and for short term incentives paid in 2013 1 Jul 2012 - 30 Jun 2013. Short term incentives paid 2013 have been compared against base salaries paid 2013. Short term incentive of former CEO Mika Vehviläinen was earned 1.7.2012-31.12.2012 and actual achievement was 34%.

Value of share based long-term incentive is based on share price (2.5337 EUR) at the time of payment. Earnings period for purchase incentive was previous year. Purchase incentive was not paid in 2012 because earnings criteria was not full filled 2011.

be shortened to one month. Mr Vehviläinen, who left Finnair on 28 February 2013, was not paid a share-based bonus under the long-term incentive scheme for 2010–2012, but he was paid an incentive bonus based on the purchase of shares earned in 2012, which he would have received pursuant to the rules of the share-based bonus scheme even in the event that his notice period had not been shortened.

**Actual percentage achieved of the performance criteria for the long-term incentive scheme in 2010–2012**

| Year | Criterion | Minimum (0%) | Target (50%) | Maximum (100%) | Actual (%) | Actual (%) |
|---|---|---|---|---|---|---|
| 2010 | ROCE % | 0% | 2% | 4% | 0% | 32.3% |
| | EBITDAR (EUR million) | 112 | 162 | 212 | 64.6% | |
| 2011 | ROCE % | 0% | 2% | 4% | 0% | 0% |
| | EBITDAR (EUR million) | 193 | 243 | 293 | 0% | |
| 2012 | Adjusted gearing % | 105% | 91.5% | 75% | 94.6% | 97.3% |
| | EBITDAR (EUR million) | 100 | 160 | 220 | 100% | |

The long-term incentive for the three-year period was achieved at an average level of 43%. This share-based incentive for the full three-year period was paid in spring 2013.

## Supplementary pensions

### The CEO

The CEO, Mr Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. Mr Vauramo does not have a supplementary pension benefit.

Finnair's previous CEO, Mr Mika Vehviläinen, was covered by the defined contribution pension scheme for the company's senior management. Mr Vehviläinen resigned from his position on 27 January 2013 and his service at the company ended on 28 February 2013. As his service at Finnair lasted less than 48 months, he lost his right to his supplementary pension.

Mr Ville Iho, who served as the company's Acting CEO in 2013, is covered by the defined contribution pension scheme. Mr Iho's annual contribution equals 10% of the income for the year (income being defined in accordance with the Finnish Employees' Pensions Act). The supplementary pension includes vested rights and the retirement age is 63 years.

### Executive Board

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 the Finnish tax laws. All supplementary pensions taken for the executives after 1 October 2009 are defined contribution schemes. The supplementary defined contribution pension arrangement applied to five members of the Executive Board in 2013. The annual contribution equals 10% of the income for the year (income being defined in accordance with the Finnish Employees' Pensions Act). The supplementary pension includes vested rights. The retirement age is 63 years.

All supplementary pension agreements concluded prior to 1 October 2009 are defined benefit schemes. The retirement age under these defined benefit schemes is 62 years. These schemes applied to two members of the Executive Board in 2013. The amount of the defined benefit pension is 60% of the annual income determined by the average earnings for the four years preceding retirement, excluding the years with the lowest and highest earnings during the four-year period. The supplementary pension includes vested rights. In 2014, there are no Executive Board memebers with defined benefit supplementary agreements.

New CEO and Executive Board member service contracts concluded after 1 January 2013 will not include supplementary pension benefits.

## Termination of the service contract and severance pay

### The CEO

According to Mr Pekka Vauramo's service contract, both the CEO and the company have the right to terminate the service contract without a spesific 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 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 contract of Mr Ville Iho, who served as Acting CEO from 27 January to 31 May 2013, both parties have the right to terminate the service contract without a spesific cause. The notice period is six months for both the company and the executive. In the event that the company terminates the service contract, the executive is entitled to a severance pay corresponding to 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 executive resigns or retires.

According to the service contract of Mr Mika Vehviläinen, the previous CEO, both the CEO and the company had the right to terminate the service contract without cause. The notice period was twelve months for the company and six months for the CEO. In the event of the company terminating the service contract, the CEO would have been entitled to a severance pay corresponding to total salary for twelve months (base salary + taxable value of benefits) in addition to the salary for the notice period. As Mr Vehviläinen resigned from the company on 27 January, the severance pay did not apply. The Board of Directors and Mr Vehviläinen further agreed to reduce the duration of the notice period to one month.

#### Executive Board

According to service agreements, both parties have the right to terminate the service contract without a specific cause. The notice periods for the company and for the current members of the Executive Board vary based on the time they began their service in the company. 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 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.

Under a new policy confirmed by the Board of Directors in 2012, the notice period for service contracts signed after 1 January 2013 is six months for both the company and the member of the Executive Board. In the event that the company terminates the agreement, the member of the Executive Board is entitled to a severance pay corresponding to nine months' base salary 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

#### The CEO

CEO Mr 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% of annual pay and increases each year. The total sum may not, however, exceed EUR 500,000. The CEO also has a mobile phone benefit in line with company policy.

The benefits of Mr Ville Iho, who served as Acting CEO, include free-time accident insurance, travel insurance and management liability insurance. Mr Iho also has a car benefit and mobile phone benefit in line with company policy.

Previous CEO Mr Mika Vehviläinen's benefits included life insurance, free-time accident insurance, travel insurance, management liability insurance and medical insurance. He also had a car benefit, mobile phone benefit and housing benefit in line with company policy.

#### Executive Board

The benefits of the members of the Executive Board include free-time accident insurance, travel insurance, management liability insurance and, for non-Finnish members, medical insurance. They also have a car benefit and mobile phone benefit in line with company policy.

Management remuneration, the company's long-term incentive plan and pension contributions are also described in the Financial Report, in note 3.9 Employee Benefits.

# BOARD OF DIRECTORS 31.12.2013

**Klaus Heinemann**
b. 1951, Diplom Kaufmann, German citizen.
Chairman of the Finnair Board of Directors since 27 March 2013, member since 2012.
**Committee memberships**: Audit Committee.
**Main occupation**: Board professional.
**Key positions of trust**: Chairman of the Board of Directors of AerData, member of the Advisory Board of Skyworks Holdings LLC.

**Harri Kerminen**
b . 1951, M.Sc. (Eng.), MBA, Finnish citizen.
Vice Chairman of the Finnair Board of Directors since 2012, member since 2011.
**Committee memberships**: Audit Committee and Remuneration Committee.
**Main occupation**: Board professional.
**Key positions of trust**: Member of the Boards of Outokumpu Oyj, Tikkurila Oyj, Normet Oy and Achema Group. Chairman of the Boards of Finpro ry and MetGen Oy. Member of the Board of TT Foundation of the Confederation of Finnish Industries.

**Maija-Liisa Friman**
b. 1952, M.Sc. (Chem. Eng.), Finnish citizen.
Member of the Finnair Board of Directors since 2012.
**Committee memberships**: Audit Committee (Chairman).
**Main occupation**: Board professional.
**Key positions of trust**: Vice Chairman of the Board of Neste Oil Oyj, member of the Boards of Talvivaara Plc, LKAB, the Finnish Securities Market Association and Boardman Oy. Chairman of the Board of Ekokem Oy and Helsinki Deaconess Institute.

**Jussi Itävuori**
b. 1955, M. Sc. (Econ.), Finnish citizen.
Member of the Finnair Board of Directors since 2012.
**Committee memberships**: Remuneration Committee (Chairman).
**Main occupation**: Senior Partner, RJI Partners Limited.
**Key positions of trust**: Member of the Board of Patria Plc.

**Merja Karhapää**
b. 1962, LLM, PG IPR Diploma, Finnish Citizen.
Chairman of the Finnair Board of Directors since 2012.
**Committee memberships**: Audit Committee
**Main occupation**: Chief Legal Officer Sanoma Group
**Key positions of trust**: Member of the Boards of Biotie Therapies Corporation, De Vijver Media N.V. (Belgium) and SBS Broadcasting B.V:n (The Netherlands), Expert Member of IPR Court and Chairman of the Law Committee of the Confederation of Finnish Industries.

**Gunvor Kronman**
b. 1963, MA, Finnish citizen.
Member of the Finnair Board of Directors since 2012.
**Committee memberships**: Remuneration Committee.
**Main occupation**: CEO of Swedish-Finnish Cultural Centre.
**Key positions of trust**: Chairman of the Board of Plan Finland and Vice Chairman of the Boards of Crisis Management Initiative, Finnish Broadcasting Company YLE and Kalevala Jewelry. Member of the Boards of Finnish Red Cross Blood Service, Helsinki University, Konstsamfundet, Swedish Royal National Theater Dramaten (Sweden), Rand Corporations and Augusta Victoria Hospital (Palestine).

**Antti Kuosmanen**
b. 1950, M.Sc. (Mathematics, Economics and Statistics), Finnish citizen.
Member of the Finnair Board of Directors since 2013.
**Committee memberships**: Remuneration Committee.
**Main occupation**: Ambassador, Finland's official ASEM representative, leading Asia advisor in the Ministry of Foreign Affairs
**Key positions of trust**: -

The Board of Directors was elected in 2013 Annual General Meeting held on 27 March 2013. More detailed information about the members of the Board of Directors and their ownership of Finnair shares can be found at www.finnairgroup.com

# EXECUTIVE BOARD 31.12.2013

**Pekka Vauramo**
b. 1957, M. Sc. (Mining), President and CEO as of 1 June 2013.
Before joining Finnair, Mr. Vauramo worked for cargo and load handling company Cargotec between 2007 and 2013, and for mining and construction company Sandvik between 1985 and 2007.

**Erno Hildén**
b. 1971, M.Sc. (Econ.), CFO, in Finnair's service since 1997.
Mr. Hildén's previous posts include VP for Finnair Leisure Flights business unit and various business development posts in Finnair corporate management. Prior to his present position he was Finnair Plc's COO.

**Ville Iho**
b. 1969, M.Sc. (Technology), COO, in Finnair's service since 1998.
Mr. Iho acted as deputy CEO between 27 January and 1 June 2013. He has previously held various posts in Finnair Plc's Scheduled Traffic. Prior to his present position he was Finnair Plc's SVP Resources Management.

**Gregory Kaldahl**
b. 1957, B.Sc. (Education), SVP Resources Management, in Finnair's service since 2011. Mr. Kaldahl previously worked for several airlines. His latest position was VP, Resource Planning for United Airlines.

**Allister Paterson**
b. 1960, MBA, SVP Commercial Division, in Finnair's service since 7 January 2013.
Paterson has previously worked in the transportation sector, in senior leadership positions in Air New Zealand and as a CEO of Air Canada Vacations. Prior to joining Finnair he worked as a CEO of Seaway Marine Transport.

**Sami Sarelius**
b. 1971, LLM, SVP and General Counsel, in Finnair's service since 1998.

**Arja Suominen**
b. 1958, MA, e-MBA, SVP Corporate Communications and Corporate Responsibility, in Finnair's service since 2011. Ms. Suominen previously worked for Nokia, mainly in communications positions, ultimately as Nokia's Senior Vice President, Communications.

**Manne Tiensuu**
b. 1970, M. Sc. Psych., SVP Human Resources, in Finnair's service since 2010.
Mr. Tiensuu previously worked for Glaston Oyj and Nokia Oyj.

**Kaisa Vikkula**
b. 1960, D.Sc. (Econ), SVP Travel Services, in Finnair's service since 2006.
Vikkula previously worked in the finance and capital markets, as an investor relations and communications director for Partek Plc and Managing Director of Mascus Ltd.

Mr. Anssi Komulainen worked as SVP Customer Service until 31 August 2013. More detailed information about the members of the Executive Board and their ownership of Finnair shares can be found at www.finnairgroup.com

# REPORTING PRINCIPLES

Finnair began reporting on its environmental impact in 1997 and in 2008 was one of the first airlines in the world to communicate its corporate responsibility issues by applying the Global Reporting Initiative (GRI) reporting framework.

This annual report has been compiled in accordance with the GRI's G3 Guidelines. In addition to the parent company, the report covers subsidiaries and business units that support flight operations in Finland as well as the group's subsidiaries that provide and sell travel services in Finland.

The Finnair Group does not report on the operations of foreign subsidiaries, because as minor operators they are deemed not to be of key significance with respect to the group's corporate responsibility issues. Possible exceptions to this are mentioned separately in connection with each key figure. The Finnair Group, moreover, does not report on outsourced operations.

The Finnair maintenance organization consists of two 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.

### Reported business units and subsidiaries

| Operating segment | Business unit/subsidiary | Included in report | Justification |
|---|---|---|---|
| AIRLINE BUSINESS | Airline Business | Yes | |
| | Finnair Cargo Oy | Yes | |
| | Finnair Cargo Terminal Operations Oy | Yes | |
| | Finnair Aircraft Finance Oy and FAF subsidiaries | Yes | |
| AVIATION SERVICES | Finnair Technical Services Oy | Yes | |
| | Finnair Engine Services Oy | Yes | |
| | /LSG Sky Chefs Finland | Yes | |
| | Finnair Facilities Management Oy | Yes | |
| TRAVEL SERVICES | Oy Aurinkomatkat - Suntours Ltd Ab | Yes | |
| | - Aurinko Oü, Estonia (Horizon Travel Oü) | No | Foreign subsidiary of a subsidiary (travel agency) |
| | - OOO Aurinko (Calypso World of Travel), Russia | No | Foreign subsidiary of a subsidiary (travel agency) |
| | Finnair Travel Retail Oy, Helsinki | Yes | |
| | Finland Travel Bureau Ltd. (FTB) | Yes | |
| | - A/S Estravel Ltd | No | Foreign subsidiary of a subsidiary (travel agency) |
| | Area Travel Agency Ltd. | Yes | |
| | Back Office Services Estonia Oü, Estonia | No | |
| | Amadeus Finland Oy | Yes | |
| OTHER FUNCTIONS | Group Administration | Yes | |
| | Joint functions | Yes | |
| | FTS Financial Services Oy | Yes | |
| | Finnair Flight Academy Oy | Yes | |
| | | Yes | |

## Information sources, measurement and 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 G3 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.

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.

In terms of flying, emissions values and fuel consumption figures are derived from the company's own monitoring systems and based on actual consumption. Because Finnair has prepared for the EU emissions trading system, the emissions calculations are also verified by an external party.

In relation to material streams, 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 Operations, environmental data are also obtained from monitoring and measuring systems required by their environmental permits. In terms of Technical Operations' 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 Operations is not, however, a significant user of raw materials, and its main environmental aspects relate to storage and use of chemicals. Meal services for Finnair flights from Helsinki are supplied by Finnair's partner LSG Sky Chefs Finland. As one of Finland's largest kitchens, it consumes a substantial amount of materials and also represents a considerable proportion of the material consumption in Finnair's supply chain.

Information on personnel comes from Finnair's HR information system and from parties responsible for the wellbeing of employees. Accident statistics are obtained from the insurance company and they are updated retroactively, as a result of which the 2012 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. Operational conformity 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 re-statements of information provided in earlier reports

There have been no changes in the methods of data collection and calculation used despite the change in report format. Information on changes in individual KPIs is provided under the section on the indicator in question.

Changes pertaining to the group's organisational structure and the calculation of the financial statement data are described in more detail in the financial section of this report.

### Reporting priorities

In 2013, Finnair discontinued publication of separate Corporate Responsibility and Financial Reports. All of the same data now can be found in one integrated Annual Report.

The report highlights and discusses the material issues to Finnair's operations. More information about the materiality assessment process can be found on pages 12–13.

# GRI MATRIX

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| **GRI INDICATOR** | **INCLUDED** | **PAGE/CONTENTS** | **SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS** |
| 1. Strategy and Analysis | | | |
| 1.1 Statement by the CEO | Yes | 3-4 | |
| 1.2 Description of key impacts, risks, and -opportunities | Yes | 3-10, 12-18, 21-27, 38-43, 51-55, 59-69, 142-146 | |
| 2. Organisational Profile | | | |
| 2.1 Name of the organisation | Yes | Finnair Plc | |
| 2.2 Primary brands, services and/or brands | Yes | 7, 14-18, 27, 51-54, 64-68 | |
| 2.3 Operational structure of the organisation | Yes | 27, 64-69, 137 | |
| 2.4 Location of organisation's headquarters | Yes | HOTT, Tietotie 9, Vantaa, Finland | |
| 2.5 Georgaphical location of operations | Yes | 7, 65-69 | |
| 2.6 Nature of ownership and legal form | Yes | 65-69, 71-74 | |
| 2.7 Markets served | Yes | 7, 65-69 | |
| 2.8 Scale of the reporting organisation | Yes | 60-70 | |
| 2.9 Significant changes during the reporting period regarding size, structure or ownership | Yes | 59-74 | |
| 2.10 Awards received in the reporting period | Yes | 16, 26, 53, 67, 74 | |
| 3 Report Parameters | | | |
| 3.1 Reporting period | Yes | 1.1.2013 - 31-12.2013 | |
| 3.2 Date of most recent report | Yes | March 2013 | |
| 3.3 Reporting cycle | Yes | Annual. | |
| 3.4 Contact point for questions regarding the reports o rits contents | Yes | Finnair Plc Tietotie 9 A, 01053 Finnair.<br>Kati Ihamäki, VP Sustainable Development, kati.ihamaki(a)finnair.com | |
| 3.5 Process for defining report content | Yes | 12-13 | |
| 3.6 Boundary of the report content | Yes | 12-13, 158-159 | |
| 3.7 Specific limitations on the scope or boundary of the report | Yes | 158-159 | |
| 3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities and outsourced operations | Yes | 65-69, 158-159 | |
| 3.9 Data measurements techniques and the bases of calculations | Yes | 158-159 | Possible anomalies are mentioned separately for each indicator. |
| 3.10 Explanation of the effect of any re-statements of information provided in earlier reports | Yes | 158-159 | |
| 3.11 Significant changes from the previous reporting periods in the scope, bounday or measurements methods applied in the report | Yes | 65-70, 158-159 | |
| 3.12 GRI Content Index | Yes | 160-166 | |
| 3.13 Policy and current practice with regard to seeking external assurance for the report | Yes | The report has not been externally assured | |
| 4 Governance, Commitments and Engagement | | | |
| 4.1 Governance structure of the organisation | Yes | 131-141, 156 | |
| 4.2 Status of the chair of the highest governance body | Yes | 133 | |
| 4.3 Independence of Members of the Board of Directors | Yes | 134 | |
| 4.4 Mechanisms for shareholders and employees to influence actions of Board of Directors | Yes | 131-141 | |
| 4.5 Linkage between compensation for Members of the Board of Directors and senior managers to the organisation's social and environmental performance | Yes | 125-130, 135-137, 147-155 | |
| 4.6 Process to prevent conflicts of interests in Board work | Yes | 131-141 | |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| GRI INDICATOR | INCLUDED | PAGE/CONTENTS | SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS |
| 4.7 Process for determination the qualifications of Members of the Board in areas of strategic management and corporate responsibility | Yes | 131-141 | |
| 4.8 Mission, values and codes of conduct | Yes | 3-10, 41, 51-54, 57, 125-130, 139 | |
| 4.9 Board's procedures for overseeing management of corporate performance | Yes | 131-141 | |
| 4.10 Process for evaluating the Board of Directors' own performance | Yes | 131-141 | |
| 4.11 Application of the precautionary principle | Yes | 131-141 | |
| 4.12 Commitment to external corporate responsibility initiatives | Yes | 11, 22, 37, 53-57 | |
| 4.13 Memberships in organisations, associations and advocacy organisations | Yes | 25, 53-57 | |
| 4.14 List of interest groups engaged by the organisation | Yes | 12-13, 55-57 | |
| 4.15 Basis of identification and selection of interest groups | Yes | 9-13, 55 | |
| 4.16 Approaches to engagement with interest groups | Yes | 9-13, 55 | |
| 4.17 Key topics and concerns raised through interest-group engagement | Yes | 9-13, 55 | |
| 5 Management Approach and Performance Indicators | | | |
| Economic Performance Indicators | | | |
| Approach to management of economic responsibility | | 126 | |
| EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments | Partly | 123 | Level and amount of community support not reported, because funds and other investments in community projects consist of items that cannot be separated from the group's financial statement information. Finnair's objective is to include the level of community support in the 2013 report. |
| EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change | Yes | 123 | |
| EC3 Coverage of pension obligations | Yes | 123 | |
| EC4 Significant financial assistance received from government | Yes | 124 | |
| EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation | No | | Nearly all of the Finnair Group's personnel fall within the sphere of collective bargaining agreements, so this indicator not deemed to be essential for the group. |
| EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation | Partly | 124 | Finnair has no local procurement policy as such, and does not compile information at Group Level on the local characteristics of its suppliers. |
| EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation | Partly | | Indicator is not essential for the Finnair Group operations, because Finnair has no significant operating locations abroad. In Finland, Finnair's employees, including senior management, are mainly Finnish. |
| EC8 Development and impact of infrastructure investments and services provided primarily for public benefit (through commercial, in-kind, or pro bono engagement) | No | | In the reporting period, the Finnair Group has not made infrastructure investments for the public benefit. |
| EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts | Yes | 124 | |
| Environmental Performance Indicators | | | |
| Approach to management of environmental responsibility | Yes | 126-127 | |
| EN1 Materials used by weight or volume | Yes | 28-29 | |
| EN2 Percentage of materials used that are recycled input materials | No | | Not an essential indicator for the sector, because the aviation industry is such an externally regulated sector that companies' room for manoeuvre is in many respects restricted. Insofar as there is discretion, the percentage of recycled materials is not ascertained at group level. |
| EN3 Direct energy consumption by primary energy source | Yes | 29-30 | |
| EN4 Indirect energy consumption by primary energy source | Yes | 31 | With respect to electricity, the primary energy sources are not ascertained for 2013, because they depend e.g. on the prevailing hydro-power roduction capacity and the share of hydropower in the grid at any given time. |
| EN5 Energy saved due to conservation and efficiency improvements | Yes | 31-32 | |
| EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives | Yes | 32 | |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| GRI INDICATOR | INCLUDED | PAGE/CONTENTS | SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS |
| EN7 Initiatives to reduce indirect energy consumption and the reductions achieved | No | | Significant energy aspects in the Finnair Group's operations relate to flying, which has been reported in items EN3 and EN5. Finnair has an interest in reducing its own material intensity, which generally also affects indirect energy consumption the same way. Finnair does not, however, monitor at group level the energy balances of its material acquisitions and their development. |
| EN8 Total water withdrawal by source | Yes | 32 | |
| EN9 Water sources significantly affected by withdrawal of water | Yes | | The water used by the Finnair Group comes via the municipal network from Lake Päijänne. With respect to water resources, the Finnair Group is not a significant factor. |
| EN10 Percentage and total volume of water recycled and reused | Partly | | With respect to water resources, the Finnair Group is not a significant factor. |
| EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | Yes | The Finnair Group has no owned, leased or managed land areas in protected areas or directly adjacent to them.<br><br>Of the company's business units and subsidiaries, Finnair Technical Operations is the only one that handles significant quantities of materials that are hazardous to the environment. Finnair Technical Operations is situated in a zoned area at Helsinki Airport. The zoned area is close to a ground water area. Technical Operations has a valid environmental permit, the conditions of which oblige the company to review the effects of its activities on the environment and to report on them regularly to the authorities | |
| EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | No | | There are no such areas within the Finnair Group's sphere of influence. Operations may, however, have an impact on the River Vantaa and the River Kerava. This has been reported on separately in items EN15 and EN21. Operational impacts in respect of flight route destinations cannot, on the other hand, be reasonably ascertained by Finnair. |
| EN13 Habitats protected or restored | Yes | Finnair Technical Operations is a member of the River Vantaa and Helsinki Region Waterways Protection Association, which aims to promote the protection of waterways in its operating area. The association also seeks to promote other environmental protection, recreational use of waterways and fishing in its area. | Not during the reporting period. |
| EN14 Strategies, current actions and future plans for managing impacts on biodiversity | Yes | International cargo operations by both air and sea adhere to the International Standards for Phytosanitary Measures prescribed by the Food and Agriculture Organisation (FAO), which regulate, among other things, the quality and characteristics of timber used in logistics. Timber must be treated so that no parasites or insect pests are transported along with it. Correctly-treated timber is also stamped in the manner required by the standard.<br><br>Nature and biodiversity is a significant attractiveness factor in the operations of Aurinkomatkat-Suntours Ltd, a tour operator that is part of Finnair Group. In planning its destination programs, Aurinkomatkat-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 | Owing to the nature of operations, at group level it is not deemed pertinent to prepare concrete strategies or plans in relation to biodiversity. |
| EN15 Endangered species in areas affected by operations | Yes | The location of Helsinki-Vantaa Airport is such that runoff water from the airport can reach the River Vantaa, where there is a significant population of the thick-shelled river mussel (Unio crassus). The protected bivalve is classified as a near threatened (NT) species and it has also been protected under the EU Habitats Directive. | |
| EN16 Total direct and indirect greenhouse gas emissions by weight | Yes | 32-33 | |
| EN17 Other relevant indirect greenhouse gas emissions by weight | No | | Direct and indirect greenhouse gas emissions arising from the Finnair Group's operations are stated in item EN16. The main indirect emissions falling outside EN16 arise from the production and distribution of fuel used in aircraft and from the manufacture of new aircraft. In respect of these, Finnair has no influence nor information on the amounts of emissions. |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| **GRI INDICATOR** | **INCLUDED** | **PAGE/CONTENTS** | **SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS** |
| EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved | Partly | | In the Finnair Group's operations, energy consumption and greenhouse gas emissions go hand in hand. Thus all actions taken during the year to reduce energy consumption also affect in the same way and to the same extent the greenhouse gas emissions arising from the group's activities. |
| EN19 Emissions of ozone-depleting substances by weight | Yes | 34 | |
| EN20 NOx, SOx and other significant air emissions by type and weight | Yes | 34-35 | |
| EN21 Total water discharge by quality and destination | Yes | 35 | The amounts of glycol used in ice prevention and de-icing of aircraft that end up in waterways are reported by and are the responsibility of the airport maintainer. |
| EN22 Total weight of waste by type and disposal method | Yes | 36 | |
| EN23 Total number and volume of significant spills | Yes | No significant spills. | |
| EN24 Weight of transported, imported, exported, or treated waste deemed hazardous | No | | The Finnair Group does not transport nor treat hazardous waste. The amounts and treatment of hazardous waste arising from the group operations are reported in item EN22. |
| EN25 Water bodies and related habitats significantly affected by the organisation's discharges of wastewater and runoff | Partly | | The Finnair Group's wastewater is directed to the municipal wastewater treatment plant. In terms of treated wastewater, the Finnair Group's specific impact cannot be isolated. The impacts of Helsinki-Vantaa airside runoff are outlined in items EN11, EN15 and EN21. |
| EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | Partly | 37 | See also EN5, EN6 and EN16. |
| EN27 Percentage of products sold and their packaging materials that are reclaimed by category | No | | Not an essential indicator for the Finnair Group, because the Finnair Group, excludingLSG Skychef does not manufacture products. |
| EN28 Monetary value of significant fines and total number of nonmonetary sanctions for non-compliance with environmental laws and regulations | Yes | No known cases. | |
| EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce | No | | The significant environmental impacts arising from the Finnair Group's operations come mainly from flying. The impacts of transportation in support of operations are not known, but they are marginal compared with the environmental impacts of flying. |
| EN30 Total environmental protection expenditures and investments by type | Partly | Altogether, 2.5 million euros were spent on waste management, maintenance, environmental training, environmental certification, various membership fees and environmental studies. | The Finnair Group's statistical practices do not enable reporting according to GRI requirements. In addition, in all procurement environmental aspects are in-built, so the separation of environmental investments is not deemed to meaningful. |
| Social Performance Indicators | | | |
| Approach to management of labour practices and decent work conditions | Yes | 127 | |
| LA1 Total workforce by employment type, employment contract, and region | Yes | 43 | |
| LA2 Total number and rate of employee turnover by age group, gender, and region | Partly | 43 | Finnair does not keep track of employee turnover by gender, age group or other diversity aspects. |
| LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations | Partly | Finnair employees enjoy the same benefits irrespective of 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 who are its members. | |
| LA4 Percentage of employees covered by collective bargaining agreements. | Yes | 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.<br><br>In addition to flight crew, Finnair currently has employees abroad in 30 countries (approximately 220 employees). 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. | |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| **GRI INDICATOR** | **INCLUDED** | **PAGE/CONTENTS** | **SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS** |
| LA5 Minimum notice period regarding significant operational changes | Yes | 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 Co-operation 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. | |
| LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes | Yes | 43-44 | |
| LA7 Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region | Partly | 44 | The objective is to make the entire indicator according to GRI in the 2014 report. |
| LA8 Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases | Yes | 45-47 | Finnair Group programmes in the event of serious diseases relate only to the group's personnel. |
| LA9 Health and safety topics covered in formal agreements with trade unions | Partly | 47-48 | The Central Organisation of Finnish Trade Unions SAK and the Confederation of Finnish Industries EK identify the health and safety of an individual employee, non-discrimination and equality as the bases for the regulations in their collective agreements. |
| LA10 Average hours of training per year per employee by employee category | Yes | 48 | Finnair Group is a multi-sector company which has numerous different employee groups and job classifications. The classifications used by different subsidiaries and business units are not sufficiently comparable. Therefore training hours have been counted using the whole group's employee numbers. Group employees working abroad are also included in the figures. |
| LA11 Programmes for skills management and lifelong learning | Yes | 48-49 | |
| LA12 Percentage of employees receiving regular performance and career development reviews | Yes | Finnair's development and career reviews cover all personnel. The aim of the updated PD review process implemented throughout the company at the beginning of 2011 is to have all personnel attend a PD review at least twice per year. | |
| LA13 Composition and diversity of governance bodies and personnel groups | Yes | 50 | |
| LA14 Ratio of basic salary of men to women by employee category | No | | As a multi-sector company, the Finnair Group has numerous different employee groups and job classifications. The group's statistics do not enable a reporting practice according to GRI guidelines, nor for the above reason is this appropriate. |
| Approach to management of human rights issues | Yes | 127 | |
| HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening | Partly | | In 2013, investment agreements were such that no risk of human rights violations could be identified. As such there are no specific clauses in these agreements relating to human rights. Finnair does not conduct human rights screening itself.<br><br>Finnair has its own ethical guidelines for suppliers 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. |
| HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken | Yes | 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.<br><br>Finnair and its tour operator and travel agency subsidiaries have separately signed the Helsinki Declaration, which aims to promote sustainable and ethically acceptable tourism. | |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| **GRI INDICATOR** | **INCLUDED** | **PAGE/CONTENTS** | **SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS** |
| HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | Partly | Aurinkomatkat-Suntours Ltd provides training to all new guides in respect of the company's work against child sex tourism. The number of training hours relating to human rights is not separated from the total number of training hours given. The human rights theme was highlighted in the training on the new Code of Conduct started in 2013. | |
| HR4 Total number of incidents of discrimination and actions taken | Yes | There was one suspected case of occupational discrimination at Finnair in 2013. The prosecutor decided to press charges in the matter. The case will be dealt in court during spring 2014. | |
| HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk | No | | The indicator is not essential, because as a Finnish company Finnair operates in a labour market culture in which employees' rights to organise and negotiate working conditions collectively are recognised fundamental rights. |
| HR6 Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour | Yes | Finnair does not approve of the use of child labour in any part of its value chain. With respect to the aviation industry, the company has not identified any risk for incidents of child labour. This is a consequence both of the general nature of the industry and the strict official regulation and supervision of the industry. Nevertheless, the aviation industry and Finnair's operations do interact with sectors in which the exploitation of child labour cannot be excluded. One such sector is the textile industry. The uniforms and workwear used in the company are acquired from suppliers that have addressed this issue in their own operations.<br><br>On excursions, Aurinkomatkat-Suntours guides monitor the operations at excursion sites and destinations for the use of child labour. If any problems are detected, the excursion destinations and the contents of the excursions are changed as necessary. In order to prevent child prostitution, Aurinkomatkat-Suntours has a clause in its hotel contracts that entitles the company to immediately terminate the contract if child prostitution is detected in the hotel. | |
| HR7 Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour | Yes | 55 | |
| HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations | No | | The Finnair Group does not have its own security personnel. |
| HR9 Total number of incidents of violations involving rights of indigenous people and actions taken | Yes | No known cases. | |
| Approach to management of community responsibility | Yes | 125-126 | |
| SO1 Programs related to the assessment and management of the impacts of operations on local communities | Yes | 55 | Finnair does not have group-level programs to assess and manage the impact of operations on local communities. |
| SO2 Percentage and total number of business units analysed for risks related to corruption | Yes | All Finnair business units run an analysis of risks related to corruption as part of the company's general risk survey. | |
| SO3 Percentage of employees trained in organisation's anticorruption policies and procedures | Partly | | Comprehensive percentages and figures are not available, because training is conducted independently by business units and subsidiaries themselves. Finnair Flight Academy has not organised any anti-corruption training in 2013 |
| SO4 Actions taken in response to incidents of corruption | Yes | No cases. | |
| SO5 Public policy positions and participation in public policy development and lobbying | Yes | 55 | |
| SO6 Total value of financial and in-kind contributions to political parties | Yes | Finnair makes no contributions of any kind to political parties. | |
| SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | Yes | No cases. | |
| SO8 Monetary value of significant fines and total number of nonmonetary sanctions for non- compliance with laws and regulations. | | No cases. | |
| Approach to management of product responsibility | Yes | 128-130 | |
| PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures | Yes | Finnair continuously develops its customer service and evaluates the opertions of its business partners. We have a responsibility to the customer for the overall quality of our operations, regardless of whether we procude the service ourselves or outsource it to a business partner. | |
| PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services | Yes | No cases. | |

| GRI GUIDELINES | FINNAIR GROUP REPORT | | |
|---|---|---|---|
| **GRI INDICATOR** | **INCLUDED** | **PAGE/CONTENTS** | **SHORTCOMINGS/ANOMALIES/JUSTIFICATIONS** |
| PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements | Yes | 19 | |
| PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services | Yes | No cases. | |
| PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction | Yes | 20 | |
| PR6 Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship | Yes | Finnair acts in accordance with all general rules, laws, recommendations and good marketing practices relating to advertising and sponsorship. The main standards include marketing legislation (most significantly the Finish Consumer Protection Act), the Finnish Consumer Agency's guidelines on the marketing of flights (based on European Parliament and Council Directive (2005/28/EC)) and the principles relating to good advertising practice issued by the Council on Ethics in Advertising. | |
| PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications | Yes | No cases. | |
| PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | Yes | No cases. | |
| PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | Yes | No cases. | |

# INFORMATION FOR THE SHAREHOLDERS

## Annual General Meeting

The Annual General Meeting of Finnair Plc. will be held on Thursday 27 March 2014, at 15:00 at the Helsinki Exhibition & Convention Centre at the address Messuaukio 1, Helsinki, Finland. The reception of persons who have registered for the meeting and the distribution of voting tickets will commence at 14.00. 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 corporate 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 the participate in the AGM

Each shareholder who is registered on Monday, 17 March 2014 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 Monday 24 March 2014 at10 a.m. Registration can be done:

- In the internet at http://www.finnairgroup.com,
- By e-mail to: agm@finnair.fi,
- By phone from Monday to Friday at 9.00–16.00 in the number: +358 20 770 6866,
- By fax: +358 9 694 0205 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 Monday 24 March 2014 at 10 a.m.

## AGM 2012 –Important dates

| | | |
|---|---|---|
| 17 March 2014 | Record date | |
| 24 March 2014 | at 10 am EET | Deadline for giving notice of attendance |
| 27 March 2014 | at 2 pm EET | the reception of persons registered to the AGM will commence and at 3 pm EET the AGM will commence |

## Board of Directors' proposal on dividend

Finnair Plc's distributable equity amounted to 284,038,140.67 euros on 31 December 2013. The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2013.

## Financial information in 2014

In 2014, interim reports will be published as follows:

- Q1 on Wednesday 7 May 2014
- Q2 on Friday 15 August 2014
- Q3 on Friday 31 October 2014

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 www.finnairgroup.com

## 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.

## Change of address

Shareholders are kindly requested to report changes of address to the custodian of their book-entry account.

## 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 object

According to information held by Finnair, at least the following analysts publish investor analyses of the company: ABG Sundal Collier, Evli Bank, Carnegie Investment Bank, HSBC, Nordea and Pohjola Bank. Finnair does not accept any responsibility for the views or opinions expressed by the analysts.

# GLOSSARY

| | |
|---|---|
| **AEA** | The Association of European Airlines |
| **Carbon Disclosure Project** | An international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share vital environmental information. |
| **CASK** | Cost per available seat kilometre |
| **First Carbon Solutions** | First Carbon Solutions (FCS) is an environmental sustainability company that provides consulting, software and data management to businesses and governments |
| **IATA** | International Air Transport Association, a trade association representing and serving the airline industry worldwide |
| **iENVA** | The IATA Environmental Assessment (IEnvA) program is an evaluation designed to independently assess and improve the environmental management of an airline |
| **ICAO** | International Civil Aviation Organization, an agency of the United Nations promoting safe and orderly development of international civil aviation |
| **IOSA** | The IATA Operational Safety Audit (IOSA) program is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline |
| **Just Culture** | Organizational culture aiming at assigning the consequences for an unsafe act in a fair way based on an understanding of an individual's accountability and responsibilities within the context of the systems and circumstances that the individual was operating |
| **LEED Certificate** | Leadership in Energy and Environmental Design (LEED) is a set of rating systems for the design, construction, operation, and maintenance of green buildings, homes and neighborhoods |
| **NGO** | Non-governmental organization |
| **Open Skies** | Open skies is an international policy concept that calls for the liberalization of the rules and regulations of the international aviation industry—especially commercial aviation—in order to create a free-market environment for the airline industry |
| **RASK** | Revenue per available seat kilometre |
| **Skytrax** | Research company that evaluates commercial airlines and their services |
| **STLN** | Sustainable Travel Leadership Network |
| **UNWTO** | UN World Tourism Organization |

# CONTACT INFORMATION

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