

**FINNAIR**

# **Financial Statements**

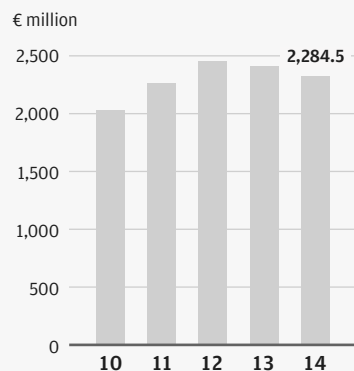
**1 January–31 December 2014**



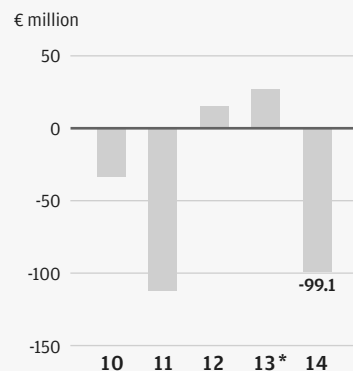
# Key figures

\* Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. Formulas for calculating key ratios are presented on page 59.

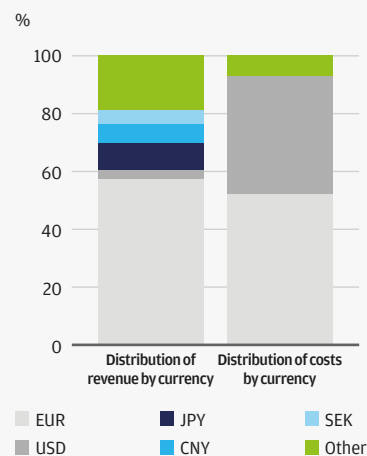
## Turnover



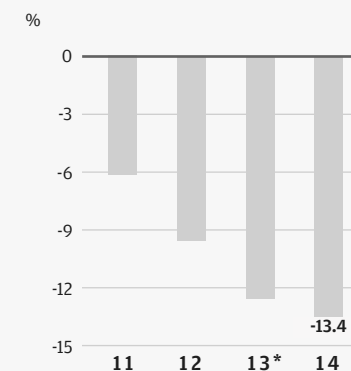
## Result before taxes



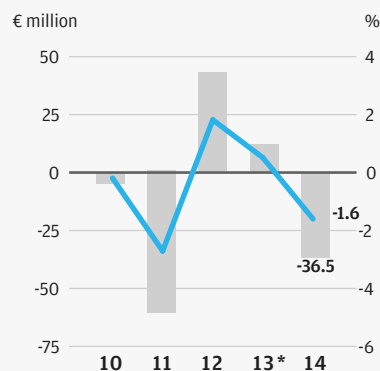
## Distribution of revenue and costs by currency in 2014



## CASK ex. fuel development since 2010



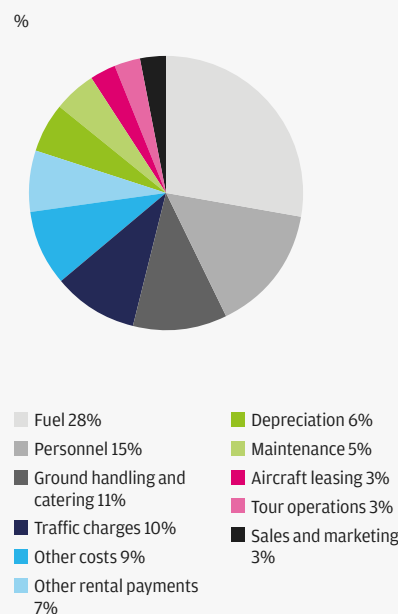
## Operational result\*\*



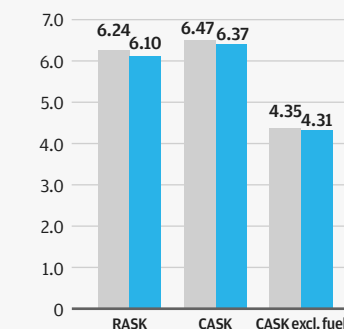
■ % of turnover

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

## Distribution of operating expenses €2,339.2 million

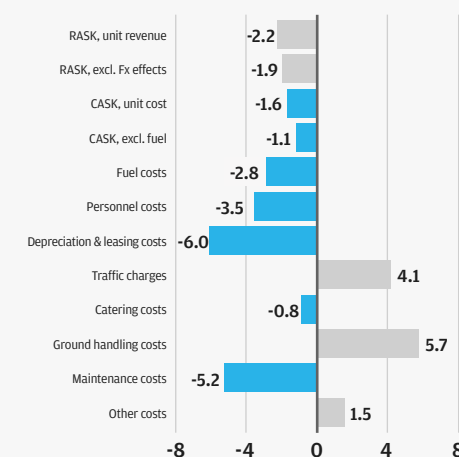


## Airline Business: unit revenue (RASK) and unit cost (CASK) cents/Available Seat Kilometre



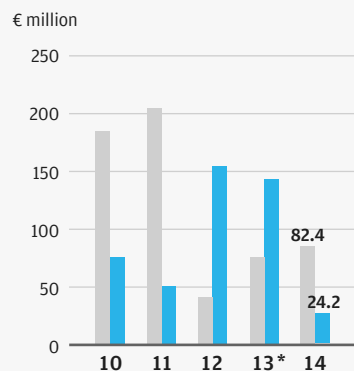
## Airline business: RASK & CASK development in 2014

change, 2014 vs. 2013, %



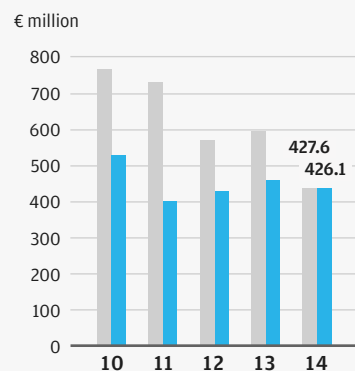
\* Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls.  
Formulas for calculating key ratios are presented on page 59.

### Capital expenditure and net cash flow from operations



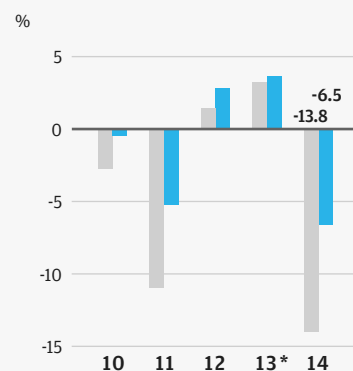
■ Gross investments  
■ Net cash flow from operations

### Interest bearing liabilities and liquid funds



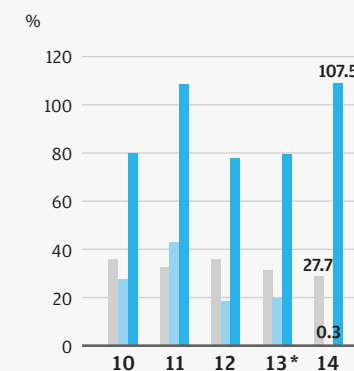
■ Interest bearing debt  
■ Liquid funds

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



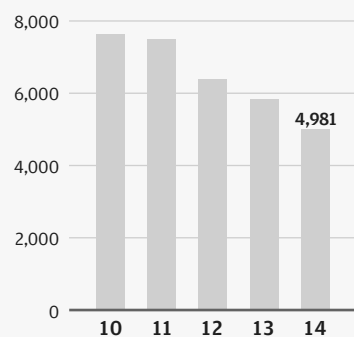
■ Return on equity (ROE)  
■ Return on capital employed (ROCE)

### Equity ratio, gearing and adjusted gearing

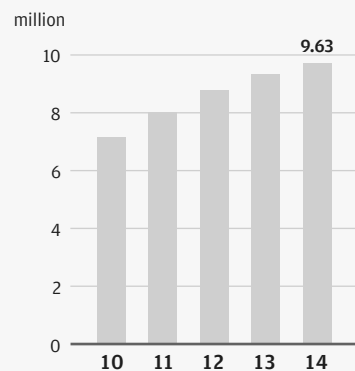


■ Equity ratio  
■ Gearing  
■ Adjusted gearing

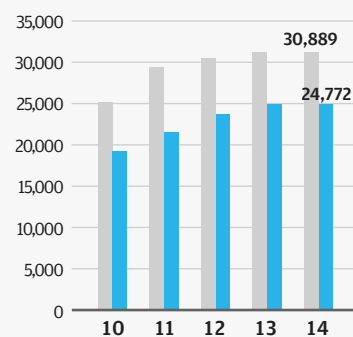
### Number of persons employed by Finnair at year-end



### Number of passengers

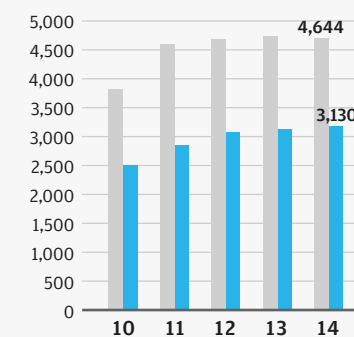


### Available seat kilometres (ASK) and revenue passenger kilometres (RPK)



■ Available Seat Kilometres (ASK)  
■ Revenue Passenger Kilometres (RPK)

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



■ Available tonne kilometres (ATK)  
■ Revenue tonne kilometres (RTK)

# The Report of the Board of Directors 2014

## Business Environment

Growth in Finnair's main markets was conservative despite substantial changes in business environment. Measured in Available Seat Kilometers the market capacity between Helsinki and Finnair's European destinations grew by 6.7 per cent in 2014, and the market capacity between Finnair's Asian and European destinations increased by 1.7 per cent. Finnair increased its market share in European traffic (point-to-point) clearly to 54.4 per cent (51.1), whereas in Asian traffic Finnair's market share decreased slightly to 5.0 per cent (5.4).\*

The weakness of the Finnish economy was reflected in the home market demand for passenger traffic throughout the year. Cargo traffic volumes in Finnair's main markets grew despite the negative impact the weak economic situation in the eurozone had on European cargo demand.

Changes in exchange rates had a negative effect on Finnair's revenue development throughout the year, which was reflected in the weaker revenue development of both passenger and cargo traffic. In terms of average exchange rates, the euro appreciated substantially against the yen in 2014 compared to 2013. The euro also appreciated against the Swedish crown and Chinese yuan, while the Korean won appreciated against the euro. The average dollar-euro exchange rate did not change significantly compared to 2013. The appreciation of the dollar against the euro, which began in the second half of the year, nevertheless dilutes the advantage gained by airlines from the substantial decrease in the price of jet fuel that began in autumn 2014. The US dollar is a significant expense currency in Finnair's operations, while the Japanese yen is a significant income currency.

## Strategy implementation and partnerships

In May, Finnair's Board of Directors approved the company's strategic targets as part of Finnair's annual strategy work. Finnair's strategic objectives are to double Asian revenues by 2020 from the 2010 level, grow traffic via Helsinki by fully exploiting Finland's geographic location, and create shareholder value and be an attractive investment. The long-term return objective set for the company by Finnair's Board of Directors is an operating profit margin of six per cent, which would enable investments in growth and business development.

## Joint businesses

On 1 April 2014 Finnair entered the joint business established in 2012 by fellow **oneworld** alliance partners Japan Airlines and British Airways for traffic between Europe and Japan. Finnair had previously, in July 2013, joined the transatlantic joint business founded by fellow **oneworld** alliance members American Airlines, British Airways and Iberia. These joint businesses have started well and their performance so far has been in line with expectations.

\* Figures are Finnair's estimates. The estimates are based on MIDT data collected on the sales volumes of travel agencies and Finnair's estimates of airlines' sales through their own sales channels, such as websites. Numbers reflect destination cities, rather than airports and exclude seasonal routes.

## Regional flying

In November 2014, Finnair and Flybe UK Ltd announced that the Flybe Nordic AB shares owned by Flybe UK Ltd will be sold to a new majority shareholder or to Finnair. Flybe Nordic owns fully the Finnish subsidiary Flybe Finland Ltd, which is in charge of Finnair's regional airline operations. Flybe Finland operates approximately one third of Finnair's narrow-body fleet on a contract flying basis.

The Finnish Competition and Consumer Authority approved the sale of Flybe UK Ltd's 60 per cent ownership of Flybe Nordic to StaffPoint Holding Ltd and G.W. Sohlberg Ltd in January 2015. The transaction price was one euro. Following completion of the sale, Staffpoint's ownership in the joint venture is 45 per cent, GWS's 15 per cent and Finnair's 40 per cent. Flybe Finland and its Board of Directors will now jointly develop the company's business model and improve the efficiency and profitability of regional flying.

In its 2014 financial statements, Finnair recognised a write-down of a subordinated loan issued to Flybe Finland and interest on the loan, amounting to 10.8 million euros combined, and a total of 11.3 million euros in advance payments and other operational receivables from Flybe Finland. The write-down of the subordinated loan and its interest is recognised in financial expenses and the write-down of advance payments and other operational receivables in non-recurring items. After the write-downs, Finnair still has running advance payments and other operational receivables from Flybe Finland, and Finnair continuously monitors the accuracy of the valuation of items related to the Flybe Finland cooperation.

## Progress of the structural change and cost reduction program

### Sales of business operations

At the end of February, Finnair sold its subsidiary Finncatering Oy to LSG Lufthansa Service Europa/ Afrika GmbH (LSG). The transaction did not have a significant impact on Finnair's operating result for 2014.

At the beginning of October, Finnair completed the sale of its subsidiary Finnair Travel Retail's shops at Helsinki Airport to World Duty Free Helsinki Oy, the Finnish subsidiary of World Duty Free Group. The transaction does not concern inflight sales. The transaction had a positive impact of 12.7 million euros on Finnair's operating result in 2014.

Both of the arrangements were part of Finnair's restructuring program, in which Finnair aims to focus on its core airline business.

### 200 million euro cost reduction program

By the end of 2014, Finnair had achieved a total permanent annual cost reduction of approximately 217 million euros compared to the unit cost level in 2010. The cost reduction target was 200 million euros. The cost reductions will be reflected in full in Finnair's result in 2015, and their positive impact

on the result for 2014 was approximately 180 million euros. The achieved cost reductions of 217 million euros include approximately 15 million euros in savings negotiated with various employee groups in 2014 based on collective labour agreements.

Unit costs excluding fuel have declined by 13.4 per cent from the 2010 level by the end of 2014. At the same time, Finnair has been able to move a substantial share of fixed costs to volume-based variable costs. Going forward, Finnair will continue to maintain tight control over costs in all of its cost categories.

### **Cost reduction negotiations with personnel**

In May 2014, Finnair signed a company-specific cost reduction agreement pertaining to Finnair Technical Services, which is within the scope of the Finnish Aviation Union (IAU). The agreement achieved the direct cost reduction targets set for the Technical Services' IAU collective labour agreement and it also includes commitments to future-oriented measures to improve productivity. As part of the agreement, Finnair committed to protection against unilateral termination until 31 December 2015 in the area within the scope of the collective labour agreement in question. Finnair also signed a cost savings agreement with the Helsinki Airport employees within the scope of the IAU.

Finnair and its senior salaried employees and engineers (FYT) reached an agreement in May on collective wage settlement. Finnair will achieve approximately six per cent greater efficiency and related savings through this agreement within the scope of FYT. Extending working hours was a key element in the savings achieved.

Finnair and the Finnish Air Line Pilots' Association (SLL) reached an agreement in early September on permanent annual cost reductions of 17 million euros. Approximately 11 million euros will materialise gradually over the two-year Collective Labour Agreement (CLA) period, approximately three million euros in the coming few years through growth, and the remaining three million euros in the future through changes to pensions and the employment terms of new pilots. In return, Finnair gave pilots protection against redundancies for the next two years and a one-time compensation plan, which was approved by Finnair's Board of Directors in October.

Finnair and the Finnish Cabin Crew Union (SLSY) reached a savings agreement in October. The agreement brings Finnair 18 million euros in permanent annual savings. Approximately 75 per cent of the savings will materialise during this agreement period ending on 15 November 2016 and approximately 25 per cent in the future through changes to the employment terms of new cabin attendants. In return, Finnair offered cabin personnel protection from redundancies for the next two years, protection from outsourcing and a fixed-term pension incentive.

The savings agreement concluded with SLSY includes the estimated savings impact and non-contesting of the outsourcing contracts already signed concerning the Hong Kong and Singapore routes. Finnair and the Norwegian crew management company OSM Aviation signed an agreement in September on the outsourcing of cabin services on these routes. The cabin crew for these routes will be recruited to OSM Aviation's bases in Asia. The outsourcing is estimated to start in March 2015, provided that OSM can obtain the required work permits for its personnel by then.

A savings agreement negotiated in December with technical services personnel belonging to Trade Union Pro was confirmed after the end of the financial year in January. In return, Finnair gave technical services personnel protection from redundancies until 30 June 2016. When implemented, the

agreement will produce in savings of approximately one million euros through the elimination of allowances and the extension of working hours.

A significant proportion of the savings agreed on in 2014 will be gradually reflected in the company's result starting from the first quarter of 2015. The materialisation of some of the savings depends on the extent to which Finnair can utilise the extended working hours in its operations.

### **Financial performance in 2014**

Finnair's revenue in 2014 declined by 4.8 per cent from 2013 and totalled 2,284.5 million euros (2,400.3). Capacity decreased by 0.9 per cent. The main factors contributing to the decrease in revenue were a substantial decline in unit revenue, particularly in Asian traffic, the contraction of Aurinkomatkat Suntuours' revenue, the loss of external revenue resulting from the restructuring of aviation services, the declining purchases by tour operators outside the Group, and the weak development of cargo. Operational costs excluding fuel decreased by 2.2 per cent year-on-year, amounting to 1,678.8 million euros (1,717.3). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 4.3 per cent year-on-year to 660.4 million euros (689.9) due to a decline in the market price of fuel and a decrease in capacity. Personnel costs declined by 9.6 per cent to 344.5 million euros (381.3) due to the personnel reductions implemented in 2014. Euro-denominated operational costs declined by 2.8 per cent to 2,339.2 million euros (2,407.2). The company's operational result, which refers to the operating result excluding non-recurring items, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, was -36.5 million euros (11.9).

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 -43.7 million euros (21.7). The non-recurring items for the period included items related to the sale of Finncatering Oy, the sale of Finnair Travel Retail's shops, fleet sale and lease-back agreements, write-down of advance payments and other operational receivables associated with Flybe Finland, and items related to the company's restructuring amounting in total to 7.7 million euros (-25.7). The operating result was -72.5 million euros (7.9). Finnair's result in 2014 before taxes was -99.1 million euros (26.8) and the result after taxes was -82.5 million euros (22.9).

Unit revenue per available seat kilometre (RASK) declined by 2.2 per cent compared to 2013 and amounted to 6.10 euro cents (6.24). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 1.9 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 1.6 per cent and amounted to 6.37 euro cents (6.47). Unit cost excluding fuel (CASK excl. fuel) decreased by 1.1 per cent due to the cost reduction program and totalled 4.31 euro cents (4.35).

### **Balance sheet on 31 December 2014**

The Group's balance sheet totalled 1,885.1 million euros at the end of the period under review (2,117.6 million euros on 31 December 2013). Shareholders' equity decreased to 514.3 million euros (678.0), or 4.02 euros per share (5.30). Shareholders' equity declined during the financial year due to the result and comprehensive income showing a loss.

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of oil and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of 2014 was -87.4 million euros (-15.0) after deferred taxes, and it was affected particularly by changes in the fair value of hedging instruments.

## Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In 2014, net cash flow from operating activities amounted to 24.2 million euros (142.4). The change is primarily due to the company's loss-making result. Net cash flow from investments totalled 14.4 million euros (-19.3).

The equity ratio was 27.7 per cent (32.6) and gearing was 0.3 per cent (19.9). The adjusted gearing was 107.5 per cent (79.2). At the end of the year, interest-bearing debt amounted to 427.6 million euros (593.0) and interest-bearing net debt stood at 1.4 million euros (134.2). In the first quarter, the company repaid an aircraft financing loan of 107 million euros, which was used to finance four A330 aircraft. Sale and leaseback agreements for these aircraft were implemented during the first half of the year.

The company's liquidity remained strong in the review period. The Group's cash funds amounted to 426.1 million euros (458.8) at the end of the year. 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. Finnair has an entirely unused 180 million euro syndicated credit agreement, which was intended as reserve funding and matures at the end of July 2016.

Advance payments related to fixed-asset investments were 66.4 million euros (66.0).

Finnair has a 200-million-euro short-term commercial paper program, of which 28 million euros were in use at the end of December. Net cash flow from financing amounted to -180.3 million euros (-47.4). Financial expenses were 26.9 million euros (19.7), and they include the write-downs of a subordinated loan issued to Flybe Finland and interest on the loan. Financial income stood at 3.5 million euros (42.6). The financial income for 2013 includes profit from the sale of shares in Norwegian Air Shuttle ASA.

## Capital expenditure

In 2014, capital expenditure excluding advance payments totalled 82.4 million euros (77.3) and was related to the Business Class seat renewal of the long-haul fleet and engine performance restorations. Capital expenditure for the full year 2015, including advance payments, is estimated at approximately 480 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 35 unencumbered aircraft, the balance sheet value of which corresponds to approximately 62 per cent of the value of the entire fleet of 0.8 billion euros. The balance sheet value includes three finance lease aircraft.

## 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 first half of 2014, the company concluded sale and leaseback agreements for four A330 aircraft as per memoranda of understanding signed in December 2013. In December 2014, Finnair signed a memorandum of understanding with GOAL German Operating Aircraft Leasing GmbH & Co for the sale and leaseback of three Embraer 190 aircraft and a memorandum of understanding with Doric Asset Finance GmbH & Co. KG for the sale and leaseback of six ATR 72 aircraft. The aircraft included in the arrangements are operated by Flybe Finland. Sale and leaseback agreements for all nine aircraft are expected to be concluded by the end of March 2015, after which Finnair will continue to sublease the aircraft to Flybe Finland.

Finnair has also signed an agreement for the sale and leaseback of its first two Airbus A350 XWB aircraft. The agreement is expected to be concluded in conjunction with the delivery of the first Airbus A350 XWB aircraft in autumn 2015.

## Fleet

Finnair's fleet is managed by Finnair Aircraft Finance Ltd, a wholly-owned subsidiary of Finnair Plc. At the end of December 2014, Finnair itself operated 45 aircraft, of which 15 are wide-body and 30 narrow-body aircraft. There were no changes to the composition of the fleet in the fourth quarter. In the first half of the year, two B757 aircraft were removed from Finnair's fleet according to plan as their leases expired, and two new A321 Sharklet aircraft were added to the fleet. As of March 2014, the company operates an all-Airbus fleet.

In addition to the aircraft operated by Finnair, its balance sheet includes 22 other aircraft owned by the company. These aircraft are operated by Flybe Finland. In December, Finnair sold three Embraer 170 aircraft to Infinity Aviation Capital LLC, a US-based aircraft leasing company, in accordance with the memorandum of understanding signed in May 2014. Finnair also has eight leased aircraft that it has subleased to be operated by other airlines.

The average age of the fleet operated by Finnair was 10.2 years at the end of 2014, and that of the Finnair fleet operated by Flybe Finland was 6.2 years.

### Fleet operated by Finnair on 31 Dec 2014

	Seats	#	Own	Leased		Average age	Change from 31 Dec 2013	Ordered	Add. options
				Operational leasing	Finance leasing				
Narrow-body fleet									
Airbus A319	138	9	7	2		13.4			
Airbus A320	165	10	6	4		12.4			
Airbus A321	209/196	11	4	7		8.1	+2		
Boeing B757	227	0	0	0			-2		
Wide-body fleet									
Airbus A330	297/271/263	8	0	5	3	5.2			
Airbus A340	270/269	7	5	2		12.0			
Airbus A350	297							19	
Total		45	22	20	3	10.2	0	19	0

#### Fleet owned by Finnair and operated by Flybe Finland on 31 Dec 2014

	Seats	#	Own	Leased		Average age	Change from 31 Dec 2013	Ordered	Add. options
				Operational leasing	Finance leasing				
ATR 72	68-72	12	12			5.4			
Embraer 170	76	2	2			8.8	-3		
Embraer 190	100	8	8			6.0			
<b>Total</b>		<b>22</b>	<b>22</b>			<b>6.2</b>	<b>-3</b>	<b>0</b>	<b>0</b>

#### Airbus A350 XWB aircraft and phasing out A340 aircraft

In December 2014, Finnair firmed up the eight Airbus A350 XWB aircraft options in its A350 order originally placed with Airbus in 2006 and subsequently amended. At Airbus list prices, the value of the additional eight A350 aircraft would be approximately 1.9 billion euros. The firm-up of the options increases the total number of Finnair's A350 XWB orders to 19.

Airbus received type certification for the A350 XWB from the European Aviation Safety Agency (EASA) in September 2014 and from the United States Federal Aviation Administration (FAA) in November 2014. The aircraft type had a successful commercial launch in January 2015 in scheduled traffic by Finnair's oneworld alliance partner Qatar Airways. Based on the current delivery schedule, Finnair will receive the first four A350 XWB aircraft in the second half of 2015, seven between 2016 and 2017, and eight more between 2018 and 2023. Finnair plans to phase out its A340 aircraft by the end of 2017, following the successful delivery and entry into service of the A350 XWB aircraft.

Airbus has agreed to acquire four A340-300 aircraft currently owned by Finnair in 2016 and 2017. The agreement between Finnair and Airbus ensures a smooth transition from A340s to A350s, mitigating potential business continuity risks related to fleet renewals and residual value risk related to A340s. Finnair also has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements of different durations.

#### Business area development in 2014

The segment reporting of Finnair Group's financial statements is based on business areas. The reporting business areas are Airline Business and Travel Services. From the first quarter of 2014 onward, the Aviation Services segment is not reported separately. Instead, the operations it included are reported as part of the Airline Business segment. The segment information for the 2013 financial year has been restated accordingly.

#### 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 Sales & Marketing, Operations and Resources Management functions as well as the subsidiaries Finnair Cargo Ltd, Finnair Flight Academy Ltd and Finnair Aircraft Finance Ltd. From the first quarter of 2014 onward, the Aviation Services segment also includes aircraft maintenance, Finnair Travel Retail Ltd and

Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities.

Key figures	2014	2013	Change %
<b>Revenue and result</b>			
Revenue, EUR million	2,167.7	2,271.9	-4.6
Operational result, EUR million	-43.5	8.8	<-200
Operating result, EBIT, EUR million	-78.4	6.3	<-200
Operating result, % of revenue	-3.6	0.3	-3.9%-p
<b>Personnel</b>			
Average number of employees	4,232	4,834	-12.5

Traffic performance	2014	2013	2012	2011	2010
Passengers, thousands	9,630	9,269	8,774	8,013	7,139
Available Seat Kilometres, millions	30,889	31,162	30,366	29,345	25,127
Revenue Passenger Kilometres, millions	24,772	24,776	23,563	21,498	19,222
Passenger Load Factor, %	80.2	79.5	77.6	73.3	76.5
Cargo tonnes, 1,000 kg	149,141	146,654	148,132	145,883	123,154
Available Tonne Kilometres, millions	4,644	4,709	4,647	4,571	3,808
Revenue Tonne Kilometres, millions	3,130	3,107	3,029	2,824	2,471
Overall Load Factor*, %	67.4	66.0	65.2	61.8	64.9

\* Cargo ATKs for the year 2013 are restated due to more accurate metrics implemented in calculation.

In 2014, the revenue of Airline Business declined by 4.6 per cent to 2,167.7 million euros (2,271.9). Revenue from passenger traffic constitutes approximately 75 per cent of the segment's revenue and cargo revenue approximately 11 per cent. The segment's operational result was -43.5 million euros (8.8).

Finnair changed traffic reporting practices from the beginning of the winter season 2014/2015 and discontinued the reporting of leisure traffic as a separate traffic area. This change reflects changes in operating model, in which previously operated leisure flights were changed to scheduled service. This change offers passengers better opportunities to tailor their travel and opens up more sales channels for popular leisure destinations. From October 2014, the traffic areas reported by Finnair are passenger traffic, with Asian, European, North Atlantic and domestic traffic reported separately, and cargo traffic. The traffic data for 2013 has been revised to correspond to the new reporting practices.

In 2014, Finnair's overall capacity fell by 0.9 per cent compared to the previous year, while traffic measured in revenue passenger kilometres remained unchanged year-on-year. The overall passenger load factor increased by 0.7 percentage points to 80.2 per cent. In Asian traffic, capacity fell by 2.0 per cent and traffic measured in revenue passenger kilometres declined by 0.3 per cent year-on-year. The passenger load factor in Asian traffic rose by 1.4 percentage points to 81.9 per cent. In European traffic, capacity increased by 0.9 per cent and traffic measured in revenue passenger kilometres grew by 1.0 per cent. The passenger load factor in European traffic rose by 0.1 percentage points to 78.8 per cent. In North Atlantic traffic, capacity declined by 6.2 per cent and traffic measured in

revenue passenger kilometres fell by 7.5 per cent. The passenger load factor in North Atlantic traffic decreased by 1.2 percentage points to 85.1 per cent. In domestic traffic, capacity increased by 4.1 per cent and traffic measured in revenue passenger kilometres grew by 6.6 per cent year-on-year. The passenger load factor in domestic traffic rose by 1.6 percentage points to 66.4 per cent.

Cargo transported on scheduled flights (belly cargo) constitutes a significant proportion of the revenue from long-haul traffic. In 2014, belly cargo accounted for approximately 17 per cent of total long-haul revenue. The amount of cargo and mail carried by Finnair in scheduled traffic grew by 1.7 per cent year-on-year. Finnair's overall load factor increased by 1.4 percentage points year-on-year, to 67.4 per cent. The available tonne kilometres declined by 1.4 per cent and the revenue tonne kilometres increased by 0.7 per cent. Finnair Cargo also operated wet-leased freighter flights in 2014 to Hanoi, Hong Kong and Brussels, as well as to Tokyo as part of capacity cooperation with JAL Cargo. Wet-leased freighter flights accounted for approximately 23 per cent of total cargo traffic.

Unit revenue per available seat kilometre (RASK) fell by 2.2 per cent compared to 2013.

The arrival punctuality of Finnair's flights was good in 2014, with 88.3 per cent (89.0) of scheduled flights 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 2014, Finnair operated at most 78 flights to Asia per week. The number of flights to Asia per week is also at most 78 in the winter season 2014/2015.

The **oneworld** alliance, of which Finnair is a member, expanded considerably in 2014. The leading airline in Brazil, TAM Airlines, and US Airways, the US-based merger partner of American Airlines, joined the alliance in March, followed by SriLankan Airlines in May. For Finnair's customers, new airlines joining **oneworld** and the joint businesses formed by its members enable better connections to destinations outside the Finnair network. Finnair began codesharing with these airlines as well as the Russia-based S7 Airlines in 2014, and also expanded its codesharing with Flybe to cover ten destinations in the UK.

US Airways also joined the transatlantic joint business with American Airlines, British Airways, Iberia and Finnair. Japan Airlines, British Airways and Finnair started a joint business for traffic between Europe and Japan at the beginning of April 2014.

In the summer, Finnair opened new routes to Nizhny Novgorod, Samara and Kazan in Russia, but the operation of these routes has been suspended for the period from 1 February to 22 April 2015 for commercial reasons. In the winter season 2014–2015, Finnair launched scheduled traffic to Miami, Phuket and Krabi.

Finnair also announced new scheduled summer destinations for 2015 (Dublin, Malta, Athens, Split, Chicago and Madeira) and new scheduled destinations for the winter season 2015/2016 (Ho Chi Minh City, Eilat, Lanzarote, Fuerteventura and Madeira).

### Other renewals and services

Finnair installed new full-flat seats in most of its long-haul fleet in 2014. The new Business Class seats have been used on flights to Tokyo and New York from the beginning of April, on flights to Beijing and Seoul from the beginning of May, and from the beginning of June, they have also been used on flights to Hanoi, Hong Kong, Nagoya, Osaka and Shanghai.

In May, Finnair and Finavia introduced self-service bag drop units at Helsinki Airport, giving Finnair customers the option of dropping their checked baggage at a self-service bag drop unit immediately after check-in. Self-service bag drop units were also introduced at Oulu and Turku airports in 2014.

In August, Finnair opened a new Premium Lounge at Helsinki Airport. The facilities are available to Platinum and Gold Finnair Plus members and other **oneworld** top-tier customers.

In August, Finnair revealed the cabin design for its new A350 aircraft and announced a number of product upgrades for long-haul flights and European routes. The product upgrades are based on customer feedback collected by Finnair. During the autumn, the inflight entertainment system on all long-haul aircraft was upgraded and a new mobile application was launched to make the various stages of the travel experience smoother. The complimentary cold snack service on European flights was replaced with a versatile buy-on-board Sky Bistro service at the beginning of November, and the new Economy Comfort product on long-haul flights was introduced in mid-December.

In the beginning of December, the **oneworld** alliance introduced new benefits to the most loyal customers of its member airlines, giving Finnair Platinum and Gold tier members additional benefits concerning baggage when they fly **oneworld** member airlines.

Finnair also announced the start of cooperation with leading restaurants in Finland. Signature Menus designed for Finnair will be available on a rotating basis in Business class on long-haul flights from Helsinki from the end of January 2015. As part of the cooperation, Finnair will also offer special menus next year to celebrate the arrival of the new Airbus A350 aircraft as well as Christmas 2015.

The design collaboration between Finnair and Marimekko took a new step in December when Finnair's second Airbus 330 aircraft in livery inspired by Marimekko's classic Unikko print took to the skies.

### Awards

In May, Finnair was the only Nordic airline to receive a four-star Skytrax rating. The World Airline Star Rating program is the most extensive and respected commercial airline rating in the industry, and it is based on impartial assessments of all of the services offered by the airline.

In July, Finnair was named Northern Europe's Best Airline at the World Airline Awards, repeating the honour for the fifth straight year. The award is based on an independent Skytrax survey of some 18 million travellers from more than 160 countries. Also at the World Airline Awards, the **oneworld** alliance, to which Finnair belongs, was named the World's Best Airline Alliance for the second year running. Finnair is the only airline in the Nordic countries with a four-star Skytrax rating.

In early October, Finnair was named Best European Airline for the second year running at the annual Asia-Pacific TTG Travel Awards.



## Travel Services (Tour Operators and Travel Agencies)

This business area consists of the tour operator Aurinkomatkat (Suntours), its subsidiary operating in Estonia, business travel agent SMT and its subsidiary Estravel, which operates in the Baltic countries, as well as Amadeus Finland, which produces travel sector information systems and solutions. Aurinkomatkat Suntours 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	2014	2013	Change %
<b>Revenue and result</b>			
Revenue, EUR million	216.7	251.7	-13.9
Operational result, EUR million	7.0	3.1	129.7
Operating result, EBIT, EUR million	5.9	1.6	> 200
Operating result, % of revenue	2.7	0.6	2.1%-p
<b>Personnel</b>			
Average number of employees	645	751	-14.1

The revenue of Travel Services in 2014 decreased by 13.9 per cent year-on-year, primarily due to a contraction in Aurinkomatkat Suntours' revenue, and amounted to 216.7 million euros (251.7). The operational result of Travel Services improved substantially, mainly due to cost reduction measures and operational restructuring implemented in 2014 both in Aurinkomatkat Suntours and business travel agency SMT and amounted to 7.0 million euros (3.1). The integration of Finland Travel Bureau and Area into FTB was successfully concluded in 2014, and the synergies sought through the merger of the two business travel agencies were achieved in full.

## Group structure

The companies that are part of the Finnair Group are presented in the notes to the financial statements in note 1.3 Subsidiaries.

Finnair sold its subsidiary Finnccatering Oy to LSG Lufthansa Service Europa/Afrika GmbH (LSG) on 28 February 2014. In addition, Finnair subsidiaries Finnair Cargo Oy and Finnair Cargo Terminal Operations Oy were merged and the merger between Finnair subsidiaries Finland Travel Bureau and Area was finalised in 2014.

## Governance

### Resolutions of the Annual General Meeting

Finnair Plc's Annual General Meeting, held on 27 March 2014, confirmed the financial statements for 2013 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 no dividend for 2013.

### Board of Directors

Finnair Plc's Annual General Meeting held on 27 March 2014 re-elected Klaus W. Heinemann as the Chairman of the Board of Directors and Maija-Liisa Friman, Jussi Itävuori, Harri Kerminen and

Gunvor Kronman as members, with Jaana Tuominen and Nigel Turner elected as new members. The Board of Directors elected Harri Kerminen from among its members as the Vice Chairman.

## 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 of 2014 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 for a period of 18 months from the decision. 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 for a period of 18 months from the decision.

## Shareholders' Nomination Board

On 17 October 2014, the company's largest shareholders, each entitled to appoint one member to the Shareholders' Nomination Board, appointed 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, to Finnair's Shareholders' Nomination Board. Per Wennberg resigned from the Nomination Board in early December. Ilmarinen, the fourth largest shareholder of Finnair as of 1 September 2014, appointed thereafter its Managing Director Harri Sailas to the Nomination Board as of 15 December 2014. The fourth member of the Nomination Board is the Chairman of Finnair's Board of Directors Klaus Heinemann.

The proposals of Finnair Shareholders' Nomination Board to the 2015 Annual General Meeting of Finnair Plc and concerning the composition of the Board of Directors and the remuneration of the members of the Board were published as a stock exchange release on 29 January 2015.

## 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 was published on 11 February 2015 as a document separate from the Report of the Board of Directors, and it is also available on the company's website.

## Changes in senior management

Tuomo Meretniemi stepped down from his position as Managing Director of Aurinkomatkat Suntours on 24 April 2014. Aurinkomatkat Suntours is a tour operator that is a subsidiary of Finnair Group. Timo Kousa, Managing Director of Finnair Travel Retail, was appointed the Managing

Director of Aurinkomatkat Suntours on 14 August 2014. He had previously served as the Managing Director of Aurinkomatkat Suntours since the end of April 2014 on an interim basis while also continuing in his role for Finnair Travel Retail.

Riku Aho was appointed Managing Director of Finnair Aircraft Finance Ltd and its subsidiary Finnair ATR Finance Ltd from 1 July 2014. Aho previously served as Assistant Vice President at Finnair Aircraft Finance Ltd. Finnair Aircraft Finance Ltd is a wholly-owned subsidiary of Finnair Plc. It is responsible for aircraft procurement and fleet asset management.

At the beginning of July, Eija Hakakari, 53, was appointed Finnair's new Senior Vice President, Human Resources, and a member of Finnair's Executive Board. Hakakari moved to Finnair from her previous position of SVP Human Resources at Stora Enso's Printing and Living division, taking up her new post at Finnair on 1 October 2014. Her predecessor, Manne Tiensuu, left Finnair on 31 August 2014.

In September, Finnair appointed Juha Järvinen, 38, Chief Commercial Officer and a member of Finnair's Executive Board as of 1 November 2014. Järvinen transferred to the new position from his post of Managing Director of Finnair Cargo. Järvinen's predecessor, Allister Paterson, left Finnair on 31 December 2014.

Gregory Kaldahl, SVP Resource Management and a member of Finnair's Executive Board, left Finnair at the end of 2014 at the end of his four-year contract. Jukka Lahtinen has been appointed the interim head of Resource of Management until Kaldahl's successor has been selected. Lahtinen reports to CEO Pekka Vauramo.

## Personnel

The number of Finnair employees decreased in 2014 due to the structural changes in the company. The Group employed an average of 5,172 (5,859) people, which is 11.7 per cent fewer than in the previous year. The Airline Business segment employed an average of 4,232 (4,834) people during the year. Travel Services employed an average of 645 (751) people and other functions 295 (274) people. The number of employees in an employment relationship was 4,981 (5,803) on 31 December 2014. A total of 4,656 of these were in an active employment relationship.

Of the employees, 676 people worked outside Finland. Of these, 198 were employed in sales and customer service duties in Finnair's passenger and cargo traffic. A total of 195 people worked for travel agencies and tour operators based in the Baltic countries. The figures for employees outside Finland do not include the 86 people working as guides at Aurinkomatkat Suntours' holiday destinations.

Full-time staff accounted for 98 per cent of employees, and 97 per cent of staff were employed on a permanent basis. The average age of employees was 45 years. Of the personnel, 28 per cent are over 50 years of age, while four per cent are under 30 years of age. The employees' average number of years in service was 17.4. Employees having worked for Finnair for over 20 years account for 41 per cent of personnel, while 12 per cent have worked for Finnair for over 30 years. Of Finnair Group's personnel, 57 per cent are women and 43 per cent are men.

## Employee consultations conducted in 2014

In 2014, Finnair conducted extensive employee consultations with cabin personnel as well as in administrative and support functions, Aurinkomatkat Suntours and Finnair Cargo. The employee consultations with administration and support personnel concerned operations, commercial func-

tions, financial administration, human resources administration and the corporate communications, corporate responsibility and public affairs function. The consultations concerned over 2,000 employees. The majority of the employee consultations were related to projects associated with the implementation of Finnair's cost reduction and restructuring program.

The estimated maximum need for reductions totalled over 700 jobs. The employee consultations and resulting savings agreements ultimately led to personnel reductions of fewer than 120 employees in support functions and lay-offs in cabin services. Finnair offered the employees to be dismissed a support package that included not only a notice period with no work obligation, but also re-employment coaching and training support through Finnair's Career Gate service in cooperation with the labour authorities.

## Personnel incentive schemes

Incentive bonuses for 2014, based mainly on financial performance and quality indicators, are estimated to be paid to personnel to an amount of approximately five million euros, including social security costs. The criteria based on the Group's result for the personnel profit bonus were not met in 2014.

The remuneration of personnel and management is discussed in more detail in the Remuneration Statement 2014, published on 11 February 2015.

## Shares and shareholders

### Shares and share capital

On 31 December 2014, the number of Finnair shares entered in the Trade Register was 128,136,115 and the registered share capital was 75,442,904.30 euros. The company's shares are quoted on Nasdaq Helsinki. Each share confers one vote at the General Meeting.

### Government ownership

At the end of 2014, 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 2014, members of the company's Board of Directors did not own any Finnair shares, and the CEO owned 52,173 shares. Members of the Executive Board, including the CEO, owned a total of 236,098 shares, representing 0.18 per cent of all shares and votes.

### Own shares

Finnair did not acquire its own shares in 2014. In the first quarter, the number of shares held by Finnair increased by 27,092 shares, and in the third quarter, by 6,772 shares, that in both instances were returned to Finnair pursuant to the rules of the company's performance share plan for 2010–2012. In the fourth quarter, the company transferred 940 of its own shares as incentive bonuses to members of the FlyShare employee share savings plan. On 31 December 2014, Finnair held a total of 312,092 of its own shares (279,168), representing 0.24 per cent of the total share capital.

#### Acquisition and delivery of own shares and returns of shares

Period	Number of shares	Acquisition value, EUR	Average price, EUR
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	0.00
2008	235,526	1,538,956.35	6.53
2009	0	0.00	0.00
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
2014	33,864	85,804.22	2.53
2014	-940	-2,334.40	2.48
<b>31.12.2014</b>	<b>312,092</b>	<b>891,708.00</b>	<b>2.86</b>

#### Finnair plc largest shareholders as at 31 December 2014

	Number of shares	%	Changes 2014
1 State of Finland; Office Council Of State	71,515,426	55.8	0
2 KEVA	6,150,875	4.8	865,233
3 Ilmarinen Mutual Pension Insurance Company	3,675,564	2.9	1,000,000
4 Nordea Funds	3,144,917	2.5	504,107
5 Tiiviste-Group Oy	2,450,000	1.9	950,000
6 Varma Mutual Pension Insurance Company	2,419,002	1.9	1,819,002
7 State Pension Fund	2,100,000	1.6	0
8 Kyöstilä Heikki	1,330,000	1.0	1,330,000
9 Veritas Pension Insurance Company	1,250,000	1.0	-280,000
10 OP Funds	1,226,969	1.0	377,200
11 Etra Invest Oy	1,000,000	0.8	0
12 Danske Funds	992,710	0.8	992,710
13 Finnair Plc Staff Fund	910,000	0.7	208,065
14 Taaleritehdas Funds	900,000	0.7	-100,000
15 SEB Funds	637,000	0.5	595,000
Nominee registered	9,423,437	7.4	-592,435
Others	19,010,215	14.8	
<b>Total</b>	<b>128,136,115</b>	<b>100.0</b>	<b>0</b>

Breakdown of shares at 31 December 2013	Number of shares	%	Number of shareholders	%
1-200	621,589	0.5	6,714	44.5
201-1,000	3,007,886	2.3	5,628	37.3
1,001-10,000	6,767,696	5.3	2,483	16.5
10,001-100,000	5,322,461	4.2	214	1.4
100,001-1,000,000	9,933,416	7.8	26	0.2
1,000,001-	93,040,867	72.6	9	0.1
Registered in the name of nominee	9,423,437	7.4	10	0.1
Not converted into the book entry system	18,763	0.0	-	-
<b>Total</b>	<b>128,136,115</b>	<b>100.0</b>	<b>15,084</b>	<b>100.0</b>

Shareholders by type at 31 December 2014	Number of shares	%	Number of shareholders	%
Public bodies	87,925,194	68.6	16	0.1
Households	14,421,884	11.3	14,459	95.9
Financial institutions	8,274,076	6.5	38	0.3
Private companies	6,509,337	5.1	472	3.1
Associations	1,279,295	1.0	41	0.3
Finnish shareholders, total	118,409,786	92.4	15,026	99.6

Registered in the name of a nominee	9,423,437	7.4	10	0.1
Outside Finland	284,129	0.2	48	0.3
Nominee registered and foreign shareholders, total	9,707,566	7.6	58	0.4

Not converted into the book entry system	18,763	0.0	-	-
<b>Total</b>	<b>128,136,115</b>	<b>100</b>	<b>15,084</b>	<b>100.0</b>

#### Flagging notifications

Two flagging notifications were issued in 2014. The combined holdings of funds managed by Skagen AS increased to 7,419,573 shares, equivalent to 5.79 per cent of all shares and votes (more than 5 per cent), as a result of sales of shares completed on 5 March 2014. Funds managed by Skagen AS issued a second flagging notification on 26 November 2014 after their combined share of Finnair Plc shares and votes had fallen to zero (less than 5 per cent) following the sale of their shares.

#### Shareholder agreements

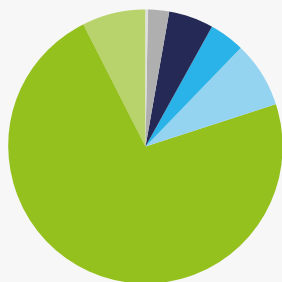
Finnair is not aware of any shareholder agreements pertaining to share ownership or the use of voting rights.

#### 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

## Shareholding by number of shares owned

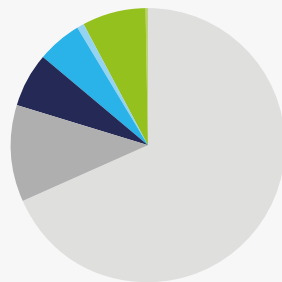
%



1-200 0.49%
201-1,000 2.35%
1,001-10,000 5.28%
10,001-100,000 4.15%
100,001-1,000,000 7.75%
1,000,001- 72.61%
Registered in the name of the nominee 7.35%
Not converted into the book entry system 0.01%

## Shareholding by type

%



Public bodies 68.6%	Registered in the name of a nominee 7.4%
Households 11.3%	Outside Finland 0.2%
Financial institutions 6.5%	Not converted into the book entry system 0.0%
Private companies 5.1%	
Associations 1.0%	

facility in the event that a person other than the State of Finland acquires control of Finnair either through a majority of the voting rights or otherwise.

## Share-based incentive schemes

### Employee share savings plan FlyShare

In March, Finnair's Board of Directors decided to launch a new 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan established in 2013 is to encourage the employees to become shareholders in the company, and thereby strengthen the employees' interest in the development of Finnair's shareholder value and to reward them over the long term. Approximately 700 Finnair employees, or 15 per cent of those invited, participated in the second phase of the plan in 2014. The share savings plan is described in more detail in Finnair's Remuneration Statement and on the company's website.

## Share-based incentive plan for pilots

In October, Finnair's Board of Directors approved a one-off long-term incentive plan for Finnair pilots. The plan is a part of the savings agreement between Finnair and the Finnish Air Line Pilots' Association (SLL) that brings Finnair 17 million euros in permanent annual savings. The share savings plan covers the period 2015–2018 and it is described in more detail in Finnair's Remuneration Statement and on the company's website.

## Key personnel's performance share plan

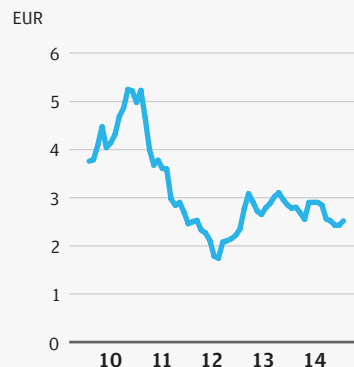
In February 2014, Finnair's Board of Directors approved a performance share plan, covering the years 2014–2016, for Finnair's key personnel, and in December 2014, the Board of Directors approved a performance share plan, covering the years 2015–2017, for Finnair's key personnel. Both performance share plans are part of Finnair's long-term share-based incentive arrangement that Finnair's Board of Directors approved in 2013, and which consists of annually commencing individual plans. The share plans are described in more detail in stock exchange releases published on 11 February and 17 December 2014.

## Share price development and trading

At the end of December 2014, Finnair's market value stood at 317.8 million euros (354.9), and the closing price of the share was 2.48 euros (2.77). During 2014, the highest price for the Finnair share on the NASDAQ OMX Helsinki Stock Exchange was 3.01 euros (3.25), the lowest price 2.30 euros (2.40) and the average price 2.68 euros (2.86). Some 21.4 million (26.0) of the company's shares, with a total value of 54.1 million euros (74.2), were traded.

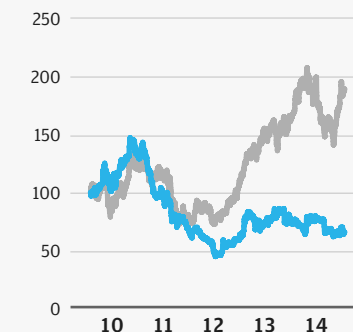
Number of shares and share prices		2014	2013	2012	2011	2010
Average number of shares adjusted for share issue	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Average number of shares adjusted for share issue (with diluted effect)	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
The number of shares adjusted for share issue at the end of financial year	pcs	128,136,115	128,136,115	128,136,115	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	128,136,115	128,136,115
Number of shares, end of the financial year	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Trading price highest	EUR	3.01	3.25	2.64	5.37	5.72
Trading price lowest	EUR	2.30	2.40	1.67	2.30	3.61
Market value of share capital Dec. 31	EUR mill.	318	355	305	295	646
Number of shares traded	pcs	21,417,047	26,024,070	19,668,495	21,422,076	27,299,521
Number of shares traded as % of average number of shares	%	16.71	20.31	15.35	16.72	21.31

### Finnair share 2010–2014



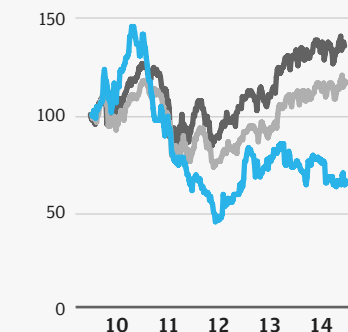
■ Average price

### Comparison European Airlines



■ Finnair  
■ European Airlines

### Comparison NASDAQ OMX Helsinki



■ Finnair  
■ OMX Helsinki  
■ OMX Helsinki benchmark

### 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 2014, earnings per share from the result of the period (before hybrid bond interest) was -0.65 (0.18) euros, and earnings per share was -0.71 (0.11) euros. 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.

Finnair Plc's distributable equity amounted to 149,223,743.79 euros on 31 December 2014. The Board of Directors proposes to the Annual General Meeting that, taking into account the future investment needs of the company, no dividend is paid for 2014.

### Corporate responsibility

In 2014

- Finnair's overall customer satisfaction was close to the level seen in recent years and the target set for it. The weighted overall score given by customers for the flight experience was 8.1/10.
- The wellbeing-at-work index increased slightly from the previous year, amounting to 3.9/5.0 (3.8/5.0). (Scale: 1=very poor – 5=excellent). The four areas covered by the wellbeing-at-work survey are My Immediate Supervisor, My Work Community, My Perspective, and My Health and Safety. The general wellbeing-at-work of Finnair's personnel is measured twice per year.
- Finnair's fuel consumption and CO<sub>2</sub> emissions decreased by 0.91 per cent from 2013. Consumption and emissions per available seat kilometre also decreased very slightly, by 0.03 per cent year-on-year.

### Reducing environmental impacts

Finnair is cooperating with industry operators and the authorities to reduce the climate impacts of aviation and to achieve goals such as developing biofuel supply chains and reducing costs to allow for the broader use of biofuels in the industry. Finnair's target is to reduce its CO<sub>2</sub> emissions by 20 per cent per one hundred tonnes kilometres flown from the 2009 level by 2017.

As part of this effort, Finnair operated a flight from Helsinki to New York on 23 September 2014, in conjunction with the UN Climate Summit, using biofuel mixture that was partly manufactured from cooking oil. The price of biofuel being nearly triple that of conventional fuel and its poor availability stand as obstacles in the way of its more extensive commercial use. During this year, Finnair also participated in a Ministry of Transport and Communications' study on the more extensive adoption of biofuel at Helsinki Airport.

In October, Finnair became the only airline to be awarded a position on the A List of the Carbon Disclosure Project's Climate Performance Leadership Index (CPLI) for actions to reduce carbon dioxide emissions and mitigate the business risks of climate change. The index presents 187 listed companies identified as demonstrating a superior approach to climate change mitigation.

As part of the implementation of its IEnvA environmental system, Finnair published an updated Environmental Policy in October.

### Other sustainability efforts

In September, the International Air Transport Association (IATA) announced that Finnair Cargo will be among the first airlines to receive a PHARMA certificate in early 2015. Pharmaceuticals, such as vaccines and biotech medicines, are among the most delicate products transported as air cargo, and

Finnair Cargo is one of the first two airlines in the world to participate in IATA's PHARMA certification program.

Starting in October 2014, cooperation between Finnair, the UN Children's Fund UNICEF and the travel industry information systems provider Amadeus has allowed Finnair passengers to make a donation to UNICEF when purchasing tickets on Finnair's website. The donations are directed to the UNICEF Schools for Asia initiative, which aims to change the lives of children in 11 Asian countries through education.

## Reporting

Finnair has reported on environmental sustainability since 1997, and in 2008 became one of the first airlines to report according to GRI guidelines. The GRI, formed with the support of the United Nations Environment Program, is the most widely recognised international authority on sustainability reporting.

The Annual Report for 2014 will be published at the end of February 2015, and will report the financial, economic, social and environmental performance of the Finnair Group in accordance with the GRI guidelines, and identify and explain the strategic business ramifications of this performance. Finnair will also report on its UN Global Compact targets as part of the report. The Annual Report for 2013 was published in March 2014.

## Significant near-term risks and uncertainties

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. In the implementation of strategy, Finnair and its operations involve various risks and opportunities. Finnair has implemented a comprehensive risk management process to ensure that risks are identified and mitigated as much as possible, although many risks are not within the company's full control. To exploit value creation opportunities, Finnair is also prepared to take and manage risks within the limits of its risk-bearing capacity.

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

Exceptional variation in fuel price and the potential of the recent decrease in fuel price to be passed on to flight ticket prices or lead to an increase in capacity in Finnair's main markets constitute a risk for Finnair's revenue development, as does the reduction in the demand for passenger or cargo flights due to slowing or non-existent economic growth in Finnair's main markets.

The significance of joint operations involving closer cooperation than airline alliances, such as joint businesses, is expected to continue to grow. Being left out of potential new joint projects may have a negative effect on Finnair's competitive position.

The achievement of the strategic gains and cost reductions sought through Finnair's partnership projects and outsourcing projects involve risks. For example, quality or availability issues and/or unexpected additional costs of partnerships and suppliers can have a negative effect on Finnair's product, reputation and profitability, or suppliers may obtain bargaining power in relation to Finnair.

The entry into service of the next-generation Airbus A350 XWB aircraft involves risks associated with new technology and roll-out processes.

The aviation industry is affected by a number of regulatory initiatives at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory initiatives include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy protection and the decision made by the Court of Justice of the European Union in October 2012 regarding flight passengers' rights. In addition, regulations on the reporting of non-financial information (responsibility) and other stakeholder requirements have increased substantially.

The proposed change in the Finnish pension system concerning the statutory retirement age would increase Finnair's pension liabilities, if Finnair's supplementary pension plan cannot be amended in line with the Finnish national pension reform.

Over the past year, Finnair has carried out more detailed assessments of the use of airspace in conflict areas and clarified its contingency plans for disruptions affecting flight operations and airspace restrictions. Finnair's risk management and risks related to the company's operations are described in more detail on the company's website at [www.finnairgroup.com](http://www.finnairgroup.com).

## Seasonal variation and sensitivities in business operations

Due to the seasonal variation of the airline business, the Group's revenue and profit are generally very much 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 expense item. A 10-per-cent change in the world market price of fuel has an effect of approximately 16 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis at the balance sheet date), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 43 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. Approximately 58 per cent of the Group's revenue was denominated in euros in 2014. The most important other foreign sales currencies were the Japanese yen (approximately 9 per cent of revenue), the Chinese yuan (approximately 7 per cent) and the Swedish crown (approximately 5 per cent). Approximately 48 per cent of the Group's operating costs were denominated in foreign currencies. The most important purchasing currency was the US dollar, which accounted for approximately 41 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 12 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis at

the balance sheet date), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 66 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 at the balance sheet date), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 17 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 December, the hedging ratio for fuel purchases was 75 per cent for the first half of 2015 and 64 per cent for the whole year. The hedging ratio for a dollar basket over the following 12 months was 82 per cent, and the hedging ratio for a yen basket was 73 per cent.

### Events after the review period

The Finnish Competition and Consumer Authority approved the sale of Flybe UK Ltd's 60 per cent ownership of Flybe Nordic AB to StaffPoint Holding Ltd and G.W. Sohlberg Ltd in January 2015. The transaction price was one euro. Flybe Nordic owns fully the Finnish subsidiary Flybe Finland Ltd, which is in charge of Finnair's regional airline operations. Flybe Finland operates approximately one third of Finnair's narrow-body fleet on a contract flying basis. Following completion of the sale, Staffpoint's ownership in Flybe Nordic is 45 per cent, GWS's 15 per cent and Finnair's 40 per cent.

The proposals of Finnair Shareholders' Nomination Board to the 2015 Annual General Meeting of Finnair Plc and concerning the composition of the Board of Directors and the remuneration of the members of the Board were published as a stock exchange release on 29 January 2015.

In January, Finnair became the first airline in Europe to be certified as a Stage 2 operator in the IATA (International Air Transport Association) Environmental Assessment (IEnvA) program. The system is designed to independently assess and improve an airline's environmental management. Finnair is one of only two global carriers to be certified as an IEnvA Stage 2 operator. As part of the program, Finnair has set the following environmental performance targets for its operations:

- 40 per cent reduction of anti-icing fluid usage in 2006–2016.
- 20 per cent reduction of CO<sub>2</sub> emissions in 2009–2017.
- 10 per cent reduction of energy usage in corporate facilities in 2007–2016.
- 10 per cent decrease of non-EU waste/passenger in 2014–2016.
- 40 per cent noise reduction in 2005–2017.

Finnair improved its Finnair Plus frequent flyer program in January by removing fuel surcharge fees from European Classic flight awards, as well as from Tel Aviv and Dubai Classic flight awards. The passengers pay taxes and other government charges on their flights.

In January 2015, Finnair was named 2014's most punctual major European carrier by travel data company FlightStats. The **oneworld** alliance was also named the most on-time global alliance in the same survey.

### Outlook

The demand outlook for passenger and cargo traffic in Finnair's main markets still involves uncertainty. Finnair estimates that in 2015 its capacity measured in Available Seat Kilometres will grow by approximately 3 per cent and that its revenue will remain at the 2014 level. Finnair further estimates that, in 2015, its unit costs excluding fuel will decrease from 2014 level.

The lower price of jet fuel and the full impact from the completed savings program are supporting the financial performance of Finnair in 2015.

FINNAIR PLC  
Board of Directors

# Financial indicators 2010–2014

INCOME STATEMENT		2014	2013	2012	2011	2010
Revenue	EUR mill.	2,284	2,400	2,449	2,258	2,023
change	%	-4.8	-2.0	8.5	11.6	10.1
Operational result	EUR mill.	-36	12	43	-61	-5
in relation to revenue	%	-1.6	0.5	1.8	-2.7	-0.2
Operating result	EUR mill.	-72	8	34	-88	-13
in relation to revenue	%	-3.2	0.3	1.4	-3.9	-0.7
Net financial income (+)/expenses (-)	EUR mill.	-23	23	-18	-22	-20
in relation to revenue	%	-1.0	1.0	-0.7	-1.0	-1.0
Net interest expenses	EUR mill.	-9	-10	-13	-14	-16
in relation to revenue	%	-0.4	-0.4	-0.5	-0.6	-0.8
Result before taxes	EUR mill.	-99	27	15	-111	-33
in relation to revenue	%	-4.3	1.1	0.6	-4.9	-1.6
BALANCE SHEET		2014	2013	2012	2011	2010
Non-current assets	EUR mill.	964	1,341	1,501	1,621	1,514
Current assets	EUR mill.	799	759	699	736	827
Assets held for sale	EUR mill.	122	18	32	0	71
Assets total	EUR mill.	1,885	2,118	2,231	2,357	2,412
Equity and non-controlling interests	EUR mill.	514	678	775	747	853
Liabilities total	EUR mill.	1,371	1,440	1,456	1,610	1,558
Equity and liabilities total	EUR mill.	1,885	2,118	2,231	2,357	2,412
Gross capital expenditure	EUR mill.	82	77	41	204	183
in relation to revenue	%	3.6	3.2	1.7	9.0	9.1
Average capital employed	EUR mill.	1,106	1,295	1,413	1,550	1,636
Dividend for the financial year*	EUR mill.	0	0	13	0	0
Interest-bearing liabilities	EUR mill.	428	593	569	729	765
Liquid funds	EUR mill.	426	459	430	403	527
Interest-bearing net debt	EUR mill.	1	134	138	326	238
in relation to revenue	%	0.1	5.6	5.6	14.4	11.7

KEY FIGURES		2014	2013	2012	2011	2010
Undiluted and diluted earnings per share	EUR	-0.71	0.11	0.01	-0.75	-0.24
Equity/share	EUR	4.02	5.30	6.06	5.89	6.67
Dividend/share*	EUR	0.00	0.00	0.10	0.00	0.00
Dividend/earnings*	%	0.0	0.0	121.2	0.0	0.0
Dividend yield	%	0.0	0.0	4.2	0.0	0.0
Cash flow from operating activities/ share	EUR	0.19	1.12	1.21	0.40	0.59
P/E ratio		-3.47	25.02	174.96	-3.07	-21.09
Equity ratio	%	27.7	32.6	35.4	32.6	36.2
Net debt-to-equity (Gearing)	%	0.3	19.9	18.0	43.3	27.8
Adjusted gearing	%	107.5	79.2	77.8	108.4	79.6
Return on equity (ROE)	%	-13.8	3.2	1.4	-10.9	-2.7
Return on capital employed (ROCE)	%	-6.5	3.6	2.8	-5.2	-0.4

CASH FLOW		2014	2013	2012	2011	2010
Operational cash flow	EUR mill.	24	142	155	51	76
in relation to revenue	%	1.1	5.9	6.3	2.2	3.7

PERSONNEL		2014	2013	2012	2011	2010
Personnel on average		5,172	5,859	6,784	7,467	7,578

\* The dividend for year 2014 is a proposal of the Board of Directors to the Annual General Meeting.

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See more information in notes 4.2 Tangible assets, 6.1 Income taxes and 6.5 Change in accounting principles.



# Financial statements

## 1 January–31 December 2014

### How to read Finnair Financial Statements?

The notes of Finnair's financial statements have been combined to seven business related sections in order to give more relevant and less complex picture of the whole. Each section sets out the accounting principles applied in producing these notes together with any critical accounting estimates and sources of uncertainty.

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

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

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

### Contents

Consolidated income statement	18
Consolidated statement of comprehensive income	18
Consolidated balance sheet	19
Consolidated cash flow statement	20
Consolidated statement of changes in equity	21
Notes to the consolidated financial statements	22

#### 1 Consolidation 22

1.1 Accounting principles	22
1.2 Critical accounting estimates and sources of uncertainty	23
1.3 Subsidiaries	23
1.4 Acquisitions and disposals	24
1.5 Non-current assets and liabilities held for sale	24
1.6 Investments in associates and joint ventures	25

#### 2 Segments and income 26

2.1 Segment information	26
2.2 Operating income	27
2.2.1 Revenue by currency	27
2.2.2 Other operating income	27
2.2.3 Trade and other receivables	27
2.2.4 Deferred income	28

#### 3 Operating expenses 28

3.1 Operational expenses by currency	28
3.2 Leasing expenses	28
3.3 Other expenses	29

3.4 Other expenses related accruals	29
3.5 Inventories	29
3.6 Provisions	29
3.7 Items excluded from operational result	29
3.8 Employee benefits	30
3.8.1 Employee benefit expenses and share-based payments	30
3.8.2 Pensions	33

#### 4 Aircraft and other intangible and tangible assets and leasing arrangements 35

4.1 Intangible assets	35
4.2 Tangible assets	36
4.3 Depreciation and impairment	37
4.4 Leasing arrangements	37

#### 5 Capital structure and financing costs 39

5.1 Financial income and expenses	39
5.2 Financial assets	39
5.2.1 Non-current loan and other receivables	39
5.2.2 Other current financial assets	40
5.2.3 Cash and cash equivalents	40
5.3 Financial liabilities	40
5.4 Contingent liabilities	41
5.5 Management of financial risks	41
5.6 Classification of financial assets and liabilities	43
5.7 Offsetting financial assets and liabilities	45
5.8 Derivatives	45
5.9 Equity-related information	46

#### 6 Other notes 48

6.1 Income taxes	48
6.2 Related party transactions	50
6.3 Disputes and litigation	50
6.4 Events after the closing date	50
6.5 Change in accounting principles	50

#### 7 Parent company financial statements 51

Calculation of key indicators	59
Board of Directors' proposal on the dividend	59
Auditor's Report	60
List of accounting books and voucher types	61

## Consolidated income statement

EUR mill.	Note	2014	2013 Restated
<b>Revenue</b>	2.1, 2.2.1	<b>2,284.5</b>	<b>2,400.3</b>
Other operating income	2.2.2	18.3	18.8
<b>Operating expenses</b>			
Staff costs	3.8	-344.5	-381.3
Fuel costs		-660.4	-689.9
Lease payments for aircraft	3.2	-78.8	-57.5
Other rents	3.2	-159.7	-152.0
Aircraft materials and overhaul		-119.4	-125.8
Traffic charges		-230.9	-222.3
Ground handling and catering expenses		-251.8	-257.3
Expenses for tour operations		-76.7	-89.4
Sales and marketing expenses		-65.3	-72.9
Depreciation and impairment	4.3	-134.3	-140.7
Other expenses	3.3	-217.4	-218.1
<b>Operational result</b>		<b>-36.5</b>	<b>11.9</b>
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	3.7	-43.7	21.7
Non-recurring items	3.7	7.7	-25.7
<b>Operating result</b>		<b>-72.5</b>	<b>7.9</b>
Financial income	5.1	3.5	42.6
Financial expenses	5.1	-26.9	-19.7
Share of results in associates and joint ventures	1.6	-3.2	-4.0
<b>Result before taxes</b>		<b>-99.1</b>	<b>26.8</b>
Income taxes	6.1	16.5	-3.9
<b>Result for the financial year</b>		<b>-82.5</b>	<b>22.9</b>
<b>Attributable to</b>			
Owners of the parent company		-82.7	22.6
Non-controlling interests		0.2	0.3
<b>Earnings per share from profit attributable to shareholders of the parent company</b>			
Earnings per share, EUR (diluted and undiluted)		-0.71	0.11
Result for the period per share, EUR		-0.65	0.18

## Consolidated statement of comprehensive income

EUR mill.	Note	2014	2013 Restated
<b>Result for the financial year</b>		<b>-82.5</b>	<b>22.9</b>
<b>Other comprehensive income items</b>			
<b>Items that may be reclassified to profit or loss in subsequent periods</b>			
Change in fair value of available-for-sale financial assets	5.9	0.0	-13.8
Change in fair value of hedging instruments	5.9	-87.0	-5.3
Translation differences	5.9	0.4	0.0
Tax effect		17.4	4.4
<b>Items that will not be reclassified to profit or loss in subsequent periods</b>			
Actuarial gains and losses from defined benefit plans	3.8.2	-4.1	0.4
Tax effect		0.8	-0.6
<b>Other comprehensive income items total</b>		<b>-72.4</b>	<b>-15.0</b>
<b>Comprehensive income for the financial year</b>		<b>-154.9</b>	<b>7.9</b>
<b>Attributable to</b>			
Owners of the parent company		-155.1	7.7
Non-controlling interests		0.2	0.3

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. See more information in notes 4.2 Tangible assets and 6.5 Change in accounting principles.

# Consolidated balance sheet

EUR mill.	Note	31 Dec 2014	31 Dec 2013 Restated	1 Jan 2013 Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	4.1	18.4	19.3	25.5
Tangible assets	4.2	897.8	1,292.6	1,328.7
Investments in associates and joint ventures	1.6	4.9	8.2	12.3
Loan and other receivables	5.2.1	9.2	20.5	22.7
Deferred tax assets	6.1	33.8	0.0	0.0
<b>Non-current assets total</b>		<b>964.1</b>	<b>1,340.6</b>	<b>1,389.2</b>
<b>Current assets</b>				
Inventories	3.5	14.7	19.9	17.1
Trade and other receivables	2.2.3	194.0	237.1	217.5
Derivative financial instruments	5.8	163.7	43.6	33.6
Other financial assets	5.2.2	332.8	335.9	363.5
Cash and cash equivalents	5.2.3	93.4	122.9	67.0
<b>Current assets total</b>		<b>798.6</b>	<b>759.4</b>	<b>698.7</b>
Assets held for sale	1.5	122.4	17.7	31.9
<b>Assets total</b>		<b>1,885.1</b>	<b>2,117.6</b>	<b>2,119.8</b>

EUR mill.	Note	31 Dec 2014	31 Dec 2013 Restated	1 Jan 2013 Restated
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	5.9	75.4	75.4	75.4
Other equity	5.9	438.3	601.9	673.4
<b>Total</b>		<b>513.7</b>	<b>677.3</b>	<b>748.8</b>
Non-controlling interests		0.6	0.7	0.9
<b>Equity total</b>		<b>514.3</b>	<b>678.0</b>	<b>749.7</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	6.1	0.0	3.4	5.7
Interest-bearing liabilities	5.3	337.7	385.5	394.7
Pension obligations	3.8.2	25.3	10.6	3.6
Provisions	3.6	52.1	69.3	82.3
Other liabilities	5.3	22.1	25.4	18.8
<b>Non-current liabilities total</b>		<b>437.3</b>	<b>494.1</b>	<b>505.1</b>
<b>Current liabilities</b>				
Provisions	3.6	44.2	40.5	38.2
Interest-bearing liabilities	5.3	89.9	207.5	174.2
Trade payables		56.2	61.6	70.3
Derivative financial instruments	5.8	198.5	29.1	18.5
Deferred income	2.2.4	327.9	340.8	288.0
Employee benefit related accruals	3.8	79.7	94.7	104.3
Other expenses related accruals	3.4	137.1	169.0	169.3
<b>Current liabilities total</b>		<b>933.4</b>	<b>943.2</b>	<b>862.8</b>
Liabilities related to assets held for sale	1.5	0.0	2.3	2.2
<b>Liabilities total</b>		<b>1,370.7</b>	<b>1,439.6</b>	<b>1,370.1</b>
<b>Equity and liabilities total</b>		<b>1,885.1</b>	<b>2,117.6</b>	<b>2,119.8</b>

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See more information in notes 4.2 Tangible assets, 6.1 Income taxes and 6.5 Change in accounting principles.

# Consolidated cash flow statement

EUR mill.	2014	2013 Restated
<b>Cash flow from operating activities</b>		
Result for the financial year	-82.5	22.9
Non-cash transactions <sup>1)</sup>	141.9	115.9
Other adjustments to result for the financial year		
Financial income	-3.5	-42.6
Financial expenses	26.9	19.7
Share of results in associates and joint ventures	3.2	4.0
Income taxes	-16.5	3.9
Changes in working capital	-33.2	35.8
Interest expenses paid	-14.1	-12.1
Other financial expenses paid	-4.5	-3.8
Interest income received	6.7	1.4
Income taxes paid	-0.2	-2.7
<b>Net cash flow from operating activities</b>	<b>24.2</b>	<b>142.4</b>
<b>Cash flow from investing activities</b>		
Investments in intangible assets	-4.3	-2.3
Investments in tangible assets	-142.1	-96.4
Net change in financial interest bearing assets at fair value through profit or loss <sup>2)</sup>	-109.5	14.6
Net change in shares classified as available for sale	0.0	53.7
Divestments of fixed assets and group shares	267.6	8.9
Dividends received	0.0	1.2
Change in non-current receivables	2.6	1.0
<b>Net cash flow from investing activities</b>	<b>14.4</b>	<b>-19.3</b>
<b>Cash flow from financing activities</b>		
Proceeds from loans	0.0	150.0
Loan repayments and changes	-169.4	-115.0
Hybrid bond repayments	0.0	-52.4
Hybrid bond interest and expenses	-10.7	-15.4
Purchase of own shares	0.0	-1.7
Dividends paid	-0.2	-13.0
<b>Net cash flow from financing activities</b>	<b>-180.3</b>	<b>-47.4</b>
<b>Change in cash flows</b>	<b>-141.8</b>	<b>75.7</b>
<b>Change in liquid funds</b>		
Liquid funds, at beginning	331.8	256.1
Change in cash flows	-141.8	75.7
<b>Liquid funds, at end <sup>3)</sup></b>	<b>190.1</b>	<b>331.8</b>

## Notes to consolidated cash flow statement

### <sup>1)</sup> Non-cash transactions

EUR mill.	2014	2013
Depreciation	135.7	140.7
Employee benefits	11.4	7.3
Fair value changes in derivatives	34.9	-21.7
Other adjustments	-40.1	-10.5
<b>Total</b>	<b>141.9</b>	<b>115.9</b>

### <sup>2)</sup> Net change in financial interest bearing assets maturing after more than three months

### <sup>3)</sup> Liquid funds

EUR mill.	2014	2013
Other financial assets	332.8	335.9
Cash and cash equivalents	93.4	122.9
<b>Short-term cash and cash equivalents in balance sheet</b>	<b>426.1</b>	<b>458.8</b>
Maturing after more than three months	-236.0	-126.5
Shares available for sale	0.0	-0.4
<b>Total</b>	<b>190.1</b>	<b>331.8</b>

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.

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. See more information in notes 4.2 Tangible assets and 6.5 Change in accounting principles.

# Consolidated statement of changes in equity

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to owners of the parent	Non-controlling interests	Equity total
<b>Equity 1 Jan 2014</b>	<b>75.4</b>	<b>168.1</b>	<b>-15.0</b>	<b>247.3</b>	<b>82.5</b>	<b>118.9</b>	<b>677.3</b>	<b>0.7</b>	<b>678.0</b>
Result for the financial year					-82.7		-82.7	0.2	-82.5
Change in fair value of hedging instruments			-69.6				-69.6		-69.6
Actuarial gains and losses from defined benefit plans			-3.3				-3.3		-3.3
Translation differences			0.4				0.4		0.4
<b>Comprehensive income for the financial year</b>	<b>0.0</b>	<b>0.0</b>	<b>-72.4</b>	<b>0.0</b>	<b>-82.7</b>	<b>0.0</b>	<b>-155.1</b>	<b>0.2</b>	<b>-154.9</b>
Dividend							0.0	-0.2	-0.2
Share-based payments				0.1			0.1		0.1
Hybrid bond interests and expenses					-8.6		-8.6		-8.6
<b>Equity 31 Dec 2014</b>	<b>75.4</b>	<b>168.1</b>	<b>-87.4</b>	<b>247.4</b>	<b>-8.8</b>	<b>118.9</b>	<b>513.7</b>	<b>0.6</b>	<b>514.3</b>

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to owners of the parent	Non-controlling interests	Equity total
<b>Equity 31 Dec 2012</b>	<b>75.4</b>	<b>168.1</b>	<b>0.0</b>	<b>247.1</b>	<b>112.6</b>	<b>171.1</b>	<b>774.3</b>	<b>0.9</b>	<b>775.2</b>
Change in accounting principles					-25.6		-25.6		-25.6
<b>Equity 1 Jan 2013</b>	<b>75.4</b>	<b>168.1</b>	<b>0.0</b>	<b>247.1</b>	<b>87.0</b>	<b>171.1</b>	<b>748.7</b>	<b>0.9</b>	<b>749.6</b>
Result for the financial year					22.6		22.6	0.3	22.9
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
<b>Comprehensive income for the financial year total</b>	<b>0.0</b>	<b>0.0</b>	<b>-15.0</b>	<b>0.0</b>	<b>22.6</b>	<b>0.0</b>	<b>7.7</b>	<b>0.3</b>	<b>7.9</b>
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
<b>Equity 31 Dec 2013</b>	<b>75.4</b>	<b>168.1</b>	<b>-15.0</b>	<b>247.3</b>	<b>82.5</b>	<b>118.9</b>	<b>677.3</b>	<b>0.7</b>	<b>678.0</b>

Hybrid bond at the end of 2014 and 2013 includes the 120 million euro hybrid loan issued in 2012, which after deduction of transaction costs amounts to 118.9 million euros. There was no changes in hybrid loans during 2014. The decrease of 52.1 million euros in hybrid bond during 2013 relates 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.

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. See more information in notes 4.2 Tangible assets and 6.5 Change in accounting principles.

# Notes to the consolidated 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 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 which notes, accounting principles and IFRS standards are related.

Accounting principle	Note	Nr.	IFRS
Consolidation principles of subsidiaries	Subsidiaries	1.3	IFRS 10
Non-controlling interests and transactions with non-controlling interests	Subsidiaries	1.3	IFRS 10
Non-current 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	IFRS 11
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	3.5	IAS 2
Provisions	Provisions	3.6	IAS 37
Employee benefits and share-based payments	Employee benefits	3.8	IAS 19, IFRS 2
Pensions	Pensions	3.8.2	IAS 19
Intangible assets	Intangible assets	4.1	IAS 38
Tangible assets	Tangible assets	4.2	IAS 16
Depreciation and amortisation, 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 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 2015. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, change or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

## Basis of preparation

Finnair Plc's consolidated financial statements for 2014 have been prepared according to the International Financial Reporting Standards (IFRS) and IFRIC interpretations in effect on 31 December 2014 and as adopted by the European Union. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law.

The 2014 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euro. This means that the sum of the individual figures may differ from the total shown.

## Presentation of Consolidated Income Statement and Balance Sheet

IAS 1 Presentation of Financial Statements standard does not define 'operating result'. The Group has defined it as net amount of operating income and expenses, including revenue and other operating income, less operating expenses, such as maintenance expenses and materials used, lease payments for aircraft and other lease fees, employee benefits, depreciation and possible impairment losses arising 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 realise within 12 months or when they are classified as liquid funds or financial assets or liabilities classified at fair value through profit or loss. Other assets and liabilities are classified as non-current assets or liabilities.

## 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 estimates and sources of uncertainty.

**i** = Content of the section

## Change in accounting principles

In the beginning of 2014 group changed its accounting principle related to treatment of aircraft engines' maintenance costs. According to the changed principle, certain engine overhauls are capitalized and depreciated between maintenance events. Previously these maintenance costs were expensed when occurred. Comparative information has been restated to reflect the changed accounting principle. More information related to changed accounting principles can be found in notes 4.2 Tangible assets and 6.5 Change in accounting principles.

## 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 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, IAS 28 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.

The new standards IFRS 10, 11 and 12 did not change the existing consolidation method for currently held subsidiaries, associated companies and joint ventures. The company previously classified as joint venture will continue to be accounted for as joint venture by using equity method.

Other changes in IFRS-standards or interpretations did not have any effect on Finnair's financial statements.

Regarding changes in standards affecting future periods, Finnair is currently evaluating the effects of IFRS 15 Revenue recognition and IFRS 9 Financial Instruments to its financial statements. In case endorsed by EU, standard on Revenue recognition will be effective from 2017 and Financial instruments from 2018 onwards. Other standards issued and affecting future financial periods 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 or jointly control the entity or have significant influence or other interests in the entity. When group has power to control the entity, it is consolidated as subsidiary in the group according to principles described in the note 1.3 Subsidiaries. When group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using equity method according to principles set in note 1.6 Investments in associates and joint ventures. If group does not have power to control nor significant influence in the entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 5.2 Financial assets.

### Translation of foreign currency items

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

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

## 1.2 Critical accounting estimates and sources of uncertainty

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcomes may differ from those estimates and assumptions made. In addition, discretion has to be exercised in applying the accounting principles of the financial statements. Changes in estimates and assumptions effect the financial statements in the period the changes occur, and in all the subsequent financial periods.

**I** 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. **I**

Critical accounting estimates 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	3.8.2	Pensions

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

### Non-controlling interest and transactions with non-controlling interest

Non-controlling interests are presented within the equity in the Consolidated Balance Sheet, separated from equity attributable to owners of the parent. For each acquisition the non-controlling interest can be recognised either at fair value or at the non-controlling interest's proportionate share of the 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**

**I** = Critical accounting estimates

**A** = Accounting principles

## Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
<b>Airline Business</b>		<b>Travel Services</b>	
Finnair Cargo Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Aircraft Finance Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.0
Finnair ATR Finance Oy, Finland	100.0	Toivelomat Oy, Finland	100.0
Northport Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Balticport Oü, Estonia	100.0	OOO Aurinkomatkat, Russia	100.0
Finnair Technical Services Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Finnair Engine Services Oy, Finland	100.0	OOO Aurinko, Russia	100.0
Finnair Flight Academy Oy, Finland	100.0	SMT Oy, Finland	100.0
Finnair Travel Retail Oy, Finland	100.0	A/S Estravel Ltd, Estonia	71.3
LSG Sky Chefs Finland Oy, Finland*	100.0	Estravel Vilnius UAB, Lithuania	71.3
Kiinteistö Oy Air Cargo Center 1, Finland	100.0	Norvista Travel Ltd, Canada	100.0
Kiinteistö Oy LEKO 8, Finland	100.0	<b>Other functions</b>	
IC Finnair Ltd, Great Britain**	100.0	FTS Financial Services Oy, Finland	100.0
A/S Aero Airlines, Estonia	100.0	Backoffice Services Estonia Oü, Estonia	100.0

\* 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 whose earnings are subject to normal taxation in Finland.

## 1.4 Acquisitions and disposals

During the financial year 2014 and 2013 Finnair didn't have any acquisitions.

During 2014 Group sold Finnair Travel Retail's shops at Helsinki Airport to World Duty Free Group. The sale had 12.7 million euros' positive effect to Finnair's results in non-recurring items. In addition, Finnair sold its subsidiary Finncatering Oy to Lufthansa Service Europa/Afrika GmbH. The transaction did not have significant effect to Finnair's financial statements.

During 2013 Finnair Group didn't have any disposals.

## 1.5 Non-current assets and liabilities held for sale

### **A** Assets and liabilities held for sale

Non-current assets 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, and the sale is expected to realise 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 held for sale mainly include E190 and ATR 72 aircraft and Technical Operations hangar that are expected to be sold in the beginning of 2015. Assets held for sale for 2013 and 2014 also include inventories and tangible assets related to Finnair Technics. Previous year assets held for sale also included assets and liabilities related to subsidiary Finncatering Oy, that was sold in 2014.

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

EUR mill.	2014	2013
Tangible assets	119.8	9.8
Inventories	2.6	5.4
Trade and other receivables	0.0	2.5
<b>Total</b>	<b>122.4</b>	<b>17.7</b>

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

EUR mill.	2014	2013
Trade payables and other liabilities	0.0	2.3
<b>Total</b>	<b>0.0</b>	<b>2.3</b>

**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 Group does not own jointly controlled entities that would be classified as joint operations, meaning such entities where Group would have rights to entity's assets or obligations to entity's liabilities, which it should consolidate in its balance sheet.

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. Unrealised losses are eliminated, unless there is indication that the asset sold is impaired. 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 investment and its carrying value. The impairment is recognised in Share of results in 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 result 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.	2014	2013
At the beginning of the financial year	8.2	12.3
Shares of results	-3.2	-4.0
<b>At the end of the financial year</b>	<b>4.9</b>	<b>8.2</b>

Finnair has given on behalf of Flybe Finland Oy (part of Flybe Nordic Group) a guarantee of 2.0 million euros to Nordea Bank Finland Abp (2.0). The guarantee has ended at the beginning of 2015.

More information regarding transactions with associates and joint ventures can be found in note 6.2 Related party transactions.

### Financial Statement information on the Group's principal associates and joint ventures 31.12.2014

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Amadeus Estonia	Estonia	0.8	0.3	0.9	0.3	33.25
Nordic Global Airlines Oy	Finland	10.7	10.6	42.2	-2.9	40.00
Flybe Nordic Ab*	Sweden	40.2	52.6	293.8	-1.0	40.00
Kiinteistö Oyj Lentäjätie 1	Finland	25.6	19.3	1.5	0.0	28.33
<b>Total</b>		<b>77.2</b>	<b>82.8</b>	<b>338.4</b>	<b>-3.5</b>	

\* According to official financial statement of Flybe Finland Oy as per 31 March 2014, which is holding-company Flybe Nordic Ab's subsidiary and responsible of the operations in the Flybe Nordic group.

**A** = Accounting principles

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

EUR mill.	Domicile	Assets	Liabilities	Revenue	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 Lentäjätie 1	Finland	26.5	20.2	1.5	0.0	28.33
<b>Total</b>		<b>78.7</b>	<b>80.1</b>	<b>266.5</b>	<b>-15.5</b>	

\* According to official financial statement 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.

All the associated companies and joint ventures owned by Finnair are unlisted companies, and none of them are considered as material compared to Finnair's operations. In 2014, Finnair has written down the value of its investment in joint venture Flybe Nordic Ab to zero based on the estimated losses from continuous operations for 2014. The share of losses recognised from Flybe Nordic Ab amounted to -2.1 million euros (-4.1). In case Finnair would recognise share of losses exceeding the value of its investment in the company, it would have had an additional effect in the share of results of approximately -1.5 million euros. The total loss from continuous operations of associated companies amounted to -2.5 million euros, of which Finnair's share of losses was -1.0 million euros.

Flybe Nordic is a regional airline company operating in the Nordic countries and in Baltics. Flybe operates both purchase traffic for Finnair and traffic at its own risk. In 2014 and 2015 Flybe Nordic has been a joint venture that has been jointly controlled by its owners Finnair Oy and Flybe UK. At the end of 2014, Flybe UK announced that it will exit the arrangement and sell the shares of Flybe Nordic Ab to Finnair or to a new majority shareholder assigned by Finnair. At the balance sheet date Flybe Nordic Ab was still joint venture of Finnair and Flybe UK. At the beginning of 2015 Finnair signed a letter of intent with StaffPoint and Oy G.W. Sohlberg Ab (GWS), according to which Flybe UK Ltd's 60% ownership would be transferred to StaffPoint and GWS. Finnish Competition and consumer authority approved the transaction in January 2015. The change of majority shareholder in the joint venture does not have an effect in the nature of the arrangement, and the operations of Flybe Nordic Group continue under joint control of Finnair and the new partners.

Flybe Nordic's operations have been loss making and the value of investment in Finnair has been written down. Finnair aims to find solutions that would enable the development of regional flying in a financially sustainable way. As Flybe Finland's operations require further restructuring, Finnair has assessed the valuation of its receivables from Flybe Nordic Group. Based on the evaluation made Finnair has written down the subordinated loan receivable and related accrued interests from Flybe Nordic Group, amounting to 10.8 million euros. The effect is included in financial items in income statement. In addition, Finnair has written down 11.3 million euros of operational receivables from Flybe Finland Oy, which is the entity responsible of running Flybe Nordic Group's operations. The effect is included in non-recurring items in income statement.

Finnair's associated companies include Nordic Global Airlines Oy, which is a freight airline co-owned by Finnair Cargo Oy, Ilmarinen and Neff Capital Management. Amadeus Finland's associated company Amadeus Estonia provides IT solutions to travel agencies in Estonia. Kiinteistö Oyj Lentäjätie 1 is a property located in the airport area and co-owned by Finavia, Finnair Pension fund and Finnair Oy.

## 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. Due to previous years' restructurings the nature and extent of the business of Aviation Services has changed. Therefore the Board of Directors decided that Aviation Services are no longer reported as separate segment but as part of Airline Business segment. The remaining reportable segments in Finnair are Airline Business and Travel Services. Comparative information for 2013 has been restated according to new segment structure.

Airline Business is responsible for scheduled passenger and charter traffic as well as cargo sales, customer service and service concepts, flight operations and management, maintenance and financing of the fleet. In addition, the segment is responsible for managing real estate owned by Finnair. Finncatering Oy, that was sold to LSG Lufthansa Service Europa/ Afrika GmbH, is included in the Airline segment figures until 28 February 2014 and airport shops of Travel Retail, that were sold to World Duty Free Helsinki, until 1 October 2014.

Travel Services consists of the Group's travel agency operations as well as tour operations and travel sector software business operations.

The entities included in segments are specified in the note 1.3 Subsidiaries.

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 2014

EUR mill.	Airline Business	Travel Services	Eliminations	Other functions	Group total
External revenue	2,070.7	213.8			2,284.5
Internal revenue	97.0	3.0	-100.0		0.0
<b>Revenue</b>	<b>2,167.7</b>	<b>216.7</b>	<b>-100.0</b>		<b>2,284.5</b>
<b>Operational result</b>	<b>-43.5</b>	<b>7.0</b>			<b>-36.5</b>
<b>Operating result</b>	<b>-78.4</b>	<b>5.9</b>			<b>-72.5</b>
Share of results in associates and joint ventures					-3.2
Financial income					3.5
Financial expenses					-26.9
Income taxes					16.5
Non-controlling interests					-0.2
<b>Result for the financial year attributable to owners of the parent company</b>					<b>-82.7</b>
Depreciation and impairment	132.9	1.4			134.3
Average number of employees	4,232	645		295	5,172
Employees at the end of year	4,050	600		331	4,981

#### Business segment data 2013, restated

EUR mill.	Airline Business	Travel Services	Eliminations	Other functions	Group total
External revenue	2,149.4	251.0			2,400.3
Internal revenue	122.5	0.7	-123.2		0.0
<b>Revenue</b>	<b>2,271.9</b>	<b>251.7</b>	<b>-123.2</b>		<b>2,400.3</b>
<b>Operational result</b>	<b>8.8</b>	<b>3.1</b>			<b>11.9</b>
<b>Operating result</b>	<b>6.3</b>	<b>1.6</b>			<b>7.9</b>
Share of result in associates and joint ventures					-4.0
Financial income					42.6
Financial expenses					-19.7
Income taxes					-3.9
Non-controlling interests					-0.3
<b>Result for the financial year attributable to owners of the parent company</b>					<b>22.6</b>
Depreciation	139.3	1.5			140.7
Average number of employees	4,834	751		274	5,859
Employees at the end of year	4,783	730		290	5,803

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

Airline Business sales are recognised as revenue when the flight is flown in accordance with the flight traffic program. Unused tickets are recognised as revenue when the ticket expires and Finnair has no obligation to return the consideration to customer.

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

Sale of goods in aircraft (Travel Retail) is recognised as revenue when the goods are delivered to the customer. Aircraft maintenance services are after restructurings sold only in small extent to external customers. The related revenue is recognised when the service has been completely performed.

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**

### **i** Finnair Plus Customer Loyalty Program

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

## 2.2.1 Revenue by currency

EUR mill.	2014	2013
EUR	1,313.2	1,389.7
JPY	211.6	230.4
CNY	152.1	135.3
SEK	106.2	115.0
USD	64.1	83.4
Other currencies	437.3	446.6
<b>Total</b>	<b>2,284.5</b>	<b>2,400.3</b>

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

## 2.2.2 Other operating income

EUR mill.	2014	2013
Rental income	11.7	10.6
Other income	6.6	8.2
<b>Total</b>	<b>18.3</b>	<b>18.8</b>

## 2.2.3 Trade and other receivables

EUR mill.	2014	2013
Trade receivables	108.6	123.2
Prepaid expenses, accrued income and other receivables total	85.4	113.9
Accrued income	33.0	12.0
Lease accruals	7.2	10.0
VAT receivables	6.1	0.5
Interest and other financial items	3.0	9.8
Other items	36.2	81.6
<b>Total</b>	<b>194.0</b>	<b>237.1</b>

The fair value of trade receivables do not materially differ from balance sheet value.

Aging analysis of trade receivables	2014	2013
Not overdue	96.2	112.6
Overdue less than 60 days	3.5	5.1
Overdue more than 60 days	8.9	5.5
<b>Total</b>	<b>108.6</b>	<b>123.2</b>

**i** = Content of the section

**A** = Accounting principles

**i** = Critical accounting estimates

At the end of 2014 Finnair wrote down 11.3 million euros of receivables related to restructuring need of Flybe Finland Oy. Flybe Finland Oy belongs to Flybe Nordic Group which is a joint venture of Finnair. More information about the issue can be found in notes 1.6 Investments in associates and joint ventures and 6.2 Related party transactions. In addition, the Group has recognised 1.1 million euros (0.8) of other credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security.

#### Trade receivables by currency

EUR mill.	2014	2013
EUR	72.1	60.6
USD	3.2	15.8
JPY	4.0	8.3
CNY	5.8	5.5
SEK	3.2	5.1
Other currencies	20.4	27.8
<b>Total</b>	<b>108.6</b>	<b>123.2</b>

#### 2.2.4 Deferred income

EUR mill.	2014	2013
Unflown air transport revenues	252.3	255.6
Advances received for tour operations	27.1	32.7
Loyalty program Finnair Plus	29.6	32.2
Other deferred income	18.9	20.3
<b>Total</b>	<b>327.9</b>	<b>340.8</b>

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

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

### 3 Operating expenses

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

#### 3.1 Operational expenses by currency

EUR mill.	2014	2013
EUR	1,219.2	1,283.2
USD	954.7	983.9
JPY	29.6	31.6
SEK	19.9	13.2
CNY	17.8	15.9
Other currencies	98.0	79.5
<b>Total</b>	<b>2,339.2</b>	<b>2,407.2</b>

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

#### 3.2 Leasing expenses

EUR mill.	2014	2013
Lease payments for aircraft	78.8	57.5
Rental of cargo capacity	25.2	18.7
Other rental of flight capacity	96.7	93.2
Office and other rents	37.8	40.1
<b>Total</b>	<b>238.4</b>	<b>209.5</b>

Lease payments for aircraft have increased mainly because of the sale and leaseback of previously owned A330 aircraft and new lease agreements related to Airbus A321 Sharklet aircraft. On the other hand, increase has been netted by the termination of the last Boeing 757 aircraft leases at the beginning of financial year 2014.

### 3.3 Other expenses

EUR mill.	2014	2013
IT expenses and booking fees	82.1	82.3
Other items	135.3	135.8
<b>Total</b>	<b>217.4</b>	<b>218.1</b>

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

#### Audit fees in other expenses

EUR mill.	2014	2013
PricewaterhouseCoopers Oy		
Auditor's fees	0.2	0.2
Tax advising	0.1	0.1
Other fees	0.2	0.1
<b>Total</b>	<b>0.4</b>	<b>0.4</b>

### 3.4 Other expenses related accruals

EUR mill.	2014	2013
Jet fuels and traffic charges	79.1	78.3
Aircraft materials and overhaul	6.8	11.9
Expenses for tour operations	6.6	10.3
Other items	44.6	68.6
<b>Total</b>	<b>137.1</b>	<b>169.0</b>

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

### 3.5 Inventories

#### A Inventories

The Group's inventories include the aircraft spare parts and work in progress related to overhaul of aircraft. Inventories are carried at the lower of acquisition cost and net realisable value. Inventory valuation is based on the average cost method. [A](#)

EUR mill.	2013	2013
Materials and supplies	14.7	19.8
Work in progress	0.1	0.1
<b>Total</b>	<b>14.7</b>	<b>19.9</b>

In 2014, the cost of inventories recognised as aircraft materials expenses was 12.9 million euros (33.6) including write-down of inventories 2.2 million euros (0.1). Inventories transferred to assets held for sale were 0.8 million euros (1.3).

### 3.6 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 performance 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	Other provisions	2014	Aircraft maintenance provision	Other provisions	2013
Provision at the beginning of period	92.4	17.4	<b>109.8</b>	109.7	10.8	<b>120.5</b>
Provision for the period	25.5	20.3	<b>45.8</b>	20.2	17.4	<b>37.6</b>
Provision used	-44.2	-23.9	<b>-68.1</b>	-33.1	-10.8	<b>-43.9</b>
Exchange rate differences	8.8		<b>8.8</b>	-4.5		<b>-4.5</b>
<b>Total</b>	<b>82.5</b>	<b>13.8</b>	<b>96.3</b>	<b>92.4</b>	<b>17.4</b>	<b>109.8</b>
Of which non-current	52.1		<b>52.1</b>	69.3		<b>69.3</b>
Of which current	30.4	13.8	<b>44.2</b>	23.1	17.4	<b>40.5</b>
<b>Total</b>	<b>82.5</b>	<b>13.8</b>	<b>96.3</b>	<b>92.4</b>	<b>17.4</b>	<b>109.8</b>

Non-current aircraft maintenance provisions are expected to be used by 2020.

Other provisions include items related to group's restructurings.

### 3.7 Items excluded from operational result

Operational result does not include non-recurring items and other items affecting comparability. Non-recurring items include sales gains and losses of fixed assets, businesses and subsidiaries and personnel related and other restructuring expenses. 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.	2014	2013
Fair value changes of derivatives	-34.9	17.2
Fair value changes of foreign currency denominated fleet maintenance reserves	-8.8	4.5
Non-recurring items	7.7	-25.7
<b>Total</b>	<b>-36.0</b>	<b>-4.0</b>

[A](#) = Accounting principles

### 3.8 Employee benefits

#### 3.8.1 Employee benefit expenses and share-based payments

##### **A** Share-based payments

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

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

##### Termination benefits

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

For accounting principles related to **Pensions**, see note 3.8.2 for more information **A**

##### Staff costs

EUR mill.	2014	2013
Wages and salaries	275.3	304.4
Pension expenses	54.6	58.6
Defined contribution plans	44.3	51.1
Defined benefit plans	10.3	7.5
Other social expenses	14.6	20.9
Production for own use, salaries capitalized as tangible assets	0.0	-2.5
<b>Total</b>	<b>344.5</b>	<b>381.3</b>
Staff costs included in non-recurring items	7.0	17.9
<b>Total staff costs in income statement</b>	<b>351.5</b>	<b>399.3</b>

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 2014 were 4.6 million euros (5.1). In addition to staff costs, non-recurring items include personnel related restructuring costs of 7.0 million euros (17.9) as agreed in the Group's statutory employer-employee negotiations. Including non-recurring items, total staff costs amounted to 351.5 million euros (399.3).

**A** = Accounting principles

##### 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 and 2014 profits were not allocated to the fund, because the set performance criteria were not met.

##### Employee benefit related accruals

EUR mill.	2014	2013
Holiday payments	61.5	66.4
Other employee related accrued expenses	18.2	28.3
<b>Employee benefit related accruals total</b>	<b>79.7</b>	<b>94.7</b>

Other employee related accrued expenses mainly include withholding tax and accrued expenses related to social security costs. In addition, restructuring provisions included in the current provisions amounted to 8.7 million euros (15.7).

##### Management remuneration

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

Thousand euros	President and CEO Pekka Vauramo	Executive Board	Total 2014	President and CEO Pekka Vauramo	Deputy CEO Ville Iho	President and CEO Mika Vehviläinen***	Executive Board****	Total 2013
Fixed pay	639	1,614	<b>2,253</b>	361	225	178	1,620	<b>2,384</b>
Short-term incentives*	194	260	<b>454</b>	64	30	0	180	<b>274</b>
Fringe benefits	4	66	<b>70</b>	0	13	7	60	<b>80</b>
Termination benefits	0	392	<b>392</b>	0	0	0	502	<b>502</b>
Share-based payments	46	120	<b>166</b>	0	33	4	206	<b>242</b>
Pensions (statutory)**	134	322	<b>456</b>	62	49	48	340	<b>499</b>
Pensions (voluntary defined benefit)	0	0	<b>0</b>	0	0	0	53	<b>53</b>
Pensions (voluntary defined contribution)	0	122	<b>122</b>	0	22	-245	95	<b>-128</b>
<b>Total</b>	<b>1,016</b>	<b>2,897</b>	<b>3,913</b>	<b>487</b>	<b>371</b>	<b>-9</b>	<b>3,057</b>	<b>3,907</b>

\* Short-term incentives for the financial year 2014 are estimates as at the balance sheet date the final review of targets has not been done. Short-term incentives for 2013 realized 10 thousand euros bigger than expected in 2013 financial statements. The difference has been reported, according to accrual basis, in 2014.

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

\*\*\* Due to resignation of CEO Vehviläinen in 2013, his voluntary defined contribution pension plan was cancelled and payments of 245 thousand euros were returned to Finnair in 2014. This has been reported as decrease in compensation for 2013.

\*\*\*\* Deputy CEO Ville Iho's remuneration for 2013 is not included in Executive Board 2013 figures. His salary and remuneration is presented separately for the whole year of 2013.

Management remuneration is presented on an accrual basis. Share-based payments in 2014 and 2013 include compensations related to Finnair Plc's share-based bonus scheme 2010-2012. The shares earned were delivered and cash-based compensation 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. In addition 2014 share-based payments include accrued expenses related to 2013-2015 and 2014-2016 LTI plans. Management has not been provided any other long-term incentives in addition to share-based payments.

The retirement age of the CEO is determined by the statutory retirement age prevailing at the time of retirement. Currently this is 63 years of age. The voluntary pension benefits of Executive Board members have been arranged through Finnish pension insurance company, and the retirement age is 63. All voluntary pension plans provided for Executive Board members are defined contribution plans, and new executive service contracts do not include any voluntary pension benefits. Defined benefit plans for previous members of Executive Board ceased during 2014.

More information on share-based payment plans can be found below in this note and in a separate Remuneration statement, which also provides additional information on management cash-based remuneration.

#### The Board of Directors remuneration

Compensation paid for board service, EUR	Total 2014	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2013
Board of Directors total	358,227	243,600	92,400	22,227	382,410
Friman Maija-Liisa	47,266	30,000	7,800	9,466	
Heinemann Klaus	72,000	61,200	10,800	0	
Itävuori Jussi	60,361	30,000	24,000	6,361	
Kerminen Harri	43,466	32,400	9,600	1,466	
Kronman Gunvor	40,138	30,000	6,600	3,538	
Tuominen Jaana, from 27 March 2014 onwards	27,300	22,500	4,800	0	
Turner Nigel, from 27 March 2014 onwards	50,295	22,500	26,400	1,395	
Karhapää Merja, until 27 March 2014	9,300	7,500	1,800	0	
Kuosmanen Antti, until 27 March 2014	8,100	7,500	600	0	

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

#### Share-based payments

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

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

Finnair's share based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement. Each share based incentive arrangement is divided into four-six-year share plan, and the commencement of each new plan is subject to a separate decision by Finnair's Board of Directors. The first plan commenced in 2013, and at the end of 2014 there are two plans ongoing (2013-2015 and 2014-2016). The purpose of the LTI plan is to encourage the management to

work to increase long-term shareholder value. The plan is in line with the statement by the Finnish Cabinet Committee on Economic Policy regarding the remuneration of executive management and key individuals.

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

The potential reward will be delivered in Finnair shares. The share delivery is split into three share tranches (50-30-20%) that will be delivered to the Executive Board members during the three years following the performance period. For other participants the shares are delivered at 50% tranches during the two following years after performance period. As Finnair has adopted 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. During 2013 and 2014 no shares will be delivered to key personnel.

If the performance criteria set are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board will be 30% of his/her annual base salary and if criteria 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% and maximum level 40-50% of the person's average annual base salary according to the job grade.

According to the rules of the LTI, the maximum value of shares delivered to an individual participant in any given year may not exceed 60% of the person's annual base salary. The amounts of shares paid are stated before tax. The number of shares delivered will be deducted by 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 performance criteria applied in 2014-2016 plan are Finnair's return on capital employed (ROCE, weight 50%) and total shareholder return (TSR). 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.

The total expense for the LTI is recognised over the vesting period (4-6 years). The compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. Therefore the whole cost effect is recognised as debt until the end of performance period (grant date), and the debt is divided into equity settled and cash settled part only at grant date, and the equity settled part is recognised in equity. The expense recognised for 2014 amounted to 0.4 million euros. In 2013 LTI's did not cause any financial effects as the performance criteria were not met.

	2013-2015	2014-2016	Total
Maximum earning, million euros	3.9	2.7	6.6
Maximum earning, million shares (with 30 Dec 2014 share price)	1.6	1.1	2.7
Target earning, million euros	1.9	1.4	3.3
Target earning, million shares (with 30 Dec 2014 share price)	0.8	0.6	1.3
Expenses recognised for the financial year, LTI's total (million euros)	0.3	0.0	0.4
of which equity settled (recognised as debt until grant date)	0.2	0.0	0.2
of which cash settled	0.2	0.0	0.2
Liability related to LTI's at the closing date	0.3	0.0	0.4
Shares granted	0.0	0.0	0.0



#### FlyShare employee share savings plan from 2013 onwards

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

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 8,000 euros per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair's interim reports.

Finnair awards each participating employee with one share for each two shares purchased and held at the end of two-year period. The awarded additional shares are taxable income for the recipient. The award shares from first savings period of 2013–2014 are delivered in February 2016 and from second savings period 2014–2015 in February 2017. The cost related to awarded shares delivered is recognised as expense during vesting period. In addition, Finnair awards 20 bonus shares to each employee that participates in the plan for the first time, and continues savings at least the first three months of the plan. The bonus shares are delivered in October each year, and the effect is recognised as expense for that period.

Total savings for all the plans ongoing cannot exceed 4.0 million euros, which calculated with the closing share price of 30.12.2014 (2.48 euros per share) would correspond approximately 1.6 million shares.

#### Effect of FlyShare share savings plan on Group's results and financial position, thousand euros

	2014	2013
Total income statement effect of FlyShare	370	76
Share-based payments, share-settled	191	69
Liability related to share-based payments at the closing date	179	7

#### Share-based performance plan for pilots

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

The plan is considered as cash-settled share-based arrangement. The cost effects are accrued over the vesting period from grant date onwards (2014–2018), and the corresponding liability is fair valued at each reporting date. The 2014 closing rate of Finnair's share (2.48 euros) was below minimum requirement level (4 euros), and therefore the plan did not have any effects to Finnair's income statement nor balance sheet.

#### 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 paid on the corresponding relation to the value of the shares acquired by the key individual as he/she had fulfilled the set targets. This bonus was supplemented by a cash sum, which in most cases corresponded 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 acquired shares, taken into account that it could be at most half of the key individual's share bonus allocation, i.e. the number of shares that the key individual could at most receive as a share bonus for the year in question. The size of the cash bonus was 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. In 2014, approximately 34,000 of these previously delivered shares were returned back to Finnair and their value amounted to approximately 86,000 euros.

The income statement effect related to the plan has been accrued to vesting period 2010–2015 based on the applied IFRS 2 standard. The effect on 2014 results totalled 0.2 million euros (0.9).



### 3.8.2 Pensions

#### **A** Defined benefit and defined contribution plans

Pension plans are classified as defined benefit and defined contribution plans. Payments made into defined contribution pension plans are recognised in the income statement in the period to which the payment applies. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year and it is recognised as 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 a description of exposure to most significant risks and a sensitivity analysis on impacts of changes in actuarial assumptions. **!**

#### Description of pension plans in Finnair

The statutory pension 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 defined contribution pension plans of five Executive Board members in 2014 are arranged in a pension insurance company and the retirement age under these agreements is 63 years. The defined benefit plan for two former Executive Board members have been terminated in 2014. Other (voluntary) pension plans of the Group's domestic companies have been arranged in Finnair Plc's Pension Fund, in which the pension plans are defined benefit plans. These pension plans cover old age pensions, disability and survivors' pensions. The benefits are mainly provided for pilots and cabin crew and the pension fund is closed for other personnel than pilots. The pension fund is fully funded in accordance with the provisions of Finnish law.

#### Exposure to most significant risks

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

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

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

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

**A** = Accounting principles

**!** = Critical accounting estimates

#### Defined benefit pension plans

EUR mill.	2014	2013
<b>Items recognised in the income statement</b>		
Current service costs	8.8	8.0
Past service cost	1.7	-0.4
Settlements and curtailments	-0.2	0.0
<b>Service cost total</b>	<b>10.3</b>	<b>7.6</b>
Net interest expenses	0.3	-0.1
<b>Included in personnel expenses total</b>	<b>10.7</b>	<b>7.5</b>
<b>Amounts recognised through other comprehensive income</b>		
Experience adjustment on plan obligation	-24.4	16.5
Changes in financial actuarial assumptions	50.5	0.2
Changes in demographical actuarial assumptions	0.0	-0.8
Net return on plan assets	-22.0	-16.3
<b>Amounts recognised through other comprehensive income total</b>	<b>4.1</b>	<b>-0.4</b>
<b>Items recognised in the balance sheet</b>		
Number of persons involved, pension fund	4,502	5,048
Management pension (defined benefit), persons involved	0	2

#### Items recognised in the balance sheet

EUR mill.	2014	2013
Present value of funded obligations	<b>436.0</b>	406.9
Fair value of plan assets	<b>-410.7</b>	-396.3
<b>Net defined benefit liability</b>	<b>25.3</b>	<b>10.6</b>

The net defined benefit liability in 2014 includes 25.3 million euros (10.5) related to defined benefit plans insured through pension fund and 0.0 million euros (0.1) related to defined benefit plans of management. The pension liability increased in 2014 due to a decrease in discount rate from 3.25 % to 2.1%. This increase was partially mitigated by a decrease in the annual rate of future salary increases from 3 % to 2.1%, changes in the pool of pension eligibility and investment returns.

Plan assets of the pension fund include Finnair Plc shares with a fair value of 0.3 million euros (0.4) and buildings used by the Group with a fair value of 3.3 million euros (36.2).

## Changes in pension obligations

EUR mill.	2014	2013
Net present value of pension obligations at 1 January	406.9	392.5
Current service cost	8.8	8.0
Past service cost	1.7	-0.4
Settlements and curtailments	0.3	0.0
Interest expense	12.9	12.4
<b>Expenses recognised in income statement</b>	<b>23.7</b>	<b>19.9</b>
Changes in actuarial assumptions	50.5	-0.6
Experience adjustment on plan obligation	-24.4	16.5
<b>Remeasurements recognised through OCI</b>	<b>26.1</b>	<b>15.9</b>
Benefits paid	-20.7	-21.5
<b>Net present value of pension obligations</b>	<b>436.0</b>	<b>406.9</b>

## Changes in plan assets

EUR mill.	2014	2013
Fair value of plan assets at 1 January	396.3	388.8
Interest income	12.6	12.5
Settlements and curtailments	0.5	0.0
<b>Items recognised through profit and loss</b>	<b>13.1</b>	<b>12.5</b>
Actuarial gain (loss) on plan assets	22.0	16.3
<b>Items recognised through OCI</b>	<b>22.0</b>	<b>16.3</b>
Contributions paid	0.0	0.2
Benefits paid	-20.7	-21.5
<b>Fair value of plan assets at 31 December</b>	<b>410.7</b>	<b>396.3</b>

## Plan assets are comprised as follows

%	2014	2013
Listed shares	19.5	22.0
Debt instruments	53.4	50.0
Property	18.8	17.0
Other	8.3	11.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Defined benefit plans: principal actuarial assumptions

	2014	2013
Discount rate	2.10%	3.25%
Inflation	2.00%	2.00%
Annual rate of future salary increases	2.10%	3.00%
Future pension increases	2.10%	2.10%
Estimated remaining years of service	11	13

## 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 the one applied when measuring the defined benefit obligation recognised in balance sheet.

## Defined benefit plans: principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate	0.25%	-15.3	-3.51	16.2	3.72
Annual rate of future salary increases	0.25%	4.5	1.03	-4.5	1.02
Future pension increases	0.25%	11.5	2.64	-11.2	-2.58
Life expectancy at birth	1 year	13.3	3.05	-12.9	-2.96

According to Finnish legislation, pension fund needs to be fully funded. Expected contribution payments for the next five years are approximately 37 million euros. The amount of payments depends on future returns on plan assets.

The duration of defined benefit obligation is 14.89 years. The duration is calculated with discount rate 2.10%.

## 4 Aircraft and other intangible and tangible assets and leasing arrangements

**i** Aircraft and other intangible and tangible assets and leasing arrangements include notes particularly related to aircraft fleet. Notes related to the aircraft operated by the Group, both owned and leased aircraft under different kinds 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 is recognised, when Finnair acquires subsidiary and the acquisition cost exceeds the Group's share of identified fair value of net assets, is recognised as goodwill. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and allocated to cash-generating units for the purpose of impairment testing. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

#### 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 longer than one year. Acquired user rights and licenses are recorded as computer software at the acquisition cost, including the costs of making the license and software ready for use. Maintenance 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**

### Intangible assets 2014

EUR mill.	Goodwill	Other intangible assets	Total
Acquisition cost 1 Jan 2014	1.2	94.2	95.5
Additions		4.3	4.3
Disposals		-3.3	-3.3
Reclassifications		0.7	0.7
Transfer to assets held for sale		-0.2	-0.2
<b>Acquisition cost 31 Dec 2014</b>	<b>1.2</b>	<b>95.8</b>	<b>97.0</b>
Accumulated depreciation and impairment 1 Jan 2014	0.0	-76.2	-76.2
Disposals		3.3	3.3
Depreciation for the financial year		-5.7	-5.7
<b>Accumulated depreciation and impairment 31 Dec 2014</b>	<b>0.0</b>	<b>-78.6</b>	<b>-78.6</b>
<b>Book value 31 Dec 2014</b>	<b>1.2</b>	<b>17.1</b>	<b>18.4</b>

### Intangible assets 2013

EUR mill.	Goodwill	Other intangible assets	Total
Acquisition cost 1 Jan 2013	1.2	97.6	98.8
Additions		1.5	1.5
Disposals		-5.3	-5.3
Reclassifications		0.5	0.5
<b>Acquisition cost 31 Dec 2013</b>	<b>1.2</b>	<b>94.2</b>	<b>95.5</b>
Accumulated depreciation and impairment 1 Jan 2013	0.0	-73.4	-73.4
Disposals		5.3	5.3
Depreciation for the financial year		-8.1	-8.1
<b>Accumulated depreciation and impairment 31 Dec 2013</b>	<b>0.0</b>	<b>-76.2</b>	<b>-76.2</b>
<b>Book value 31 Dec 2013</b>	<b>1.2</b>	<b>18.0</b>	<b>19.3</b>

0.5 million euros of the goodwill is included in Airline Business segment and 0.7 million euros in Travel Services segment. The recoverable cash flows 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 cash flows are extrapolated by using 2% growth factor. Based on testing there are no indications of need for impairment.

**i** = Content of the section

**A** = Accounting principles

## 4.2 Tangible assets

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

Advance payments for aircraft are recognised as tangible assets. Interest costs related to advance payments are capitalised as acquisition cost for the period at which Finnair is financing the manufacturing of the aircraft. Advance payments and capitalised interests are recognised as part of the aircraft acquisition cost once the aircraft is delivered and taken into commercial use.

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

- 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%
  - Airbus A340 fleet, 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 frame and performance maintenance and life limited parts of the engines, on a straight-line basis during the maintenance period
- Rotable items, over 15-20 years to a residual value of 10%
- Buildings, over 50 years from the time of acquisition to a residual value of 10% or 3-7% of the diminishing balances
- Other tangible assets, 23% of the diminishing balances

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.

Gains and losses on disposal of tangible assets is included in the non-recurring items.

**Accounting principles** regarding the aircraft overhauls have **changed** from the beginning of the financial period 2014. According to changed principle, the engine performance restoration and maintenance of life-limited parts are considered as fixed assets and capitalised at maintenance event. Previously only heavy maintenance of aircraft frame was capitalised and other overhauls were expensed as they occurred. Financial data from the comparison year has been restated to correspond to the current accounting practices.

### 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 carrying amount is greater than the recoverable amount.

The recoverable amount is defined for cash generating unit, and need for impairment is evaluated on the cash generating unit level. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. The value in use is based on the expected discounted future net cash flows obtainable from the asset or cash-generating unit. 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 either on the value in-use or on the sale price less the expenses of the sale. The preparation of these calculations requires the use of estimates. Estimates are based on budgets and forecasts, which inherently contain some degree of uncertainty. The main uncertainty factors in calculations are the USD/EUR and JPY/EUR exchange rates, unit revenue, estimated sales volumes and jet fuel price. **!**

**A** = Accounting principles

**!** = Critical accounting estimates

## Tangible assets 2014

EUR mill.	Land	Buildings	Aircraft	Other equipment	Advances paid	Total
Acquisition cost 1 Jan 2014	0.7	148.1	2,052.2	75.7	66.0	2342.7
Additions			56.2	1.0	86.3	143.4
Disposals			-361.3	-5.5		-366.8
Currency hedging of aircraft acquisitions					-64.1	-64.1
Reclassifications			19.7	1.2	-21.8	-0.9
Transfer to assets held for sale		-10.3	-146.6			-156.9
<b>Acquisition cost 31 Dec 2014</b>	<b>0.7</b>	<b>137.8</b>	<b>1,620.2</b>	<b>72.4</b>	<b>66.4</b>	<b>1,897.5</b>
Accumulated depreciation and impairment 1 Jan 2014		-112.3	-888.0	-49.8		-1,050.1
Disposals			132.9	5.4		138.3
Depreciation for the financial year		-1.2	-123.2	-4.1		-128.6
Depreciation in non-recurring items			-1.2	-0.2		-1.4
Transfer to assets held for sale		5.2	37.0			42.1
<b>Accumulated depreciation and impairment 31 Dec 2014</b>		<b>-108.4</b>	<b>-842.6</b>	<b>-48.8</b>		<b>-999.7</b>
<b>Book value 31 Dec 2014</b>	<b>0.7</b>	<b>29.4</b>	<b>777.6</b>	<b>23.6</b>	<b>66.4</b>	<b>897.8</b>

## Tangible assets 2013

EUR mill.	Land	Buildings	Aircraft	Other equipment	Advances paid	Total
Acquisition cost 1 Jan 2013	0.7	148.0	1,987.3	84.3	32.7	2,253.0
Change in accounting principles			35.3			35.3
Additions		0.1	33.5	2.2	26.7	62.5
Disposals			-1.8	-12.7		-14.5
Currency hedging of aircraft acquisitions					11.2	11.2
Reclassifications			3.4	1.9	-4.7	0.6
Transfer to assets held for sale			-5.6			-5.6
<b>Acquisition cost 31 Dec 2013</b>	<b>0.7</b>	<b>148.1</b>	<b>2,052.2</b>	<b>75.7</b>	<b>66.0</b>	<b>2,342.7</b>
Accumulated depreciation and impairment 1 Jan 2013		-110.5	-729.7	-50.2		-890.4
Change in accounting principles			-33.9			-33.9
Disposals			1.7	6.3		8.0
Depreciation for the financial year		-1.8	-126.1	-4.7		-132.6
Depreciation in non-recurring items				-1.2		-1.2
<b>Accumulated depreciation and impairment 31 Dec 2013</b>		<b>-112.3</b>	<b>-888.0</b>	<b>-49.8</b>		<b>-1050.1</b>
<b>Book value 31 Dec 2013</b>	<b>0.7</b>	<b>35.8</b>	<b>1,164.2</b>	<b>25.9</b>	<b>66.0</b>	<b>1,292.6</b>

Due to the change in accounting principles, the acquisition cost of aircraft in 2013 has been restated to include 35.3 million euros of capitalised engine maintenance costs. Correspondingly, accumulated depreciation has increased by 33.9 million euros and depreciation for the financial year by 18.6 million euros. More information in note 6.5 Change in accounting principles. In 2014, the carrying amount of aircraft have decreased due to the sale and leaseback of A330 aircraft as well as E190 and ATR72 aircraft transferred to assets held for sale. E190 and ATR72 aircraft are expected to be sold in the beginning of 2015.

The value of aircraft that have been pledged as a security for external loans amounts to 314.8 million euros (599.7).

### Capitalised borrowing costs

In 2014, borrowing costs of 1.9 million euros were capitalised as advances paid in tangible assets related to the Airbus A350 investment program. The interest rate used was 5.0%, which represents the costs of the loan used to finance the investment.

### Impairment test

The impairment test for aircraft has been prepared based on the fair value and value-in-use at 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 and the Groups' own assumptions. These calculations use pre-tax cash flow projections based on management's best estimate of financial profit and financial budgets covering year 2015. The forecast for the years 2016–2020 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 aircraft in 2020. The fair values of aircraft are based on bulletins of two independent aircraft valuers.

The key assumptions used for value-in-use calculations are as follows: WACC pretax 8.0%, EUR/USD 1.24 and inflation 1.0%.

	2015	2016	2017
Fuel, USD/ton	720	720	720
RASK change, %	1.0%	1.0%	1.0%

The value-in-use calculation is sensitive to all key assumptions. The most sensitive are RASK (revenue per available seat kilometer), the fuel price and exchange rate EUR/USD. The decrease of RASK by 2 per cent or fuel price increase by 6 per cent during the period under review will decrease the recoverable amount to equal the carrying amount for the asset. Strengthening of the USD by 4 per cent would increase the euro equivalent of the current market values of the aircraft above the carrying value. The decrease of yen by 23 per cent in the whole period under review will decrease the recoverable amount so that is equal to carrying amount for the asset.

### Investment commitments

At the end of financial year investment commitments totalled 1.950 million euros (974) 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.	2014	2013
Buildings	1.2	1.8
Aircraft	123.2	126.1
Other equipment	4.1	4.7
<b>Depreciation of tangible assets</b>	<b>128.6</b>	<b>132.6</b>
Depreciation of intangible assets	5.7	8.1
<b>Total</b>	<b>134.3</b>	<b>140.7</b>

Non-recurring items include depreciation of aircraft 1.2 million euros (0.0) and other equipment 0.2 million euros (1.2). The depreciation for the financial year 2013 has increased by 18.6 million euros due to a change in accounting principles related to engine maintenance.

## 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 asset 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 recognised in income statement as other operating income over the lease term and the rents for aircraft as revenue.

### 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 treated as a financial lease otherwise as other lease. **!**

**A** = Accounting principles

**!** = Critical accounting estimates

## Finance lease arrangements

EUR mill.	Buildings	Aircraft	Other equipment	Total
Acquisition cost	4.2	197.2	8.4	209.8
Accumulated depreciation	-0.4	-57.9	-4.1	-62.5
<b>Book value 31 Dec 2014</b>	<b>3.7</b>	<b>139.3</b>	<b>4.3</b>	<b>147.3</b>
Acquisition cost	6.5	197.2	22.8	226.6
Accumulated depreciation	-2.4	-45.8	-18.3	-66.5
<b>Book value 31 Dec 2013</b>	<b>4.0</b>	<b>151.4</b>	<b>4.6</b>	<b>160.0</b>

Assets acquired under finance leases are included in tangible assets. Accumulated depreciation has increased by 5.7 million euros during the financial period 2013, due to a change in accounting principles related to engine maintenance. More information can be found in notes 4.2 Tangible assets and 6.5 Change in accounting principles.

## Finance lease liabilities

EUR mill.	Minimum lease payments		Future financial expenses		Present value of minimum lease payment	
	2014	2013	2014	2013	2014	2013
less than a year	17.5	19.8	2.1	2.9	15.4	16.9
1-5 years	70.3	79.8	6.0	9.0	64.3	70.8
more than 5 years	49.5	75.1	8.3	10.8	41.2	64.3
<b>Total</b>	<b>137.4</b>	<b>174.8</b>	<b>16.4</b>	<b>22.8</b>	<b>121.0</b>	<b>152.0</b>

## Other lease arrangements

### Minimum lease payments for irrevocable lease agreements, the Group as the lessee

EUR mill.	Aircraft		Premises		Other equipment	
	2014	2013	2014	2013	2014	2013
less than a year	89.5	53.6	20.2	19.1	6.3	6.8
1-2 years	75.9	45.9	19.4	18.3	1.7	5.7
2-3 years	64.6	35.1	19.1	17.8	0.8	1.2
3-4 years	57.4	24.9	18.7	17.8	0.2	0.4
4-5 years	55.7	19.2	18.2	17.6	0.0	0.0
more than 5 years	292.7	80.5	141.8	140.0	0.0	0.0
<b>Total</b>	<b>635.8</b>	<b>259.2</b>	<b>237.5</b>	<b>230.7</b>	<b>8.9</b>	<b>14.1</b>

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 28 aircraft on leases of different lengths. Rental payments of aircraft have increased mainly because of the new Airbus A321 Sharklet aircraft and the sales and leaseback of A330 aircraft.

### Minimum lease payments for irrevocable lease agreements, the Group as lessor

EUR mill.	Aircraft		Premises	
	2014	2013	2014	2013
less than a year	52.5	57.8	5.2	3.5
1-2 years	41.9	56.7	5.4	3.4
2-3 years	33.1	46.1	5.5	3.3
3-4 years	8.6	37.3	5.5	3.3
4-5 years	3.7	12.8	5.5	3.3
more than 5 years	0.2	8.4	43.6	36.4
<b>Total</b>	<b>140.0</b>	<b>219.1</b>	<b>70.8</b>	<b>53.2</b>

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 30 aircraft on leases of different lengths. Irrevocable aircraft lease agreements have decreased due to terminating lease agreements of aircraft sold during 2014.

## 5 Capital structure and financing costs

### 5.1 Financial income and expenses

**i** The notes related to financial assets and liabilities and equity have been gathered into capital structure and financing costs section to give a better overall view of the Group's financial position. Earnings per share note has been added into equity section. **i**

#### **A** Interest income and expenses

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

More detailed information about financial assets in note 5.2 and about interest bearing liabilities in note 5.3.

#### **Dividend income**

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

EUR mill.	2014	2013
Interest income from financial assets classified as held for trading	2.6	2.6
Other interest income	0.0	1.7
Dividend income	0.0	0.1
Other financial income	0.9	36.7
<b>Financial income total</b>	<b>3.5</b>	<b>41.1</b>
Interest expenses for financial liabilities measured at amortised acquisition cost	-9.0	-11.7
Interest on finance leases	-2.5	-2.5
Exchange gains and losses	-0.6	-1.2
Other financial expenses	-14.8	-2.8
Interest rate swaps, fair value hedges	5.8	1.2
Fair value adjustment to bond book value attributable to interest rate risk	-5.8	-1.2
<b>Financial expenses total</b>	<b>-26.9</b>	<b>-18.2</b>
<b>Financial expenses, net</b>	<b>-23.4</b>	<b>22.9</b>

Effectiveness testing of the Group's hedge accounting found that both cash flow and fair value hedging are efficient. Thus, as in the comparison year 2013, no inefficiency is included in financial items for 2014. Financial income includes an identical amount of profits and losses for fair value hedging instruments and for hedging items resulting from the hedged risk.

During year 2014 1.9 million euros (0.0) of interest have been capitalised regarding the A350 investment program. Other financial expenses in 2014 include a write down of 10.8 million euros subordinated loan (including interests) given to Flybe Nordic Group. Other financial income include capital gain on the sale of Norwegian Air Shuttle ASA's shares 34 million euros in year 2013. More information about Flybe Nordic can be found in notes 1.6 Investments in associates and joint ventures and 6.2 Related party transactions, and about capitalised interest in note 4.2 Tangible assets.

**i** = Content of the section

**A** = Accounting principles

## 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 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.

The financial asset category recognised at fair value through profit and loss includes 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 fulfil the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are measured in each financial statement 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. 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 not belonging to derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are measured at amortised cost and they are included in long-term 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 in connection with a sale.

Unquoted shares are measured in the Finnair Group at their acquisition price in the absence of a reliable fair value.

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.

#### **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 group reduces the carrying amount to its recoverable amount. Recoverable amount is the estimated future cash flow discounted at the original effective interest of the instrument. The recoverable amount continues unwinding the discount 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 on the closing date. **A**

### 5.2.1 Non-current loan and other receivables

EUR mill.	2014	2013
Loan receivables	0.3	10.2
Other receivables	8.9	10.3
<b>Total</b>	<b>9.2</b>	<b>20.5</b>

Loan receivables have decreased by 9.9 million euros due to write-down of subordinated loan receivable from Finnair's joint venture Flybe Nordic Group. For more information, see notes 1.6 Investments in associates and joint ventures and 6.2 Related party transactions.

Other receivables are mainly lease collateral for the operational lease agreements of aircraft. Balance sheet values correspond best to the sum which is the maximum amount of credit risk, excluding the fair value of guarantees, in the event that other contractual parties are not able to fulfil their obligations relating to financial instruments. There are no significant concentrations of credit risk relating to receivables. 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.	2014	2013
Commercial papers and certificates and bonds	287.9	255.4
Money market funds	35.5	35.0
Deposits, maturing in more than 3 months	9.4	45.1
Unlisted shares	0.0	0.4
<b>Total</b>	<b>332.8</b>	<b>335.9</b>
<b>Ratings of counterparties</b>		
Better than A	26.6	89.7
A	134.0	81.3
BBB	49.0	63.7
BB	10.0	10.0
Unrated	113.3	91.3
<b>Total</b>	<b>332.8</b>	<b>335.9</b>

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. Unlisted shares were transferred during financial year 2014 into group non-current loan and other receivables (note 5.2.1).

### 5.2.3 Cash and cash equivalents

EUR mill.	2014	2013
Cash and bank deposits	63.1	57.8
Deposits, maturing in less than 3 months	30.2	65.1
<b>Total</b>	<b>93.4</b>	<b>122.9</b>

Items include cash and bank deposits realised on demand. Foreign currency cash and bank deposits have been measured 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 measured 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 measured 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.	2014	2013
Bank loans	76.8	114.1
Bonds	155.3	150.6
Finance lease liabilities	105.6	120.8
<b>Interest-bearing liabilities total</b>	<b>337.7</b>	<b>385.5</b>
Non-interest-bearing liabilities	22.1	25.4
<b>Total</b>	<b>359.8</b>	<b>410.9</b>

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

### Current interest-bearing liabilities

EUR mill.	2014	2013
Bank loans	39.7	139.6
Commercial papers	28.0	44.5
Finance lease liabilities	15.4	14.8
Other loans	6.8	8.6
<b>Total</b>	<b>89.9</b>	<b>207.5</b>

A = Accounting principles



<b>Maturity dates of financial liabilities 31 Dec 2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Later</b>	<b>Total</b>
Bank loans, fixed interest	23.5	23.8	0.0	0.0	0.0	0.0	47.3
Bank loans, variable interest	16.2	15.2	12.7	10.3	14.8	0.0	69.2
Bonds	0.0	0.0	0.0	150.0	0.0	0.0	150.0
Commercial papers	28.0	0.0	0.0	0.0	0.0	0.0	28.0
Finance lease liabilities	15.4	15.3	15.9	16.4	16.7	41.2	121.0
Other loans	6.8	0.0	0.0	0.0	0.0	0.0	6.8
<b>Interest-bearing liabilities total</b>	<b>89.9</b>	<b>54.3</b>	<b>28.6</b>	<b>176.7</b>	<b>31.5</b>	<b>41.2</b>	<b>422.2</b>
Payments from currency derivatives	914.9	291.5	214.4	0.0	0.0	0.0	1,420.8
Income from currency derivatives	-1,010.4	-323.2	-247.1	0.0	0.0	0.0	-1,580.7
Commodity derivatives	152.2	38.2	0.0	0.0	0.0	0.0	190.4
Interest rate derivatives	2.5	0.0	0.6	-5.8	0.0	0.0	-2.7
Equity derivatives	0.0	0.0	0.0	0.0	-0.6	0.0	-0.6
Trade payables and other liabilities	600.8	0.0	0.0	0.0	0.0	0.0	600.8
Interest payments	9.4	6.8	6.1	6.1	0.1	0.0	28.5
<b>Total</b>	<b>759.4</b>	<b>67.5</b>	<b>2.7</b>	<b>176.9</b>	<b>31.0</b>	<b>41.2</b>	<b>1,078.7</b>

<b>Maturity dates of financial liabilities 31 Dec 2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Later</b>	<b>Total</b>
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, fixed interest	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
<b>Interest-bearing liabilities total</b>	<b>207.5</b>	<b>77.8</b>	<b>30.1</b>	<b>28.3</b>	<b>177.7</b>	<b>72.1</b>	<b>593.6</b>
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
<b>Total</b>	<b>908.9</b>	<b>81.4</b>	<b>37.4</b>	<b>34.3</b>	<b>182.6</b>	<b>72.1</b>	<b>1,316.7</b>

Part of the loans are secured by bank guarantees which are due earlier than underlining bank loans. Bank loan repayments include these loans 18 million euros in year 2015 and 19.5 million euros in year 2016. Bank loans include one long-term 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 fair value adjustment of 5.8 million euros and the amortised cost of 0.5 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.

The currency mix of interest-bearing long-term liabilities (including cross currency interest rate swaps) is as follows:

<b>EUR mill.</b>	<b>2014</b>	<b>2013</b>
EUR	407.3	564.6
USD	20.2	29.0
<b>Total</b>	<b>427.6</b>	<b>593.6</b>

Weighted average effective interest rate on interest-bearing long-term liabilities was 3.3% (3.1%).

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

	<b>2014</b>	<b>2013</b>
Up to 6 months	87.7%	64.2%
6-12 months	0.0%	0.0%
1-5 years	11.3%	35.0%
More than 5 years	1.0%	0.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

#### 5.4 Contingent liabilities

<b>EUR mill.</b>	<b>2014</b>	<b>2013</b>
Other pledges given on own behalf	181.1	503.7
Guarantees on behalf of group companies	72.8	67.6
Guarantees on behalf of others	2.2	2.3
<b>Total</b>	<b>256.1</b>	<b>573.5</b>

#### 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 over 60 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 Passenger traffic, which makes up 95 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, Finnair had hedged 75 per cent of its fuel purchases for the first six months of 2015 and 54 per cent for the second half of the year. In the financial year 2014, fuel used in flight operations accounted for somewhat over one fourth compared to the Group's revenue. At the end of the financial year, the forecast for 2015 is the same, somewhat over one fourth compared to the Group's revenue. 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 – increases annual fuel costs by an estimated 43 million euros. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers operating profit by around 16 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 revenue is denominated in euros. The most important foreign sales currencies are the Japanese yen (9%, percentage of revenue), the Chinese yuan (7%), the Swedish crown (5%) and the US dollar (3%). 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 utilizing 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 82 per cent in the USD-basket and 73 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 65,5 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 16,5 million euros. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 12 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 three months and for interest-bearing liabilities approximately three 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.

Lease agreements that will start in future expose the group to interest rate risk. Interest rate is one component of the lease price. Interest rate is locked when the lease payments start. The group is hedging this exposure with cash flow hedges.

#### **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-specific 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. Group's maximum exposure to credit risk is other financial assets presented at note 5.2.2, cash and cash equivalent presented in 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 426.1 million euros at the end of financial year 2014. Finnair Plc has a domestic commercial paper program of 200 million euros, of which 28 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 107.5 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 2014 was 107.5 per cent (79.2).

#### 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 26.7 million euros (40.5) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 26.7 million euros (40.5). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 53.2 million euros (42.6) and a 10 per cent stronger dollar would have had a positive impact of 53.2 million euros (42.6). If the underlying 10 year USD swaprate would be on 10 percent higher level the balance of the reserve would be 3.7 million (0.0) higher regarding the interest rate hedges of the leases that will start in future. Correspondingly the reserve would be 3.7 million euros (0.0) weaker if the rate would be on 10 percent lower level. Electricity price hedging was ineffective at the end of the year 2014, 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 assets and liabilities.

#### 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	Measured at amortised cost	Book value
<b>31 Dec 2014</b>						
<b>Financial assets</b>						
Receivables			0.4	8.7		9.2
Other financial assets		323.4		9.4		332.8
Trade receivables and other receivables				194.0		194.0
Derivatives	126.1	37.6				163.7
Cash and cash equivalents				93.4		93.4
<b>Book value total</b>	<b>126.1</b>	<b>361.0</b>	<b>0.4</b>	<b>305.6</b>		<b>793.0</b>
<b>Fair value total</b>	<b>126.1</b>	<b>361.0</b>	<b>0.4</b>	<b>305.6</b>		<b>793.0</b>
<b>Financial liabilities</b>						
Interest bearing liabilities					306.6	306.6
Finance lease liabilities					121.0	121.0
Derivatives	147.2	51.9				199.1
Trade payables and other liabilities				22.1	600.8	623.0
<b>Book value total</b>	<b>147.2</b>	<b>51.9</b>		<b>22.1</b>	<b>1,028.4</b>	<b>1,249.7</b>
<b>Fair value total</b>	<b>147.2</b>	<b>51.9</b>		<b>22.1</b>	<b>1,028.8</b>	<b>1,250.1</b>

EUR mill.	Hedge accounting items	Financial assets at fair value through profit and loss	Available for sale financial assets	Loans and receivables	Measured at amortised cost	Book value
<b>31 Dec 2013</b>						
<b>Financial assets</b>						
Receivables				20.5		20.5
Other financial assets		290.4		45.0		335.5
Trade receivables 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
<b>Fair value total</b>	<b>18.2</b>	<b>317.2</b>	<b>0.4</b>	<b>424.6</b>		<b>760.4</b>
<b>Book value total</b>	<b>18.2</b>	<b>317.2</b>	<b>0.4</b>	<b>424.6</b>		<b>760.4</b>
<b>Financial liabilities</b>						
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
<b>Fair value total</b>	<b>21.6</b>	<b>7.9</b>		<b>36.0</b>	<b>1,367.9</b>	<b>1,433.4</b>
<b>Book value total</b>	<b>21.6</b>	<b>7.9</b>		<b>36.0</b>	<b>1,372.7</b>	<b>1,438.2</b>

Deferred tax liabilities are not presented in this note. Group has 0.0 million euros (3.4) of deferred tax liabilities in its balance sheet. In this note interest rate derivatives (currency and interest-rate swaps) are included in derivatives. In other notes they are included in bank loans. 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.

Derivatives are measured at fair value and more explained in fair value hierarchy. Financial assets measured at fair value are money market funds (fair value hierarchy level 1) and bonds or commercial papers (fair value hierarchy level 2). Loans and receivables are current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portions of loans measured at amortised cost is 89 million euros and the book value is equivalent to the fair value, because the discount effect is not significant. The most significant item included in the non-current loans measured at amortised cost is the issued bond. The bond was quoted at 103.9 as per 31 Dec 2014 which explains the difference between book value and fair value (fair value hierarchy level 1). The valuation principles of financial assets and liabilities are outlined in the accounting principles.

## Fair value hierarchy of financial assets and liabilities measured at fair value

### Fair values at the end of the reporting period

EUR mill.	31 Dec 2014	Level 1	Level 2	Level 3
<b>Assets</b>				
Financial assets at fair value through profit and loss				
Securities held for trading	323.4	35.5	287.9	
Derivatives held for trading				
Interest rate swaps	8.2		8.2	
- of which in fair value hedge accounting	5.9		5.9	
- of which in cash flow hedge accounting	2.3		2.3	
Currency derivatives	154.6		154.6	
- of which in fair value hedge accounting	66.3		66.3	
- of which in cash flow hedge accounting	50.9		50.9	
Commodity derivatives	0.2		0.2	
- of which in cash flow hedge accounting	0.0		0.0	
Equity derivatives	0.7		0.7	
- of which in fair value hedge accounting	0.7		0.7	
<b>Total</b>	<b>487.1</b>	<b>35.5</b>	<b>451.6</b>	<b>0.0</b>
<b>Liabilities</b>				
Financial liabilities recognised at fair value through profit and loss				
Derivatives held for trading				
Interest rate swaps	5.5		5.5	
- of which in fair value hedge accounting	0.1		0.1	
- of which in cash flow hedge accounting	4.8		4.8	
Currency derivatives	3.0		3.0	
- of which in fair value hedge accounting	0.0		0.0	
- of which in cash flow hedge accounting	0.0		0.0	
Commodity derivatives	190.5		190.5	
- of which in cash flow hedge accounting	142.3		142.3	
Equity derivatives	0.1		0.1	
- of which in fair value hedge accounting	0.1		0.1	
<b>Total</b>	<b>199.1</b>		<b>199.1</b>	

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 counter-parties based on generally accepted valuation models.

The fair value hierarchy level to which a certain item measured 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 measured at fair value.

### Reconciliation of financial assets and liabilities measured at fair value according to Level 3

#### Fair value at the end of the reporting period

EUR mill.	Recognised at fair value through profit and loss			Total
	Securities held for trading	Derivatives held for trading	Available-for-sale share investments	
<b>Opening balance</b>	-	2.3	-	2.3
Profits and losses in income statement, total	-	-0.3	-	-0.3
In comprehensive income	-	-	-	-
Purchases (and sales)	-	-	-	-
Settlements (and issues)	-	4.1	-	4.1
Transfers to and from Level 3	-	-6.1	-	-6.1
<b>Closing balance</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total profits and losses recognised for the period for assets held at the end of the reporting period</b>				
In other operating expenses		-0.3		-0.3

During the reporting period all Level 3 financial assets and liabilities were transferred to Level 2. The transfer was a consequence of specified observable market data on derivatives valuation model.

## 5.7 Offsetting financial assets and liabilities

EUR mill.	2014	2013
Derivative assets gross amounts	163.7	46.1
Gross amounts of recognised financial liabilities set off in the balance sheet	0.0	0.0
<b>Net amounts of financial assets presented in the balance sheet</b>	<b>163.7</b>	<b>46.1</b>
Enforceable master netting agreement	-63.5	-30.7
<b>Derivative assets net amount</b>	<b>100.2</b>	<b>15.4</b>
Derivative liabilities gross amounts	199.1	30.7
Gross amounts of recognised financial assets set off in the balance sheet	0.0	0.0
<b>Net amounts of financial liabilities presented in the balance sheet</b>	<b>199.1</b>	<b>30.7</b>
Enforceable master netting agreement	-63.5	-30.7
<b>Derivative liabilities net amount</b>	<b>135.6</b>	<b>0.0</b>

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. The fair values of stock 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 and interest rate 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. The gain or loss regarding lease payment interest rate hedges will be accrued from fair value reserve to income statement through the whole lease period. 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, to hedge the fixed interest rate bond and to hedge the incentive plan negotiated with pilots. The binding purchase agreements for new aircraft are treated 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.

In relation to the incentive plan negotiated with pilots in October 2014 Finnair entered into an agreement where the market price of Finnair share has an effect at the end of the plan. Finnair Group has hedged the amount exceeding 12 million euros of the possible cost effect of this plan with stock options. Fair value hedge is implemented to these hedges. The unrealised fair value changes are recognised in the balance sheet as liability or receivable and in income statement the realised and unrealised hedging results are recognised in the staff costs. Similarly the incentive plan is treated as a firm commitment under IFRS. The unrealised and realised fair value change of the incentive plan is recognised in staff costs in the income statement and the corresponding unrealised fair value as a liability or receivable in the balance sheet.

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 other financial 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 and the IFRS hedge accounting criteria are not fulfilled, the accrued gains and losses reported in the shareholder's equity and fair value changes are presented in the income statement non-recurring items for the financial period items 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 income statement in fair value changes in derivatives 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 in fair value changes in derivatives. 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

EUR mill.	2014				2013			
	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
<b>Currency derivatives</b>								
Jet fuel currency hedging	385.4	35.9	0.0	35.9	370.5	0.0	-17.1	-17.0
Fair value hedging of aircraft acquisitions	657.6	66.3	0.0	66.3	244.1	4.4	-2.3	2.2
Hedging of lease payments	146.6	15.0	0.0	15.0	58.3	0.1	-1.7	-1.6
<b>Hedge accounting items total</b>	<b>1,189.6</b>	<b>117.1</b>	<b>0.0</b>	<b>117.1</b>	<b>672.9</b>	<b>4.5</b>	<b>-21.0</b>	<b>-16.4</b>
Operational cash flow hedging, forward contracts	370.4	29.5	-0.1	29.5	407.9	7.3	-4.9	2.4
Operational cash flow hedging, call options	110.2	7.1	0.0	7.1	149.8	16.1	0.0	16.1
Operational cash flow hedging, put options	178.0	0.0	-3.0	-3.0	169.5	0.0	-0.8	-0.8
Balance sheet hedging, forward contracts	13.7	0.9	0.0	0.9	20.4	0.0	-1.2	-1.2
<b>Items outside hedge accounting total</b>	<b>672.2</b>	<b>37.5</b>	<b>-3.0</b>	<b>34.5</b>	<b>747.5</b>	<b>23.4</b>	<b>-6.9</b>	<b>16.5</b>
<b>Currency derivatives total</b>	<b>1,861.8</b>	<b>154.6</b>	<b>-3.0</b>	<b>151.6</b>	<b>1,420.4</b>	<b>27.9</b>	<b>-27.8</b>	<b>0.1</b>
<b>Commodity derivatives</b>								
Jet fuel forward contracts, tonnes	534,700	0.0	-142.3	-142.3	563,550	12.5	-0.7	11.8
Electricity derivatives, MWh	30,220	0.0	-0.1	0.0	17,568	0.0	0.0	0.0
<b>Hedge accounting items total</b>		<b>0.0</b>	<b>-142.3</b>	<b>-142.3</b>		<b>12.5</b>	<b>-0.7</b>	<b>11.8</b>
Jet fuel forward contracts, tonnes	33,500	0.0	-8.6	-8.6	18,000	0.8	0.0	0.8
Jet fuel call options, tonnes	162,500	0.1	0.0	0.1	201,000	3.4	0.0	3.4
Jet fuel put options, tonnes	171,500	0.0	-39.3	-39.3	201,000	0.0	-1.1	-1.1
Electricity derivatives, MWh	46,904	0.0	-0.3	-0.3	71,100	0.1	-0.6	-0.5
<b>Items outside hedge accounting total</b>		<b>0.1</b>	<b>-48.2</b>	<b>-48.1</b>		<b>4.3</b>	<b>-1.6</b>	<b>2.6</b>
<b>Commodity derivatives total</b>		<b>0.2</b>	<b>-190.5</b>	<b>-190.4</b>		<b>16.8</b>	<b>-2.3</b>	<b>14.4</b>
<b>Interest rate derivatives</b>								
Interest rate swaps	150.0	5.9	-0.1	5.8	150.0	1.2	0.0	1.2
Interest rate call options	123.5	2.3	0.0	2.3	0.0	0.0	0.0	0.0
Interest rate put options	123.5	0.0	-4.8	-4.8	0.0	0.0	0.0	0.0
<b>Hedge accounting items total</b>	<b>397.1</b>	<b>8.2</b>	<b>-4.8</b>	<b>3.4</b>	<b>150.0</b>	<b>1.2</b>	<b>0.0</b>	<b>1.2</b>
Cross currency interest rate swaps	11.6	0.0	-0.6	-0.6	17.3	0.2	0.0	0.2
Interest rate swaps	25.0	0.0	-0.1	-0.1	25.0	0.0	-0.5	-0.5
<b>Items outside hedge accounting total</b>	<b>36.6</b>	<b>0.0</b>	<b>-0.7</b>	<b>-0.7</b>	<b>42.3</b>	<b>0.2</b>	<b>-0.5</b>	<b>-0.3</b>
<b>Interest rate derivatives total</b>	<b>433.7</b>	<b>8.2</b>	<b>-5.5</b>	<b>2.7</b>	<b>192.3</b>	<b>1.4</b>	<b>-0.5</b>	<b>0.9</b>
<b>Equity derivatives</b>								
Stock call options	3.0	0.7	0.0	0.7	0.0	0.0	0.0	0.0
Stock put options	3.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
<b>Hedge accounting items total</b>	<b>6.0</b>	<b>0.7</b>	<b>-0.1</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Equity derivatives total</b>	<b>6.0</b>	<b>0.7</b>	<b>-0.1</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Derivatives total*</b>		<b>163.7</b>	<b>-199.1</b>	<b>-35.4</b>		<b>46.1</b>	<b>-30.7</b>	<b>15.4</b>

\* The positive/negative fair value of derivatives 31 Dec 2014 are shown as balance sheet receivables and liabilities.

## Ratings of derivative counterparties

EUR mill.	2014	2013
Better than A	34.4	11.6
A	-53.1	2.9
BBB	-16.7	0.9
BB	-	-
Unrated	-	-
<b>Total</b>	<b>-35.4</b>	<b>15.5</b>

## Derivatives in operational expenses

EUR mill.		2014	2013
Jet fuel hedging	Fuel costs	15.0	3.4
Hedging of lease payments	Lease payments for aircraft	-1.2	0.3
Electricity derivatives	Other expenses	0.0	0.2
Expenses of hedge accounting items total		13.8	3.9
Jet fuel hedging	Fuel costs	3.8	0.6
Operational cash flow hedging	Other expenses	-15.4	-18.8
Electricity derivatives	Other expenses	0.4	0.0
Expenses of items outside hedge accounting total		-11.3	-18.2
Total		2.6	-14.3

## 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 and the gains on sale of own shares have been recognised in other restricted funds before the change in Limited Liability Companies Act in 2006.

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

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash flow hedging, 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.

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

The dividend proposed by the Board of the Directors is not deducted from distributable equity until decided at the Annual General Meeting. The hybrid bond is recognised in equity. It is unsecured and subordinated to all senior debt. The hybrid bond does not confer shareholder's rights, nor does it dilute the holdings of shareholders. Interest expenses are debited to retained earnings on cash basis net of tax. In the calculation of earnings per share, interest expenses of the hybrid bond are included in the earnings for the financial year. A

A = Accounting principles

Number of shares	2014	2013
Number of outstanding shares at the beginning of financial year	127,856,947	127,725,928
Purchase of own shares	0	-600,000
Shares granted from share-based bonus scheme 2010-2012	0	708,679
Shares returned from share-based bonus scheme 2010-2012	-33,864	0
Shares granted from FlyShare employee share savings plans	940	22,340
<b>Number of outstanding shares at the end of financial year</b>	<b>127,824,023</b>	<b>127,856,947</b>
Own shares held by parent company	312,092	279,168
<b>Total number of shares at the end of financial year</b>	<b>128,136,115</b>	<b>128,136,115</b>

Finnair Plc's share capital, paid in its entirety and entered in the trade register, was 75,442,904.30 euros at the end of 2013 and 2014. The share has no nominal value. During 2014 Finnair recovered 33,864 shares from share-based bonus scheme 2010–2012 participants having terminated their employment.

#### Group's hedging reserve and other OCI items

EUR mill.	2014	2013
Jet fuel price hedging	-142.3	11.8
Jet fuel currency hedging	35.9	-17.0
Hedging of lease payments	15.0	-1.6
Hedging of interests related to future lease payments	-2.5	0.0
The actuarial gains and losses of defined benefit plan	-15.5	-11.5
Translation differences	0.1	-0.3
Tax effect	21.9	3.7
<b>Total</b>	<b>-87.4</b>	<b>-15.0</b>

#### Maturity dates of fair values recognised in the Group's hedging reserve

EUR mill.	2015	2016	2017	2018	2019	Later	Total
Jet fuel price hedging	-104.2	-38.1					-142.3
Jet fuel currency hedging	27.7	8.1					35.9
Hedging of lease payments	8.5	6.5					15.0
Hedging of interests related to future lease payments	-2.5						-2.5
The actuarial gains and losses of defined benefit plan	-15.5						-15.5
Translation differences						0.1	0.1
Tax effect	17.2	4.7					21.9
<b>Total</b>	<b>-68.8</b>	<b>-18.8</b>				<b>0.1</b>	<b>-87.4</b>

#### Hybrid bond

Shareholders' equity 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 four years and thereafter at least 11.875 per cent per year. Finnair can postpone interest payment, if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it four 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.	2014	2013
Result for the financial year, EUR mill.	-82.7	22.6
Interest of hybrid bond, EUR mill.	-8.5	-8.5
Weighted average number of shares, mill. pcs	127.8	128.1
Undiluted and diluted earnings per share, EUR	-0.71	0.11
Effect of own shares	0.00	0.00
Result for the financial year per share, EUR*	-0.65	0.18

\* excluding the effect of the interest expenses of hybrid bond after taxes

#### Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2014. The Annual General Meeting on 27 March 2014 decided that no dividend was 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 2014
Retained earnings at the end of financial year	37.7
Unrestricted equity funds	250.5
Hedging reserve	-85.2
Result for the financial year	-53.8
<b>Total</b>	<b>149.2</b>

## 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.

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

**!** Utilising deferred tax assets related to tax losses requires management to make expectations of future performance of operations. **!**

#### Income taxes

Eur mill	2014	2013
<b>Taxes for the financial year</b>		
Current tax	-0.2	-0.2
Adjustments recognised for current tax of prior periods	-0.5	-0.8
Deferred taxes	17.3	-2.9
<b>Total</b>	<b>16.5</b>	<b>-3.9</b>

The table below explains the difference between theoretical tax cost calculated with Finnish nominal tax rate 20.0% (24.5%) and tax expense in the consolidated income statement:

Eur mill	2014	2013
Result before taxes	-99.1	26.8
Taxes calculated using the Finnish tax rate	19.8	-6.6
Effect of the tax rate change	0.0	3.7
Share of result in associates and joint ventures	-0.6	-1.0
Tax-exempt income	0.5	0.4
Non-deductible expenses	-2.6	-0.5
Adjustments recognised for taxes of prior periods	-0.5	0.1
<b>Income taxes, total</b>	<b>16.5</b>	<b>-3.9</b>
Effective tax rate	-16.7%	14.5%

Effective tax rate was -16.7% (14.5%). The effective tax rate of 2014 was affected by the write-down of loan receivables 10.8 million euros from Flybe Nordic Group. The tax effect of -2.1 million euros is included in non-deductible expenses. More information of the transaction can be found in note 1.6 Investments in associates and joint ventures and 6.2 Related party transactions.

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 3.7 million euros in the income statement for 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. Taxes for the comparison period have been restated due to a change in accounting principles related to engine maintenance (see note 6.5).

**i** = Content of the section

**A** = Accounting principles

**!** = Critical accounting estimates



### Deferred tax assets and liabilities

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

Changes in deferred taxes during 2014:

Eur. Million	2013	Recognised in the income statement	Recognised in shareholders' equity	2014
<b>Deferred tax assets</b>				
Confirmed losses	58.6	1.6	2.1	62.3
Employee benefits	2.2	2.1	0.8	5.1
Finance leasing	0.6	-0.6		0.0
Capitalisation of overhead expenses	1.0	-1.0		0.0
Change in accounting principles in 2014 related to engine maintenance	3.4	-3.4		0.0
Other temporary differences	2.1	0.5		2.7
Valuation of derivatives at fair value	1.3		17.4	18.7
<b>Total deferred tax assets</b>	<b>69.2</b>	<b>-0.7</b>	<b>20.3</b>	<b>88.8</b>
Offset against deferred tax liabilities	-69.2			-55.0
<b>Net deferred tax assets</b>	<b>0.0</b>			<b>33.8</b>
Deferred tax assets that can be used after 12 months or more	0.6			0.6

Eur. Million	2013	Recognised in the income statement	Recognised in shareholders' equity	2014
<b>Deferred tax liabilities</b>				
Property, plant and equipment	68.4	-16.6		51.8
Finance leasing	2.8	-0.6		2.2
Other temporary differences	1.3	-0.3		1.0
<b>Total deferred tax liabilities</b>	<b>72.6</b>	<b>-17.5</b>		<b>55.0</b>
Offset against deferred tax assets	-69.2			-55.0
<b>Net deferred tax liabilities</b>	<b>3.4</b>			<b>0.0</b>
Deferred tax liabilities that are expected to realise after 12 months or more	69.6			52.8

Confirmed tax losses expire in 5–10 years at the earliest.

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

Changes in deferred taxes during 2013:

Eur. Million	2012	Recognised in the income statement	Recognised in shareholders' equity	2013
<b>Deferred tax assets</b>				
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		0.6
Capitalisation of overhead expenses	1.1	-0.1		1.0
Change in accounting principles in 2014 related to engine maintenance	8.3	-4.9		3.4
Change in accounting principles related to heavy maintenance and engine maintenance of leased aircraft 2009/2010	1.0	-1.0		0.0
Finnair Plus change in accounting principle 2009	1.5	-1.5		0.0
Other temporary differences	3.4	-1.3		2.1
Valuation of derivatives at fair value	0.1		1.2	1.3
<b>Total deferred tax assets</b>	<b>85.9</b>	<b>-22.2</b>	<b>5.4</b>	<b>69.2</b>
Offset against deferred tax liabilities	-85.9			-69.2
<b>Net deferred tax assets</b>	<b>0.0</b>			<b>0.0</b>
Deferred tax assets that can be used after 12 months or more	8.5			0.6

Eur. Million	2012	Recognised in the income statement	Recognised in shareholders' equity	2013
<b>Deferred tax liabilities</b>				
Property, plant and equipment	83.9	-15.5		68.4
Employee benefits	-0.9	-2.4	3.3	0.0
Other temporary differences	5.6	-1.5		4.1
Valuation of derivatives at fair value	3.0		-3.0	0.0
<b>Total deferred tax liabilities</b>	<b>91.6</b>	<b>-19.3</b>	<b>0.3</b>	<b>72.6</b>
Offset against deferred tax assets	-85.9			-69.2
<b>Net deferred tax liabilities</b>	<b>5.7</b>			<b>3.4</b>
Deferred tax liabilities that are expected to realise after 12 months or more	88.6			69.6

## 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 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.	2014	2013
<b>Sales of goods and services</b>		
Associates	1.4	4.7
Joint ventures	59.9	60.8
Pension fund	0.1	
<b>Purchases of goods and services</b>		
Associates	20.8	20.3
Joint ventures	228.3	85.5
Pension fund	4.6	
<b>Financial expenses</b>		
Joint ventures	10.8	
<b>Receivables</b>		
Non-current receivables from joint ventures		9.9
Current receivables from associates	1.5	3.1
Current receivables from joint ventures	7.3	32.9
<b>Liabilities</b>		
Non-current liabilities to joint ventures	8.2	9.7
Non-current liabilities to pension fund	25.3	10.5
Current liabilities to associates	4.7	3.5
Current liabilities to joint ventures	3.4	
<b>Contingent liabilities</b>		
Guarantees on behalf of joint ventures	2.0	2.0

Transactions with related parties are with arms length, and are with similar terms than transactions carried out with independent parties. Management remuneration is presented in note 3.8. Management has not been granted any loans and there has not been any other transactions with management. For 2014, Finnair has recognised the write-downs of 10.8 million euros (subordinated loan and interest) and 11.3 million euros (advance payments and other operational receivables) regarding to joint venture Flybe Nordic Group.

### 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 2014 and 2013 Finnair didn't pay any contributions to the fund. Pension obligation was 25.3 million euros (10.5) at the end of the financial year.

## 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 2014 there were no such disputes pending.

## 6.4 Events after the closing date

At the beginning of 2015 Finnair signed a letter of intent with StaffPoint and Oy G.W. Sohlberg Ab (GWS), according to which Flybe UK Ltd's 60% ownership would be transferred to StaffPoint and GWS. Finnish Competition and consumer authority approved the transaction in January 2015. See more information in note 1.6 Investments in associates and joint ventures.

## 6.5 Change in accounting principles

Finnair has changed the accounting principle for its aircraft engine overhauls. From the beginning of 2014, Finnair capitalises engine overhauls related to performance restoration and life limited parts to its balance sheet and depreciates related costs during the engines' maintenance periods. Previously overhauls were expensed when they occurred.

The change reduces the volatility of engine overhaul costs, which improves the accuracy of forecasting future profitability and improves comparability over of periods. It also improves comparability with other airlines, because, based on the study conducted by International Air Traffic Association IATA, the amended practice corresponds to the current industry practice. The change in the accounting principle affects the Airline Business segment.

In addition, the group has made an evaluation on the nature and classification of its deferred tax assets and liabilities, and concluded that they meet the criteria for netting according to IAS 12, up to the amount that they relate to income taxes levied by the same taxation authority. The deferred tax assets and liabilities have been netted and comparative periods have been adjusted accordingly. More information on netting of deferred taxes can be found in note 6.1 Income taxes.

### Effect of restatement on 2013 consolidated income statement

in mill. EUR	Reported	Adjustment	Restated
Fleet materials and overhaul	-161.2	35.3	-125.8
Depreciation	-122.1	-18.6	-140.7
<b>Operational result</b>	<b>-4.8</b>	<b>16.7</b>	<b>11.9</b>
Income taxes	1.0	-4.9	-3.9
<b>Result for the period</b>	<b>11.0</b>	<b>11.9</b>	<b>22.9</b>

### Effect of the restatement on the 2013 opening and closing date balance sheet

in mill. EUR	1.1.2013			31.12.2013		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
Tangible assets	1,362.6	-33.9	1,328.7	1,309.8	-17.2	1,292.6
Deferred tax asset	77.6	-77.6	0.0	65.8	-65.8	0.0
<b>Effect on assets</b>		<b>-111.5</b>			<b>-83.0</b>	
Equity	775.3	-25.6	749.7	691.8	-13.8	678.0
Deferred tax liability	91.6	-85.9	5.7	72.6	-69.2	3.4
<b>Effect on equity and liabilities</b>		<b>-111.5</b>			<b>-83.0</b>	

## 7 Parent company financial statements

### Finnair Plc income statement

EUR mill.	Note	2014	2013
<b>Revenue</b>	2	<b>1,972.7</b>	<b>2,012.7</b>
Other operating income	3	44.5	37.6
<b>Operating income total</b>		<b>2,017.1</b>	<b>2,050.3</b>
Materials and services	4	1,107.6	1,125.9
Staff costs	5	261.7	272.9
Depreciation	6	5.3	8.1
Other operating expenses	7	809.1	718.4
<b>Operating expenses total</b>		<b>2,183.7</b>	<b>2,125.3</b>
<b>Operating result</b>		<b>-166.6</b>	<b>-75.0</b>
Financial income and expenses	8	-32.1	30.2
<b>Result before extraordinary items</b>		<b>-198.7</b>	<b>-44.8</b>
Extraordinary items	9	136.0	103.6
<b>Result before appropriations and taxes</b>		<b>-62.7</b>	<b>58.8</b>
Appropriations	10	0.2	0.2
Income taxes	11	-8.7	21.3
<b>Result for the financial year</b>		<b>-53.8</b>	<b>37.7</b>

### Finnair Plc balance sheet

EUR mill.	Note	2014	2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	12	12.7	12.0
Tangible assets	13	41.2	39.7
Investments	14		
Shares in group companies		449.1	449.1
Shares in associates and joint ventures		4.7	15.4
Other investments		0.4	0.4
Loan and other receivables	15	12.0	24.7
Deferred tax assets	16	73.2	44.2
<b>Non-current assets total</b>		<b>593.2</b>	<b>585.5</b>
<b>Current assets</b>			
Current receivables	17	741.7	915.0
Marketable securities	18	332.8	335.5
Cash and bank equivalents	19	88.7	118.2
<b>Current assets total</b>		<b>1,163.1</b>	<b>1,368.7</b>
<b>Assets total</b>		<b>1,756.3</b>	<b>1,954.1</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	20		
Share capital		75.4	75.4
Share premium account		24.7	24.7
Legal reserve		147.7	147.7
Hedging reserve		-85.2	-4.2
Unrestricted equity funds		250.5	250.5
Retained earnings		37.7	0.0
Result for the financial year		-53.8	37.7
<b>Equity total</b>		<b>397.1</b>	<b>531.9</b>
Accumulated appropriations	21	8.9	9.1
Provisions	22	87.2	94.0
<b>Liabilities</b>			
Non-current liabilities	23	304.9	322.3
Current liabilities	24	958.3	996.8
<b>Liabilities total</b>		<b>1,263.2</b>	<b>1,319.1</b>
<b>Equity and liabilities total</b>		<b>1,756.3</b>	<b>1,954.1</b>

## Finnair Plc cash flow statement

EUR mill.	2014	2013
<b>Cash flow from operating activities</b>		
Result before extraordinary items	-198.7	-44.8
Depreciation	5.3	8.1
Other non-cash transactions	42.2	-39.7
Financial income and expenses	32.1	-30.2
Changes in working capital	-21.1	-18.9
Interest and other financial expenses paid	-23.5	-26.6
Received interest and other financial income	16.6	12.0
<b>Cash flow from operating activities</b>	<b>-147.2</b>	<b>-140.0</b>
<b>Cash flow from investing activities</b>		
Investments in intangible and tangible assets	-7.5	-3.6
Other investments	0.3	0.0
Proceeds from sales of other investments	0.0	54.1
Dividends received	0.0	5.1
Change in long-term receivables	53.2	26.4
<b>Cash flow from investing activities</b>	<b>46.0</b>	<b>82.0</b>
<b>Cash flow from financing activities</b>		
Proceeds from loans	0.0	150.0
Loan repayments and changes	-34.6	-71.1
Hybrid bond repayments	0.0	-52.4
Received group contributions	103.6	74.8
Purchase of own shares	0.0	-1.7
Dividends paid	0.0	-12.7
<b>Cash flow from financing activities</b>	<b>69.0</b>	<b>87.0</b>
<b>Change in cash flows</b>	<b>-32.2</b>	<b>28.9</b>
<b>Change in liquid funds</b>		
Liquid funds, at beginning	453.6	424.7
Change in cash flows	-32.2	28.9
<b>Liquid funds, at end</b>	<b>421.5</b>	<b>453.6</b>

## 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 revenue 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 covers 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 obligations are presented in the note 25 Collateral, contingent liabilities and other commitments.

### Provisions

Provisions in the balance sheet and recognised 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 Revenue and operating profit by business area

EUR mill.	2014	2013
Revenue by division		
Airline Business	1,972.7	2,012.7
Distribution of revenue by market areas based on flight routes, % of revenue		
Finland	18%	17%
Europe	39%	38%
Other countries	43%	45%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Operating profit by business area		
Airline Business	-166.6	-75.0

## 3 Other operating income

EUR mill.	2014	2013
Rental income	35.7	28.5
Other income	8.8	9.1
<b>Total</b>	<b>44.5</b>	<b>37.6</b>

## 4 Materials and services

EUR mill.	2014	2013
Ground handling and catering expenses	182.7	179.3
Fuel costs	643.0	667.4
Aircraft materials and overhaul	190.8	183.5
IT expenses	46.0	48.0
Other items	45.0	47.7
<b>Total</b>	<b>1,107.6</b>	<b>1,125.9</b>

## 5 Staff costs

EUR mill.	2014	2013
Wages and salaries	213.7	220.0
Pension expenses	35.6	36.4
Other social expenses	12.5	16.5
<b>Total</b>	<b>261.7</b>	<b>272.9</b>
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.0	0.9
Board of Directors	0.4	0.4
Personnel on average		
Airline Business	3,396	3,436
Other functions	157	139
<b>Total</b>	<b>3,554</b>	<b>3,575</b>

## 6 Depreciation

EUR mill.	2014	2013
On other long-term expenditure	3.5	5.4
On buildings	0.9	0.8
On other equipment	0.9	1.8
<b>Total</b>	<b>5.3</b>	<b>8.1</b>

## 7 Other operating expenses

EUR mill.	2014	2013
Lease payments for aircraft	240.0	238.9
Other rents for aircraft capacity	96.7	93.0
Office and other rents	33.6	30.3
Traffic charges	225.3	218.3
Sales and marketing expenses	54.5	59.5
Other expenses	159.0	78.4
<b>Total</b>	<b>809.1</b>	<b>718.4</b>

## 8 Financial income and expenses

EUR mill.	2014	2013
Dividend income		
From group companies	0.0	4.0
From other companies	0.0	1.1
<b>Total</b>	<b>0.0</b>	<b>5.1</b>
Interest income		
From group companies	9.9	10.6
From associates and joint ventures	0.0	0.6
From other companies	2.0	2.0
<b>Total</b>	<b>12.0</b>	<b>13.3</b>
Other financial income		
From group companies	0.0	8.4
From other companies	0.0	1.1
<b>Total</b>	<b>0.0</b>	<b>9.4</b>
Gains on disposal of shares	0.00	35.2
Interest expenses		
To group companies	-1.3	-1.6
To other companies	-19.4	-20.1
<b>Total</b>	<b>-20.7</b>	<b>-21.6</b>
Other financial expenses		
To group companies	0.0	-6.1
To other companies	-23.1	-2.9
<b>Total</b>	<b>-23.1</b>	<b>-9.0</b>
Exchange gains and losses	-0.2	-2.2
<b>Financial income and expenses total</b>	<b>-32.1</b>	<b>30.2</b>

Other financial expenses to other companies include write-down of subordinated loan receivables and interests (10.8) from and investment (10.7) in joint venture Flybe Nordic -Group.

## 9 Extraordinary items

EUR mill.	2014	2013
Received group contribution	136.0	103.6

## 10 Appropriations

EUR mill.	2014	2013
Change in depreciation difference	0.2	0.2

## 11 Income taxes

EUR mill.	2014	2013
Income taxes on regular business operations	-16.9	-15.5
Income taxes on extraordinary items	27.2	25.4
Change in deferred taxes	-19.0	11.5
<b>Total</b>	<b>-8.7</b>	<b>21.3</b>

## 12 Intangible assets

EUR mill.	2014	2013
<b>Other long-term expenditure</b>		
Acquisition cost 1 January	42.6	39.1
Additions	4.1	0.4
Effect of the merger	0.0	5.0
Disposals	-0.3	-1.8
<b>Acquisition cost 31 December</b>	<b>46.5</b>	<b>42.6</b>
Accumulated depreciation 1 January	-30.6	-25.9
Accumulated planned depreciation of disposals	0.2	1.8
Effect of the merger	0.0	-1.1
Depreciation	-3.5	-5.4
<b>Accumulated depreciation 31 December</b>	<b>-33.9</b>	<b>-30.6</b>
<b>Book value 31 December</b>	<b>12.7</b>	<b>12.0</b>

### 13 Tangible assets

#### Tangible assets 2014

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January 2014	0.7	51.0	8.3	4.1	64.1
Additions			1.0	2.3	3.3
Disposals			-1.0		-1.0
<b>Acquisition cost 31 December 2014</b>	<b>0.7</b>	<b>51.0</b>	<b>8.3</b>	<b>6.5</b>	<b>66.5</b>
Accumulated depreciation 1 January 2014	0.0	-19.3	-5.2	0.0	-24.5
Disposals			0.8		0.8
Depreciation for the financial year		-0.9	-0.8		-1.7
<b>Accumulated depreciation 31 December 2014</b>	<b>0.0</b>	<b>-20.2</b>	<b>-5.2</b>	<b>0.0</b>	<b>-25.3</b>
<b>Book value 31 December 2014</b>	<b>0.7</b>	<b>30.8</b>	<b>3.2</b>	<b>6.5</b>	<b>41.2</b>
The share of machines and equipment in the book value of tangible assets 31 December 2014					2.8

#### 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
<b>Acquisition cost 31 December 2013</b>	<b>0.7</b>	<b>51.0</b>	<b>8.3</b>	<b>4.1</b>	<b>64.1</b>
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
<b>Accumulated depreciation 31 December 2013</b>	<b>0.0</b>	<b>-19.3</b>	<b>-5.2</b>	<b>0.0</b>	<b>-24.5</b>
<b>Book value 31 December 2013</b>	<b>0.7</b>	<b>31.7</b>	<b>3.1</b>	<b>4.1</b>	<b>39.7</b>
The share of machines and equipment in the book value of tangible assets 31 December 2013					3.0

### 14 Investments

EUR mill.	2014	2013
<b>Group companies</b>		
Acquisition cost 1 January	449.1	489.7
Effect of the merger		-40.6
<b>Book value 31 December</b>	<b>449.1</b>	<b>449.1</b>
<b>Associates and joint ventures</b>		
Acquisition cost 1 January	15.4	13.1
Effect of the merger		2.2
Revaluation of shares	-10.7	
<b>Book value 31 December</b>	<b>4.7</b>	<b>15.4</b>
<b>Shares in other companies</b>		
Acquisition cost 1 January	0.4	0.7
Disposals	0.0	-0.4
<b>Book value 31 December</b>	<b>0.4</b>	<b>0.4</b>

Associates and joint ventures	Share of parent company %
Suomen Ilmailuopisto Oy, Finland	49.5
Flybe Nordic, Sweden	40.0
Kiinteistö Oyj Lentäjätie 1, Finland	28.3

Group companies	Share of parent company %	Share of parent company %	
Finnair Cargo Oy, Finland	100.0	Kiinteistö Oy LEKO 8, Finland	100.0
Finnair Aircraft Finance Oy, Finland	100.0	IC Finnair Ltd, Great Britain**	100.0
Northport Oy, Finland	100.0	A/S Aero Airlines, Estonia	100.0
Finnair Technical Services Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Engine Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.0
Finnair Flight Academy Oy, Finland	100.0	SMT Oy, Finland	100.0
Finnair Travel Retail Oy, Finland	100.0	Norvista Travel Ltd, Canada	100.0
LSG Sky Chefs Finland Oy, Finland*	100.0	FTS Financial Services Oy, Finland	100.0
Kiinteistö Oy Air Cargo Center 1, Finland	100.0	Backoffice Services Estonia OÜ, Estonia	100.0

\* 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 whose earnings are subject to normal taxation in Finland.

Finnair Cargo Terminal Operations Oy was merged to Finnair Cargo Oy on 31 March 2014.

Finland Travel Bureau Oy was merged to SMT Oy on 30 September 2014.

## 15 Non-current loan and other receivables

EUR mill.	2014	2013
From group companies	11.6	14.5
From associates and joint ventures	0.0	9.9
From other companies	0.4	0.2
<b>Total</b>	<b>12.0</b>	<b>24.7</b>

## 16 Deferred tax assets

EUR mill.	2014	2013
Deferred tax assets 1 January	44.2	66.2
From result for the financial year	-10.3	-9.8
From temporary differences	19.0	-13.1
From valuation of derivatives at fair value	20.2	1.1
<b>Deferred tax assets 31 December</b>	<b>73.2</b>	<b>44.2</b>

## 17 Current receivables

EUR mill.	2014	2013
Short-term receivables from group companies		
Trade receivables	43.5	33.7
Accrued income and prepaid expenses	140.0	106.2
Other receivables	329.3	379.9
<b>Total</b>	<b>512.8</b>	<b>519.8</b>
Short-term receivables from associates and joint ventures		
Trade receivables	4.2	0.0
Accrued income and prepaid expenses	0.0	206.6
<b>Total</b>	<b>4.2</b>	<b>206.6</b>
Short-term receivables from others		
Trade receivables	91.4	109.1
Prepaid expenses	105.7	69.1
Other receivables	27.5	10.3
<b>Total</b>	<b>224.6</b>	<b>188.5</b>
<b>Short-term receivables total</b>	<b>741.7</b>	<b>915.0</b>

## 18 Investments

EUR mill.	2014	2013
Short-term investments at fair value	332.8	335.5

## 19 Cash and bank equivalents

EUR mill.	2014	2013
Funds in group bank accounts and deposits maturing in three months	88.7	118.2

## 20 Shareholders' equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Unrestricted equity funds	Retained earnings	Equity total
<b>Equity 1 Jan 2014</b>	<b>75.4</b>	<b>24.7</b>	<b>147.7</b>	<b>-4.2</b>	<b>250.5</b>	<b>37.7</b>	<b>531.9</b>
Change in fair value of hedging instruments				-80.9			
Share-based payments					-0.1		
Result for the financial year						-53.8	
<b>Equity 31 Dec 2014</b>	<b>75.4</b>	<b>24.7</b>	<b>147.7</b>	<b>-85.2</b>	<b>250.5</b>	<b>-16.1</b>	<b>397.1</b>

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Unrestricted equity funds	Retained earnings	Equity total
<b>Equity 1 Jan 2013</b>	<b>75.4</b>	<b>24.7</b>	<b>147.7</b>	<b>9.3</b>	<b>250.4</b>	<b>12.7</b>	<b>520.3</b>
Change in fair value of hedging instruments				-13.6			-13.6
Purchase of own shares					-1.7		-1.7
Share-based payments					1.9		1.9
Dividend						-12.7	-12.7
Result for the financial year						37.7	37.7
<b>Equity 31 Dec 2013</b>	<b>75.4</b>	<b>24.7</b>	<b>147.7</b>	<b>-4.2</b>	<b>250.5</b>	<b>37.7</b>	<b>531.9</b>

## Distributable equity

EUR mill.	2014	2013
Hedging reserve	-85.2	-4.2
Unrestricted equity funds	250.5	250.5
Retained earnings	37.7	0.0
Result for the financial year	-53.8	37.7
<b>Total</b>	<b>149.2</b>	<b>284.0</b>



## 21 Accumulated appropriations

EUR mill.	2014	2013
Accumulated depreciation difference 1 January	9.1	0.0
Effect of the merger	0.0	9.3
Change in depreciation difference	-0.2	-0.2
<b>Accumulated depreciation difference 31 December</b>	<b>8.9</b>	<b>9.1</b>

## 22 Provisions

EUR mill.	2014	2013
Provisions 1 January	94.0	109.7
Provision for the period	31.4	21.9
Provision used	-47.2	-33.1
Exchange rate differences	8.8	-4.5
<b>Provisions 31 December</b>	<b>87.2</b>	<b>94.0</b>
Of which non-current	53.2	69.3
Of which current	33.9	24.8
<b>Total</b>	<b>87.2</b>	<b>94.0</b>

Non-current aircraft maintenance provisions are expected to be used by 2020.

## 23 Non-current liabilities

EUR mill.	2014	2013
Loans from group companies	1.0	1.0
Loans from financial institutions	23.8	48.2
Bonds	155.8	151.2
Hybrid loan	120.0	120.0
Other liabilities	4.3	1.8
<b>Total</b>	<b>304.9</b>	<b>322.3</b>
Maturity of interest-bearing liabilities		
2015	24.5	
2016	23.8	
2017	0.0	
2018	150.0	
2019	0.0	
2020 and later	120.0	
<b>Total</b>	<b>318.3</b>	

## 24 Current liabilities

EUR mill.	2014	2013
Current liabilities to group companies		
Trade payables	42.8	25.7
Accruals and deferred income	15.8	24.5
Other liabilities	133.1	138.9
<b>Total</b>	<b>191.7</b>	<b>189.1</b>
Current liabilities to associates and joint ventures		
Trade payables	0.3	0.0
Accruals and deferred income	3.1	164.3
<b>Total</b>	<b>3.4</b>	<b>164.3</b>
Current liabilities to others		
Loans from financial institutions	24.5	10.5
Commercial papers	28.0	44.5
Trade payables	49.1	52.8
Accruals and deferred income	648.2	514.2
Other liabilities	13.3	21.5
<b>Total</b>	<b>763.1</b>	<b>643.4</b>
<b>Current liabilities total</b>	<b>958.3</b>	<b>996.8</b>
Accruals and deferred income		
Unflown air transport revenues	252.3	255.6
Jet fuels and traffic charges	63.9	248.9
Holiday payments	50.7	52.3
Loyalty program Finnair Plus	29.6	32.2
Derivatives	193.7	23.9
Other items	76.8	90.1
<b>Total</b>	<b>667.1</b>	<b>703.0</b>

## 25 Collateral, contingent liabilities and other commitments

EUR mill.	2014	2013
Guarantees and contingent liabilities		
On behalf of group companies	253.9	571.3
On behalf of associates	2.0	2.0
On others companies	0.2	0.3
<b>Total</b>	<b>256.1</b>	<b>573.5</b>
Aircraft lease payments		
Within one year	227.7	223.6
After one year and not later than 5 years	1,047.6	658.3
Later than 5 years	259.1	139.9
<b>Total</b>	<b>1,534.4</b>	<b>1,021.7</b>

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

EUR mill.	2014	2013
Other lease payments		
Within one year	27.8	27.5
After one year and not later than 5 years	83.9	80.9
Later than 5 years	141.8	140.0
<b>Total</b>	<b>253.5</b>	<b>248.4</b>
Pension obligations		
Total obligation of pension fund	328.8	317.8
Mandatory portion covered	-	-
Non-mandatory benefit covered	-328.8	-317.8
Uncovered obligation of pension fund	0.0	0.0
Obligation for pensions paid directly by the company	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

## 26 Derivatives

EUR mill.	31 Dec 2014		31 Dec 2013	
	Nominal value	Fair value	Nominal value	Fair value
<b>Currency derivatives</b>				
Jet fuel currency hedging	385.4	35.9	370.5	-17.0
<b>Hedge accounting items total</b>	<b>385.4</b>	<b>35.9</b>	<b>370.5</b>	<b>-17.0</b>
Operational cash flow hedging, forward contracts	370.4	29.5	407.9	2.4
Operational cash flow hedging, call options	110.2	7.1	149.8	16.1
Operational cash flow hedging, put options	178.0	-3.0	169.5	-0.8
<b>Items outside hedge accounting total</b>	<b>658.5</b>	<b>33.6</b>	<b>727.2</b>	<b>17.7</b>
<b>Currency derivatives total</b>	<b>1,043.9</b>	<b>69.5</b>	<b>1,097.7</b>	<b>0.7</b>
<b>Commodity derivatives</b>				
Jet fuel forward contracts, tonnes	534,700	-142.3	563,550	11.8
Electricity derivatives, MWh	30,220	0.0	17,568	0.0
<b>Hedge accounting items total</b>		<b>-142.3</b>		<b>11.8</b>
Jet fuel forward contracts, tonnes	33,500	-8.6	18,000	0.8
Jet fuel call options, tonnes	162,500	0.1	201,000	3.4
Jet fuel put options, tonnes	171,500	-39.3	201,000	-1.1
Electricity derivatives, MWh	46,904	-0.3	71,100	-0.5
<b>Items outside hedge accounting total</b>		<b>-48.1</b>		<b>2.6</b>
<b>Commodity derivatives total</b>		<b>-190.4</b>		<b>14.4</b>
<b>Interest rate derivatives</b>				
Interest rate swaps	150.0	5.8	150.0	1.2
<b>Hedge accounting items total</b>	<b>150.0</b>	<b>5.8</b>	<b>150.0</b>	<b>1.2</b>
Interest rate swaps	25.0	-0.1	25.0	-0.5
<b>Items outside hedge accounting total</b>	<b>25.0</b>	<b>-0.1</b>	<b>25.0</b>	<b>-0.5</b>
<b>Interest rate derivatives total</b>	<b>175.0</b>	<b>5.8</b>	<b>175.0</b>	<b>0.7</b>
<b>Equity derivatives</b>				
Stock call options	3.0	0.7		
Stock put options	3.0	-0.1		
<b>Hedge accounting items total</b>	<b>6.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>
<b>Equity derivatives total</b>	<b>6.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>
<b>Derivatives total</b>		<b>-114.5</b>		<b>15.8</b>

# Calculation of key indicators

## Operational result:

Operating profit excluding fair value changes in derivatives, changes in the exchange rates of fleet overhauls and non-recurring items

## Non-recurring items:

Capital gains and losses as well as items related to the restructuring and other non-recurring items

## 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 excluding advance payments

## Average capital employed:

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

## Interest-bearing net debt:

Interest-bearing liabilities - other current financial assets - cash and cash equivalents

## Earnings per share:

Result for the financial year - hybrid bond interest expenses net of tax

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

## Equity/share:

Shareholders' equity

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

## Dividend/earnings, %:

Dividend/share  
Earnings/share x 100

## Dividend yield, %:

Dividend/share  
Share price at the end of the financial year x 100

## Cash flow from operating activities/share:

Cash flow from operating activities

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

## Price/earnings ratio (P/E):

Share price at the end of the financial year

Earnings/share

## Equity ratio, %:

Shareholders' equity + non-controlling interests  
Balance sheet total - advances received x 100

## Gearing, %:

Interest-bearing net debt  
Shareholders' equity + non-controlling interests x 100

## Adjusted gearing, %:

Interest-bearing net debt + 7 x lease payments for aircraft  
Shareholders' equity + non-controlling interests x 100

## Return on equity (ROE), %:

Result for the financial year  
Shareholders' equity + non-controlling interest (average) x 100

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

Result before taxes + financial expenses  
Average capital employed x 100

## Available seat kilometres (ASK):

Total number of seats available x kilometres flown

## Revenue passenger kilometres (RPK):

Number of revenue passengers x 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 x kilometres flown

## Revenue tonne kilometres (RTK):

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

## Overall load factor, %:

Share of revenue tonne kilometres of available tonne kilometres

## Revenue per available seat kilometre (RASK):

Airline revenue + cargo space charge + operational result of belly cargo operations

Available seat kilometres

## Cost per available seat kilometre (CASK):

Airline costs - other income of flight operations - operational result of airline support services

Available seat kilometres

## Cost per available seat kilometre excluding fuel, CASK excl. fuel:

Airline costs - other income of flight operations - operational result of airline support services - fuel costs

Available seat kilometres

## Board of Directors' proposal on the dividend


Finnair Plc's distributable equity according to the financial statements on 31 December 2014 amounts to 149,223,743.79 euros.

The Board of Directors proposes to the Annual General Meeting that no dividend shall be paid and the result for the financial year be retained in the unrestricted equity.

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

Helsinki, 10th February 2015

The Board of Directors of Finnair Plc

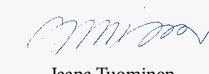
  
Klaus Heinemann

  
Harri Kerminen

  
Maija-Liisa Friman

  
Jussi Itävuori

  
Gunvor Kronman

  
Jaana Tuominen

  
Nigel Turner

  
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, 2014. 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 Director 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 Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 10 February, 2015

**PricewaterhouseCoopers Oy**

Authorised Public Accountants



Mikko Nieminen

Authorised Public Accountant

## List of accounting books and voucher types

<b>Balance sheet book</b>	paper documents	
<b>Journal and general ledger</b>	electronic archive	
<b>Accounts receivable and payable</b>	electronic archive	
<b>Bank receipts</b>	paper documents and electronic archive	voucher types 42, 43, 68, 69, 70 and YI
<b>Sales invoices</b>	paper documents and electronic archive	voucher types 30, 31, 40, 41, XV, XW, YJ and YW
<b>Flight coupon vouchers</b>	electronic archive	voucher types SC, SE, SF, SH, SI, SJ, SM, SN, SO, SR, SS and ST
<b>Purchase invoices</b>	paper documents and electronic archive	voucher types 63, 64, 66, 67, YA, YM, YN, YP, YT, YU and YX
<b>Payroll receipts</b>	paper documents and electronic archive	voucher types XQ and YV
<b>Travel and expense invoices</b>	electronic archive	voucher type YQ
<b>Treasury vouchers</b>	paper documents and electronic archive	voucher types XK and XM
<b>Fixed assets vouchers</b>	paper documents and electronic archive	voucher types AA and AF
<b>Finnair Plus vouchers</b>	electronic archive	voucher type XY
<b>Memo vouchers</b>	paper documents and electronic archive	voucher types 10, 11, 13, 14, 16, 17, 18, 19, 20, 23, 24, XX and YY
<b>Clearing vouchers</b>	electronic archive	voucher types 22 and SU

***FINNAIR***

# **Corporate Governance Statement 2014**



# Corporate Governance Statement 2014

## CONTENTS

Regulatory framework	2
Governing bodies	2
General Meetings	3
Shareholders' Nomination Board	3
Board of Directors	4
The Committees of the Board	5
Company management	7
Main features of the internal control and risk management system pertaining to the financial reporting process	9
Description of the overall system	9
Control environment	9
Risk Assessment	9
Control activities	10
Information and communication	10
Monitoring and improvement	11
Internal Audit	11
Compliance	11

## 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.

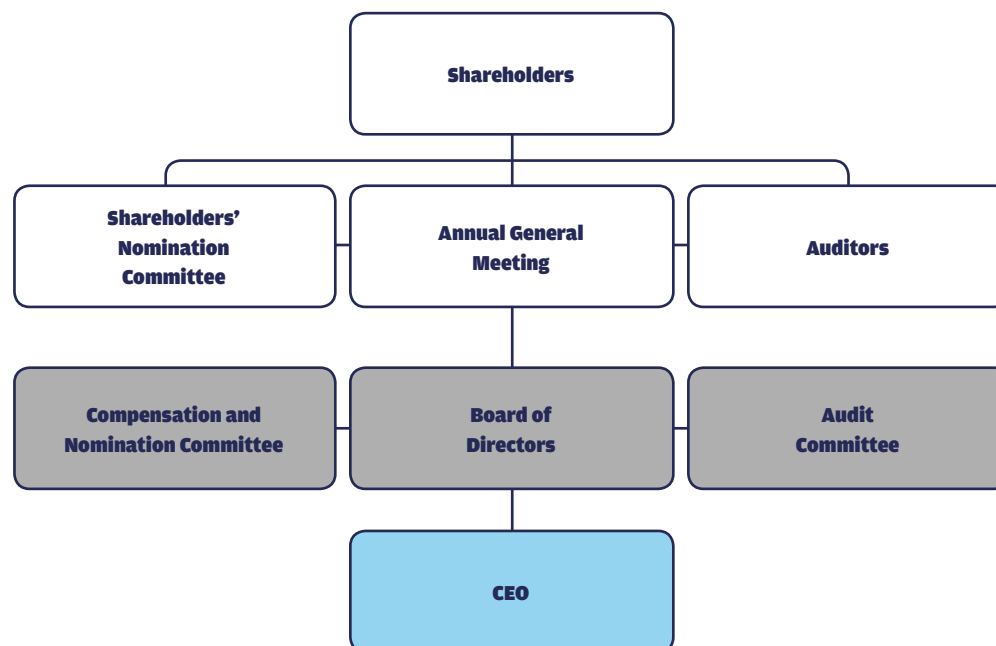
The principal legislative authorities on corporate governance of Finnish listed companies are the Companies Act, the Securities Market Act, the regulation and guidelines issued by the Financial Supervision, the rules and instructions for listed companies issued by Nasdaq Helsinki and the Finnish Corporate Governance Code, all of which are complied with by Finnair. Company specific authorities on the governance of Finnair are the Articles of Association and the 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](http://www.finnairgroup.com). The Corporate Governance Code is publicly available on the website of the Securities Market Association's website at [www.cgfinland.fi](http://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.

### **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
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

The Board convenes the General Meetings of Shareholders by publishing a notice not earlier than three months and not later than three weeks before the date of the meeting and always at least nine days before the record date of the meeting. The notice shall be published as a stock exchange release and on Finnair’s website.

Each shareholder who is registered on the record date as a shareholder in the company’s public register of shareholders, maintained by Euroclear Finland Ltd, 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.

### **2014 Annual General Meeting**

Finnair’s AGM 2014 was held in Helsinki on 27 March. A total of 251 shareholders, representing 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 2013 AGM except one and all candidates for

Board membership in 2014 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.

### **2013 and 2014 Nomination Boards**

The Nomination Board established in 2013 consisted of the representatives of three largest shareholders as at the first working day September 2013 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 was the following:

- Mr. Eero Heliövaara, b. 1956, M. Sc. (Econ.), M. Sc. (Eng.), Director General in the Ownership Steering in the Prime Minister’s Office (Chairman);
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva;
- Mr. Per Wennberg, b. 1969, B. Sc. (Hon.) in Business Management, Skagen’s Managing Director in Sweden;
- Mr. Klaus Heinemann, see details on page 5.



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 held on 27 March 2014.

The Nomination Board established in 2014 consisted of the representatives of three largest shareholders as at the first working day September 2014 i.e. the State of Finland, Keva and Skagen Global Verdpapirfond, and of the Chairman of the Board. Skagen funds sold their shares in Finnair Plc in November 2014 and consequently their representative in the Shareholders' Nomination Board resigned. The right to nominate a member to the Nomination Board was thus transferred to the fourth largest shareholder of Finnair Plc as at the first working day September, Ilmarinen. The composition of the 2014 Nomination Board is the following:

- Mr. Eero Heliövaara, see above, (Chairman);
- Mr. Robin Backman, see above;
- Mr. Per Wennberg, see above; (until Dec 2014)
- Mr. Harri Sailas, b. 1951, M. Sc. (Econ.) President and CEO of Ilmarinen Mutual Pension Insurance Company (from 15 Dec 2014 onward)
- Mr. Klaus Heinemann, see details on page 5.

The Nomination Board convened two times and all members were present in the meetings. On 29 January 2015, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 25 March 2015. The Nomination Board's proposals are available on Finnair's website.

### **Board of Directors**

The Chairman and the Members of the Board are elected by the AGM. According to the Articles of Association, the Board consists of the Chairman and a minimum of four and a maximum of seven other members. The Board elects a 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 Board's statutory tasks, certain significant matters are reserved for the Board's 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 to 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, and in 2014 it also used an external consult in assessing Board work. The Board's gender distribution in the composition elected by 2014 AGM is four men and three women.

### **Members of the Board and their independence**

The 2014 AGM held on 27 March elected Klaus Heinemann as Chairman of the Board and Maija-Liisa Friman, Jussi Itävuori, Harri Kerminen, Gunvor Kronman, Jaana Tuominen and Nigel Turner as other members of the Board. The Board elected 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 members are non-executive members independent of the Company and its major shareholders.

### **Members of the Board in 2014 and their attendance in Board and Committee meetings**

In 2014, the Board met nine times (seven meetings with the composition elected by the 2014 AGM and two meetings with the composition elected by the 2013 AGM). In addition, the Board made per capsulam decisions six times during the year. See the table on the following page for information on the Board members' participation in the meetings during 2014.

Name	Personal Information	Participation in Board meetings in 2014	Participation in Committee meetings in 2014	
			Audit	Remuneration
<b>Mr. Klaus W. Heinemann</b>	Chairman of the Board since 27 March 2013 Member of the Board since 28 March 2012 B. 1951, B.Sc. (Econ.) Main occupation: Board professional Committee membership: Audit Committee until 27 March 2014	9/9	1/1	
<b>Mr. Harri Kerminen</b>	Member of the Board since 24 March 2011 Vice Chairman of the Board since 28 March 2012 B. 1951, M. Sc. Tech, MBA Main occupation: Board professional Committee memberships: Audit and Compensation and Nomination Committee	9/9	6/6	4/5
<b>Ms. Maija-Liisa Friman</b>	Member of the Board since 28 March 2012 B. 1952, M.Sc. (Eng.) Main occupation: Board professional Committee memberships: Audit Committee (Chairman)	9/9	6/6	
<b>Mr. Jussi Itävuori</b>	Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Senior partner, RJJ Partners Limited Committee memberships: Compensation and Nomination Committee (Chairman)	9/9		5/5
<b>Ms. Gunvor Kronman</b>	Member of the Board since 28 March 2012 B. 1963, Master of Arts Main occupation: CEO of Swedish-Finnish Cultural Centre Committee membership: Compensation and Nomination Committee	8/9		5/5
<b>Ms. Jaana Tuominen</b>	Member of the Board since 27 March 2014 B. 1960, M. Sc. (Eng.) Main occupation: CEO of Paulig Group Committee membership: Compensation and Nomination Committee	7/7		3/3
<b>Mr. Nigel Turner</b>	Member of the Board since 27 March 2014 B. 1958, BA (Hon.) Main occupation: - Committee membership: Audit Committee	7/7	5/5	
<b>Members of the Board until the end of the 2014 AGM</b>				
<b>Ms. Merja Karhapää</b>	Member of the Board until 27 March 2014 B. 1962, Master of Laws, PG IPR Diploma Main occupation: Chief Legal Officer, Sanoma Group Committee memberships: Audit Committee	2/2	1/1	
<b>Mr. Antti Kuosmanen</b>	Member of the Board until 27 March 2014 B. 1950, BA, M.Sc. (Mathematics, Economics and Statistics.) Main occupation: Ambassador Committee membership: Compensation and Nomination Committee	0/2		1/2

More information on the Members of the Board is available on Finnair's website.

### The Board's work in 2014

In 2014 the Board met nine times in person and had six additional online or telephone meetings. In addition to its regulatory duties, the Board's actions included the following:

- Evaluated the company's strategy, followed the implementation of the existing strategic initiatives and set the focus areas for new initiatives;
- 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 performance bonus criteria for 2014;
- Approved a long-term incentive plan for the Pilots as a part of the resolution on the Pilots' Collective Labour Agreement negotiation;
- Approved the divestment of Finn catering Oy and the Duty free shops at Helsinki Airport;
- Approved the acquisition of the shares of Flybe Nordic;
- 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 several aircraft transactions, including the sale of four A340 aircraft to Airbus and confirmed eight A350 aircraft purchase options;
- Revised the financial guidance for 2014 in June and August;
- Assessed and developed its working practices; and
- Revised the charter of the Compensation and Nomination Committee.

### The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the Compensation and Nomination Committee. The Board appoints the Committee members and their Chairmen 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.

After 2014 AGM, the Audit Committee members are Maija-Liisa Friman (Chairman), Nigel Turner and Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The Audit Committee met six times in 2014 with an aggregate attendance rate of 100 per cent. One of the meetings was held with the composition that was in place after the 2013 AGM and five with the composition in place after the 2014 AGM. The CEO, the CFO, the Head of Internal Audit and Risk Management as well as the 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 2014**

In addition to its customary tasks, the Audit Committee attended selected focus areas, such as labour productivity, Joint Business Agreements, hedging strategies, information security, internal controls enhancement program, aircraft financing, and partner management.

The Audit Committee also:

- Reviewed the mid and long-term investment and funding plans;
- Reviewed the risk management process, the risk and control environment, the top risks for 2014 and the related risk management measures. The Committee reviewed and approved a risk-based internal audit plan for 2014 and assessed the sufficiency of the resources in the internal control functions;
- Reviewed the current state and development roadmap of the group's Governance, Risk and Compliance (GRC) system;
- Held a risk management workshop to set and document the group's risk appetite;
- 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 it changed the financial guidance in June and August 2014;
- Assessed the internal and external auditor's performance and proposed to the 2014 AGM that PricewaterhouseCoopers be re-elected as the auditor for the fiscal year 2014; and
- Performed an annual self-assessment and set the Committee's annual plan for 2015. The areas of specific attention in 2015 will comprise complementary pensions, Joint Business Agreements, Finance processes and controls, IT, Aircraft Finance, and Vendor Management.

### **Compensation and Nomination Committee**

The Compensation and Nomination Committee assists the Board in matters pertaining to the compensation and benefits of the CEO and other senior management, their performance evaluation, appointment and successor planning. The Committee assists the Board also in establishing and evaluating the group's compensation structures and other personnel policies.

### **The main duties of the Compensation and Nomination Committee**

The Committee prepares the following matters for the Board:

- compensations, pensions, benefits and other material terms of the contract of the CEO
- compensations, pensions and benefits of the top executives of the group, and other material terms of their contracts to the extent that the same deviate from the customary practice
- nominations of the CEO and other top executives
- top executives' succession planning
- composition of the Executive Board
- equity-based incentive plans
- the principal compensation policies and practices regarding the personnel
- 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.

A copy of the Committee's charter is available on Finnair's website.

After the 2014 AGM, the members of the Compensation and Nomination Committee elected are Jussi Itävuori (Chairman), Gunvor Kronman, Jaana Tuominen and Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The members of the Compensation and Nomination Committee met five times in 2014 with an aggregate attendance rate of 90 per cent. Two of the meetings were held with the composition that was in place after the 2013 AGM and three with the composition in place after the 2014 AGM. The CEO and the Head of HR were invited to the meetings to assist the Committee. Finnair's General Counsel acted as the Committee's secretary.

#### The Compensation and Nomination Committee's work in 2014

The Committee's work comprised, among other things, the following topics:

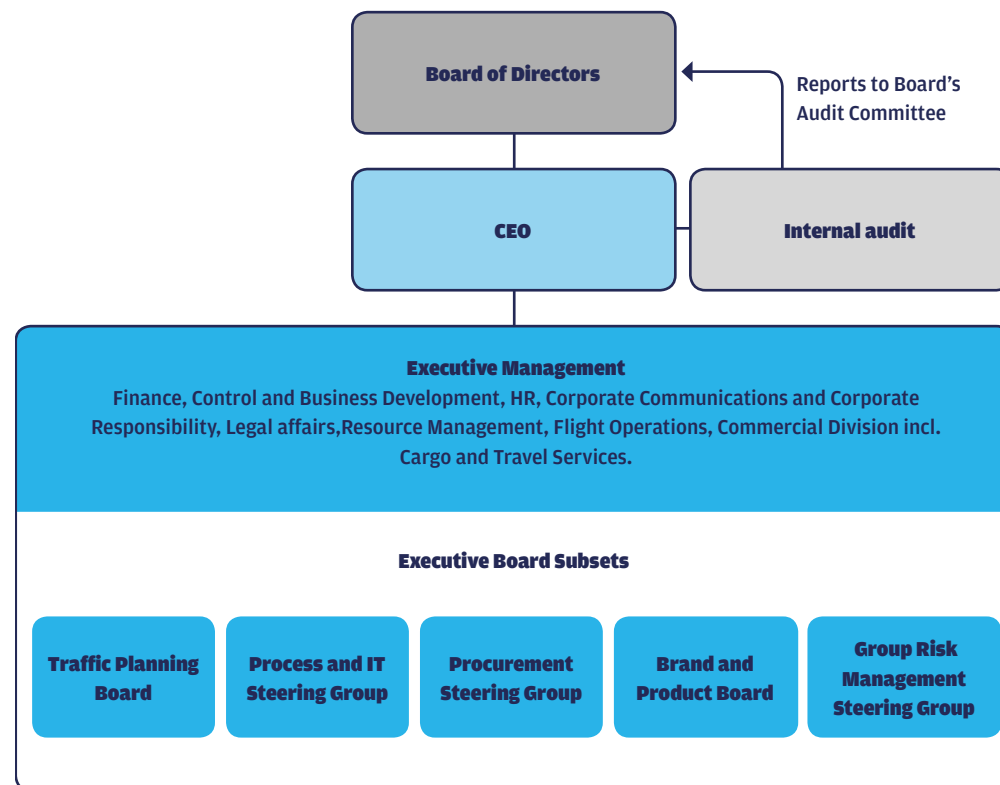
- Prepared for the Board approval the 2014 program under the employee share saving plan 'Flyshare';
- Committee also reviewed the senior management's compensation levels compared to the market and assessed their performance under the long and short term incentive targets;
- Assisted the Board in determining the semi-annual targets of the top management for 2014 as well as the personnel fund's bonus criteria for 2014;
- 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 program;
- Discussed with the management the strategically vital labour cost savings and the targets and results of the collective labour agreement negotiations;
- Prepared for the Board approval a long-term incentive plan for the pilots as part of their new collective labour agreement; and
- Assessed its meeting practices and tasks and prepared its revised charter, which was approved by the Board early 2014.

## Company management

### Finnair's corporate structure

Finnair has two business areas: Airline Business 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, Control and Corporate Development, Human Resources, Communications and Corporate Responsibility, Legal Affairs and Internal Audit.

## Company Management



### The CEO

The CEO is appointed by the Board. The CEO manages the company's day-to-day operations in accordance with guidelines and instructions issued by the Board. The CEO's instructions from the Board include, in particular, the implementation of Finnair's strategy, driving of structural 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.

The CEO of Finnair is Pekka Vauramo, b. 1957, M. Sc. (Mining).

## **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, control and corporate development, 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 2014, Finnair's Executive Board met twice a month on average. The main focus areas in the Executive Board's work were the strategy assessment, development and implementation, the group's financial status, revenue enhancement and product renewal, risk management, IT transformation and related investments, outsourcings and vendor management, talent and successor reviews, and HR development programs. The Executive Board also sought to improve route profitability, operational quality and customer service. In addition, the Executive Board met nearly every week to tend to Finnair's collective labour agreement negotiations and the profitability and productivity improvement programs.

## **Subsets of the Executive Board**

**The Executive Board** delegates certain of its functions to five subsets. These subsets consist of members of the Executive Board or representatives of various business functions. These subsets' 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 passenger 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.

In addition Executive Board acts as the **Group Risk Management Steering Group**. Risk Management Steering Group is responsible for the Group's strategic risk assessment and setting risk management priorities and risk management measures. It assesses the adequacy and timeliness of the Group's risk management policy, and decides over the extent to which key external cooperative parties are obligated to comply with the content of this. In addition, it reviews and approves changes in the risk reporting process, Finnair common risk language and risk model. The Steering Group 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 2014, 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, in selected subsidiaries, also from representatives proposed by personnel groups. The key tasks of the boards of directors of subsidiaries include strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of the approval limits issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2014 under Note 1.3., Subsidiaries.

## **Governance principles in key partnerships and outsourcings**

Finnair has equity partnership in Flybe Finland Oy through Flybe Nordic AB (ownership 40 per cent) and in Nordic Global Airlines Ltd (ownership 40 per cent). 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.

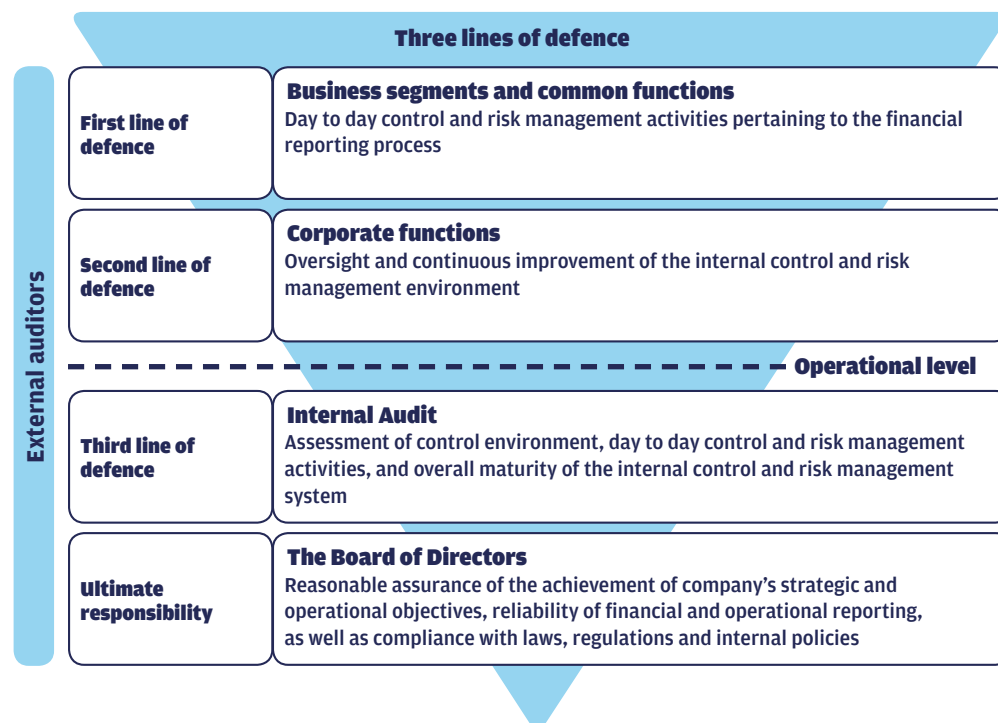
### Control environment

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, 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,

## The role in the implementation of the internal control and risk management system



Internal Audit has a direct functional reporting line to the Audit Committee of Finnair Board and it is positioned to operate administratively under the CEO. The Audit Committee appointed by the Board of Directors oversees the financial reporting process and overall maturity of the internal control and risk management system. The described roles and responsibilities are in accordance with the Finnish Companies Act, and the Finnish Corporate Governance Code. The picture above summarises the roles of the listed stakeholders 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.



As a part of internal controls development project, the processes with material impact on financial reporting have been defined and risks threatening the reliability and accuracy of financial reporting assessed in a coordinated manner. Possible changes in internal and external environment are always assessed and processes updated accordingly.

### 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 control-liability of the financial reporting process and ensure that financial statement fulfils the requirements set in the IFRS standards and other applicable principles.

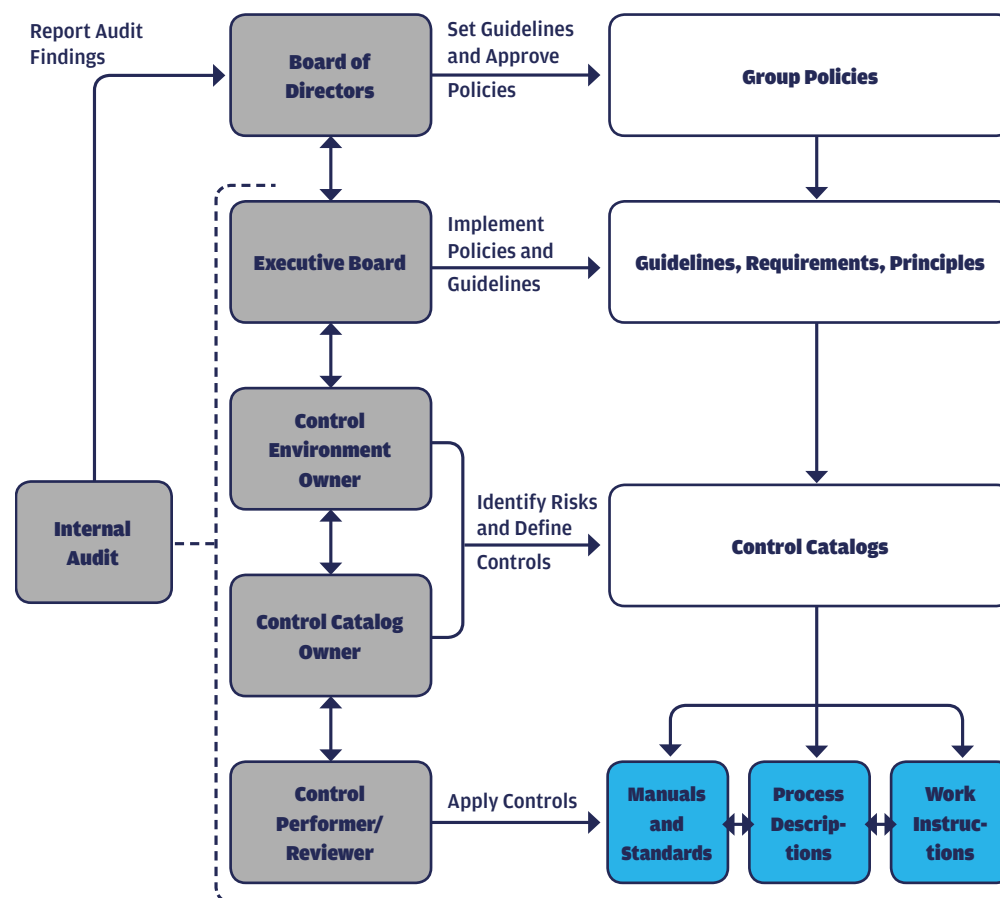
Risk related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for 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 Catalogue Owner: Process Owners	Owner of the process controls defined in the control catalogue.
Control Performer / Reviewer	Responsible for executing / monitoring key control(s) defined in the control catalogue.
Internal Audit	Responsible for audit of reporting processes and related controls according to the annual audit plan.

The main components and roles associated with control planning, implementation and monitoring are summarised in the following chart:



### Information and communication

Information and communication system provides means for Finnair's personnel to capture and communicate information related to risk assessments and control activities across company's operations. The system aims at providing required personnel access to adequate and timely information on accounting and reporting as well as on related controls. Information regarding control requirements is communicated through common policies, dedicated guidelines and process level procedure descriptions.

The CFO, supported by Investor Relations function, is responsible for the disclosure of financial information and fulfilment of the communication obligations of a listed company. Investor Relations holds the responsibility over planning and implementation of investor communications and daily contact with investors and analysts.

## Monitoring and improvement

Finnair's internal control and risk management system is subject to both on-going and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of corporate management, business units and group-wide functions.

### Focus areas of internal control over financial reporting in 2014 and 2015

#### 2014 Key Activities

Regular self-assessment of risks and controls was performed as set in the annual calendar of internal control activities. Specific attention was put into the critical process areas where changes in the roles and responsibilities have recently occurred. Additionally, the Internal Audit and public auditors performed audits on key controls as defined in the annual audit plan.

Furthermore, control catalogue documentation in additional key process areas identified after the first phase implementation was carried out to further extend the coverage of the consistently defined framework and control process. Special attention was focused on areas where changes in roles and responsibilities had taken place.

#### 2015 Planned Key Activities

Further development of the controls will be conducted independently and also using any findings and suggestions received from Internal Audit and public auditors. By the end of 2015 audits will have been performed for each control catalogue.

## 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 organisation to mitigate factors that might undermine its business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### Internal Audit's focus areas in 2014 and 2015

#### 2014 Key Activities

Main focus areas of Internal Audit for the year 2014 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 sales strategy implementation and business resilience. Finnair Internal Audit participated in the planning of a project aiming to enhance Governance, Risk and Compliance management system and related IT platform. It also provided facilitative support for setting and documentation of the group's risk appetite.

#### 2015 Planned Key Activities

Internal Audit Plan for 2015 has been approved by the Audit Committee of the Board of Directors in December 2014. Sales strategy implementation will continue to be a focus area, and other special attention areas will relate to strategic partnerships and programs, and data integrity. Internal Audit will participate as a subject matter expert in project aiming to enhance key process controls' development as well as continue to participate in project aiming to enhance Governance, Risk and Compliance management system and related IT platform.

## Compliance

Finnair is committed to complying with international and local laws and ethical policies in accordance with the Code of Conduct approved in 2012. The Company's General Counsel is responsible for Finnair's compliance function, which supports business operations and corporate administration developing practices related to identifying and complying with the law. The key tasks of Finnair's Compliance function are to ensure compliance with the regulation in all operations, maintenance of Finnair's compliance program and the continuous development of ethical business culture.



**FINNAIR**

# Remuneration Statement 2014



# Remuneration Statement 2014

## CONTENTS

Introduction	2
Total compensation at Finnair	2
Variable pay	3
Short-term Incentives	3
Long-term Incentives	4
Management remuneration decision-making procedure	6
Remuneration of the Board of Directors in 2014	6
Management remuneration in 2014	7
Supplementary pensions	7
Termination of the service contract and severance pay	7
Other benefits	7

## 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 2014. Further information is also available on the company website at [www.finnairgroup.com](http://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.

## Total compensation at Finnair

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 the 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

**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. Outside Finland, Finnair follows the pay practices and collective agreements of each country of operation. Collective labour agreements are available on the company website at [www.finnairgroup.com](http://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. The average service years of all employees was 17.4 at year-end 2014.

*Variable pay is linked to company and individual performance.*



#### Computational monthly earnings of Finnair's major Finnish personnel groups in 2014\*

Personnel Group	Median**	
	2014	2013
Executive Board	18,486	18,998
Pilots (SLL)	10,216	10,469
Management positions	8,517	9,004
White Collar Employees (FYT)	5,253	5,333
Engineers (FIRY)	5,154	5,305
Technical Employees (FT)	5,116	4,877
Technical Services (IAU)	4,777	4,577
Cabin Crew (SLSY)	4,207	4,152
Ground Services (IAU)	3,911	3,825
Aviation Employees (SLV)	3,551	3,486

\* 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. The data does not include pilots in supervisor roles. Long-term incentives are not included.

\*\* 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.

#### Average years of service in Finnair's major Finnish personnel groups on 31 Dec 2014

Personnel Group	Average years of service
Executive Board	6.3
Pilots (SLL)	14.5
Management positions	15.7
White Collar Employees (FYT)	16.6
Engineers (FIRY)	21.7
Technical Employees (FT)	26.4
Technical Services (IAU)	19.9
Cabin Crew (SLSY)	20.7
Ground Services (IAU)	18.7
Aviation Employees (SLV)	21.9
Average of major Finnish personnel groups	19.2

#### Compensation is based on job grading

Finnair uses job grading as the basis for determining the compensation 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. Job grading enables uniformity in compensation related decisions both internally and compared to the market.

#### Variable pay

Variable pay is 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 incentives are aimed at committing personnel 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

##### 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 per cent 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 per cent of the annual base salary. 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 targets are mainly based on financial measures but also on operative and quality KPIs such as customer and employee satisfaction.

In 2014, the short-term incentive for members of the Executive Board corresponded to 20 per cent of the base salary at the target level and 40 per cent of the base salary at the maximum level. The corresponding figures for the CEO were 30 per cent at the target level and 60 per cent at the maximum level.

According to the government guidelines issued by the Finnish Cabinet Committee on Economic Policy on 13 August 2012, the short-term incentive for an individual may not exceed 60 per cent 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, other members of the Executive Board and the participants of the performance share plan are not members of the Personnel Fund. In 2014, the targets of the personnel fund were not reached.

#### **Long-term Incentives**

##### **Personnel share savings plan FlyShare**

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.

The plan consists of annually starting savings periods which are followed by a two-year shareholding period. Of all employees invited to participate, approximately 20 per cent participated in the first savings period, which commenced on 1 July 2013. The second savings period commenced on 1 July 2014 and about 700 employees, or 15 per cent of those invited, enrolled for this period. Every new savings period is decided separately by the Finnair Board.

Participation in the plan is voluntary. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8 per cent and the minimum 2 per cent of each participant's gross base salary per month, with the annual maximum savings set at 8,000 euros per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the publication dates of Finnair's interim results. Any dividends paid on purchased shares during the savings period will be automatically reinvested in Finnair shares on the purchase date following the payment of dividend.

After the two-year shareholding period, Finnair will award each participating employee one matching share for each two shares purchased. The awarded additional shares are taxable income for the recipient. The matching shares for the first FlyShare savings period 2013–2014 will be delivered in February 2016 and the matching shares for the second savings period 2014–2015 in February 2017. In addition, employees participating in the plan for the first time are rewarded with 20 bonus shares after the first three months.

##### **Performance-based long-term incentive plan for key personnel**

Finnair's Board of Directors approved on 7 February 2013 a new performance share plan for the key personnel of the Finnair Group. The share plan replaced 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 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.

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 during the three years following the performance period (50 per cent, 30 per cent and 20 per cent). For other participants, the shares will be delivered in two tranches, 50 per cent each, during the two years following the performance period.

As a consequence of the transfer from the previous fixed three-year structure to a rolling structure, the 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 a 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 per cent 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 per cent of the participant's annual base salary. For other key personnel, the target level for incentives is 20–25 per cent and maximum 40–50 per cent 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 per cent 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.

#### **2013–2015 share plan**

Finnair's Board of Directors approved the 2013–2015 share plan on 7 February 2013. The general terms of the performance share plan described above apply to this plan. On 31 December 2014, the number of employees eligible to participate in this plan was approximately 40.

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 per cent and 40 per cent, 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.

#### **2014–2016 share plan**

Finnair's Board of Directors approved 2014–2016 share plan on 10 February 2014. The general terms of the performance share plan described above apply to this plan. On 31 December 2014, the number of employees eligible to participate in this plan was approximately 50.

The performance criteria applied to the plan for 2014–2016 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). These criteria are weighted equally (50 per cent and 50 per cent).

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.

#### **2015–2017 share plan**

Finnair Board of Directors approved 2015–2017 share plan on 16 December 2014. The general terms of the performance share plan described above apply to this plan. The number of employees eligible to participate in this plan is approximately 60 persons.

The performance criteria applied to the plan for 2015–2017 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). These two criteria are assigned weights of 50% and 50%.

The target levels and maximum levels set for the criteria are based on long-term strategic objectives set by the company's Board of Directors. Performance against the criteria is monitored quarterly.

#### **Long-term incentive plan for pilots**

Finnair's Board of Directors approved on 13 October 2014 a new long-term incentive plan for Finnair pilots. The plan is a part of the savings agreement between Finnair and the Finnish Air Line Pilots' Association (SLL) that brings Finnair 17 million euros in permanent annual savings. The savings agreement was contingent on the realization of the incentive plan.

The plan period is 2015–2018 and the prerequisite for rewarding pilots based on this plan is the materialization of the agreed cost savings over this time period. In addition, the company share price must be at least 4 euros at the end of the incentive plan. If these conditions are met, the pilots are entitled to a cash payment. The amount of the payment is based on the Finnair share price. The total payment is 12 million euros with a share price of 4 euros and 23 million euros with a share price of 8 euros, which is also the maximum earning of the plan. Divided over the four-year period, the annual earnings potential for one participant is equivalent to 5–10 per cent of the annual base salary.

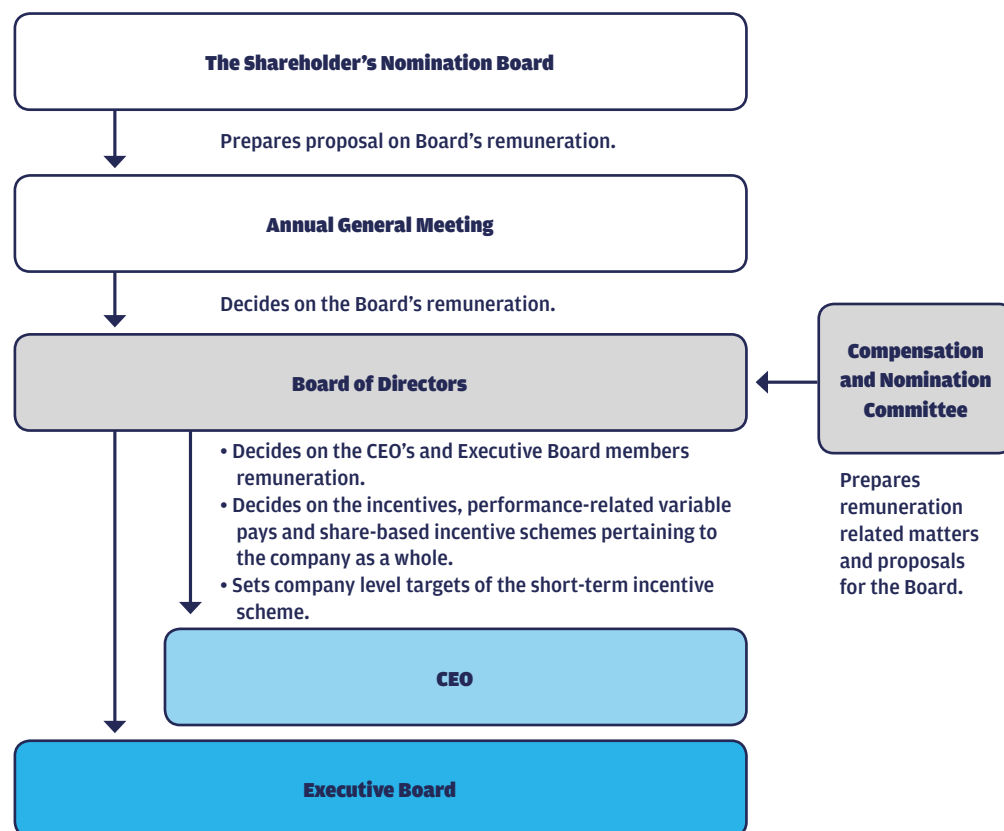
There are approximately 700 pilots eligible to participate in the plan. The cash payment will be delivered in spring 2019, provided that the conditions mentioned above are met.

## Management remuneration decision-making procedure

**The Board of Directors' remuneration:** The Shareholders' Nomination Board 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 Compensation and Nomination Committee. Decisions on remuneration have been made with consideration of the government guidelines.

### Remuneration decision-making procedure



## Remuneration of the Board of Directors in 2014

The Annual General Meeting (AGM) decides annually on the remuneration and other financial benefits of the members of the Board of Directors and its committees. The election and remuneration of the members of the Board are prepared by the Nomination Board formed by the representatives of the company's largest shareholders. The remuneration of the Board of Directors and its committees is paid in cash.

The members of the Board of Directors are not covered by the company's share incentive scheme or other incentive schemes. The annual remuneration and meeting compensation decided by the 2014 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, 2,400 euros per Board or committee meeting.

### Remuneration paid to Board of Directors in 2014

	Annual remuneration*	Board meetings	Committee meetings	Meeting compensation	Meeting compensations in total	Taxable benefits**	Total
<b>Members 1.1.-31.12.2014</b>							
<b>Klaus Heinemann (chairman)</b>	61,200.00	9/9	1/1	1,200.00	10,800.00	0.00	72,000.00
<b>Harri Kerminen (deputy chairman)</b>	32,400.00	9/9	10/11	600.00	9,600.00	1,465.72	43,465.72
<b>Maija-Liisa Friman</b>	30,000.00	9/9	6/6	600.00	7,800.00	9,466.19	47,266.19
<b>Gunvor Kronman</b>	30,000.00	8/9	5/5	600.00	6,600.00	3,538.39	40,138.39
<b>Jussi Itävuori</b>	30,000.00	9/9	5/5	2,400.00	24,000.00	6,361.26	60,361.26
<b>Members 27.3.-31.12.2014</b>							
<b>Jaana Tuominen</b>	22,500.00	7/7	3/3	600.00	4,800.00	0.00	27,300.00
<b>Nigel Turner</b>	22,500.00	7/7	5/5	2,400.00	26,400.00	1,395.40	50,295.40
<b>Members 1.1.-27.3.2014</b>							
<b>Merja Karhapää</b>	7,500.00	2/2	1/1	600.00	1,800.00	0.00	9,300.00
<b>Antti Kuosmanen</b>	7,500.00	0/2	1/2	600.00	600.00	0.00	8,100.00

Remunerations paid to the Board in 2014.

\* The remuneration is expressed at the annual level but paid in monthly instalments.

\*\* Taxable benefits include Finnair staff tickets. The members of the Board and their spouses have a right to use staff tickets in accordance with Finnair's staff ticket rule.

The members of the Board of Directors are entitled to a daily allowance and compensation for travel expenses in accordance with Finnair's general travel rules. In addition, the members of the Board of



Directors have a limited right to use staff tickets in accordance with Finnair's staff ticket rules. Under the current rules, the Directors and their spouses are entitled to 4 return or 8 one-way tickets on Finnair flights per calendar year in Economy or Business Class. The fare of these tickets is zero, exclusive of any airport taxes, fees and charges, which are payable by the Directors and their spouses. These tickets constitute taxable income in Finland.

Finnair's remuneration for members of the Board of Directors has remained unchanged since 2008.

### **Management remuneration in 2014**

In 2014, Finnair's CEO was Pekka Vauramo. The Executive Board comprised seven members in addition to the CEO. SVP HR Manne Tiensuu and Chief Commercial Officer Allister Paterson resigned from the Executive Board during 2014. New SVP HR Eija Hakakari started on 1 October 2014 and new Chief Commercial Officer Juha Järvinen on 1 November 2014. In addition, on 31 December 2014 SVP Resource Management Gregory Kaldahl left Finnair. The Executive Board's salary and other remuneration paid in 2014 is presented on page 8.

In 2014, no long-term incentives were paid to management. Executive Board short-time incentives decreased from 2013 substantially due to financial performance of the company.

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 long-term incentive payout for the three-year period was 43 per cent of the maximum level. 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.

### **Supplementary pensions**

#### **The CEO**

The CEO, Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. The CEO does not have a supplementary pension benefit.

#### **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 Finnish tax laws. All supplementary pensions taken for the executives are defined contribution

schemes. The supplementary defined contribution pension arrangement applies to four members of the Executive Board. The annual contribution equals 10 per cent 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. There are no Executive Board members 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 Pekka Vauramo's service contract, both the CEO and the company have the right to terminate the service contract without a specific cause. The notice period is six months for both the company and the CEO. In the event that the company terminates the service contract, the CEO is entitled to a severance pay corresponding to 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.

#### **Executive board**

According to service agreements, both parties have the right to terminate the service contract without a specific cause. The maximum notice period is six months for both parties. In the event that the company terminates the agreement, the member of the Executive Board is entitled to a severance pay corresponding to the base salary of maximum of twelve months in addition to the salary for the notice period. This severance pay does not apply if the contract of employment is cancelled, if the executive terminates the contract or retires.

### **Other benefits**

#### **The CEO**

CEO Pekka Vauramo's benefits include life insurance, free-time accident insurance, travel insurance, management liability insurance and medical insurance. The life insurance coverage starts at 20 per cent of annual pay and increases each year. The total sum may not, however, exceed EUR 500,000. The CEO also has a mobile phone 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 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 Finnair Financial Statements 2014 in note 3.8 Employee benefits.

Salary and other remuneration paid, euros per year	CEO 2014		CEOs 2013		Executive Board 2014 <sup>1)</sup>	Executive Board 2013 <sup>1)</sup>
		Pekka Vauramo	Mika Vehviläinen (CEO until 28.2.2013)	Ville Iho (Acting CEO 27.1.-31.5.2013) <sup>2)</sup>	Pekka Vauramo (CEO from 1.6.2013)	
<b>Base Salary<sup>3)</sup></b>						
The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors.	<b>In total, euros</b>	<b>638,600</b>	<b>178,039</b>	<b>225,040</b>	<b>360,500</b>	<b>1,614,461</b>
<b>Employee benefits</b>						
Employee benefits are described on page 7.	Car benefit, taxable value	0	1,890	12,540	0	60,999
	Phone benefit, taxable value	240	40	240	140	1,720
	Housing benefit, taxable value	0	4,699	0	0	0
	Other taxable benefits <sup>8)</sup>	3,695	-	-	-	2,916
	<b>In total, euros</b>	<b>3,935</b>	<b>6,629</b>	<b>12,780</b>	<b>140</b>	<b>65,635</b>
<b>Short-term incentives<sup>4)</sup></b>						
Principles are described on pages 2–3.	Target payout, %	30%	20%	20%	30%	20%
	Payout, % of base salary <sup>5)</sup>	18%	53%	19%	0%	10%
	<b>In total, euros</b>	<b>117,508</b>	<b>94,382</b>	<b>43,299</b>	<b>0</b>	<b>163,104</b>
<b>Long-term incentives</b>						
<b>Long-term incentive plan 2010–2012</b>						
A three-year share plan. Principles are described on page 5.	Share-based incentive, paid in cash	0	0	102,850	0	0
	Share-based incentive, paid in shares, in euros <sup>6)</sup>	0	0	68,567	0	0
	Purchasing incentive, in euros <sup>7)</sup>	0	150,147	49,572	0	0
	<b>In total, euros</b>	<b>0</b>	<b>150,147</b>	<b>220,989</b>	<b>0</b>	<b>0</b>
<b>Salary and other remuneration paid in total</b>		<b>760,042</b>	<b>429,197</b>	<b>502,108</b>	<b>360,640</b>	<b>1,843,200</b>
						<b>3,304,017</b>

<sup>1)</sup> Salary and remuneration of Acting CEO Ville Iho for 2013 not included. Salary and remuneration included for Executive Board membership period only.

<sup>2)</sup> Ville Iho's salary and other remuneration for the full year 2013.

<sup>3)</sup> Base salary includes holiday bonus.

<sup>4)</sup> Earnings period for incentives paid in 2013 was 1 Jul 2012–30 Jun 2013 and for incentives paid in 2014 1 Jul 2013–30 Jun 2014.

<sup>5)</sup> Short-term incentives compared to base salaries.

<sup>6)</sup> The value determined by the share price (EUR 2,5337) at the time of payment.

<sup>7)</sup> Earnings period for purchasing incentives is the previous year.

<sup>8)</sup> Other taxable benefits include health insurances and staff tickets.