Finnair Group Half-Year Report 1 January – 30 June 2017

20 July 2017

Finnair Group Half-Year Report 1 January–30 June 2017

Finnair's earnings growth continues: all-time high profit for Q2

April–June 2017

- Revenue increased by 11.2% year-on-year to 633.4 million euros (569.6)*.
- Available seat kilometres (ASK) grew by 6.8%.
- Comparable operating result was 37.5 million euros (3.2).
- Operating result was 89.1 million euros (0.2) including i.a. sales gain on an A350 aircraft.
- Comparable EBITDAR** was 103.2 million euros (56.3).
- Net cash flow from operating activities amounted to 162.2 million euros (119.6), and net cash flow from investing activities to -136.5 million euros (-149.0).***
- Unit revenue (RASK) increased by 4.1% year-on-year.
- Unit cost (CASK) decreased by 1.6% and unit cost at constant currency excluding fuel increased by 3.1% year-on-year.
- Ancillary and retail revenue per passenger grew by 8.2% year-on-year to 11.8 euros.
- Earnings per share were 0.50 euros (-0.04).

January–June 2017

- Revenue increased by 7.4% year-on-year to 1,187.7 million euros (1,106.0)*.
- Available seat kilometres (ASK) grew by 3.5%.
- Comparable operating result was 28.5 million euros (-12.2).
- Operating result was 79.1 million euros (-17.4).
- Comparable EBITDAR** was 153.3 million euros (92.7).
- Net cash flow from operating activities amounted to 186.1 million euros (130.0), and net cash flow from investing activities amounted to 8.6 million euros (-396.3).***
- Unit revenue (RASK) increased by 3.7% year-on-year.
- Unit cost (CASK) increased by 0.1% and unit cost at constant currency excluding fuel increased by 2.2% year-on-year.
- The 20-million euro cost-efficiency programme was completed in full by the summer.
- Ancillary and retail revenue per passenger grew by 8.7% year-on-year to 12.3 euros.
- Earnings per share were 0.41 euros (-0.19).

** Unless otherwise stated, figures in parentheses refer to the comparison period, i.e. the same period last year.*
*** Comparable operating result + depreciation + lease payments for aircraft.*
**** Net cash flow from investing activities includes, in the second quarter, 91 million euros of investments in money market funds and other financial assets maturing after more than three months. In the first year-half, these decreased in net terms by 95 million euros. These investments are part of the Group's liquidity management.*

Outlook

Outlook published on 28 April 2017

The demand outlook for passenger and cargo traffic in Finnair's main markets continues to involve uncertainty. Finnair estimates that, in 2017, due to the fleet renewal and introduction of new aircraft, its capacity will grow 8–10 per cent, weighted strongly towards the second half of 2017. Revenue is expected to grow more slowly than our capacity, reflecting increasing capacity in the relevant markets.

In keeping with its disclosure policy, Finnair will issue guidance for its expected full-year operational result in connection with the half-year report in July.

Outlook on 20 July 2017

The demand outlook for passenger and cargo traffic in Finnair's main markets continues to involve uncertainty. Finnair reiterates its previous estimate that, in 2017, due to the fleet renewal and introduction of new aircraft, its capacity will grow 8–10 per cent, weighted strongly towards the second half of 2017. Full-year revenue is expected to grow approximately in line with capacity.

At current fuel prices and exchange rates, Finnair expects its comparable operating result for 2017 to broadly double year-on-year (2016: 55 million euro)

CEO Pekka Vauramo:

Finnair is now growing at an accelerated speed: We are opening new routes, adding capacity in existing key routes, and recruiting new employees. Customer satisfaction as measured by Net Promoter Score is at an all-time high. We now provide our passengers, among other things, with wi-fi throughout the wide-body-fleet and new convenient inflight payment solutions in the entire fleet. We also launched a ground transportation service allowing the customer to purchase a complete door-to-door journey connected to a flight ticket. Our sales and marketing efforts in selected target markets are paying off, supporting our market share growth in strategic routes. Market conditions also developed favourably in the second quarter, and hence our growth, helped by successful timing, got a flying start. For the next winter season, we are planning to grow faster than ever before.

In the second quarter, Finnair carried a quarterly record number of passengers. This was also shown in our revenue, which grew at a double-digit rate. Sales grew particularly due to the solid demand for the backbone of our network, traffic between Asia and Europe, and our load factors rose. In particular, our sales developed favourably in Japan, Korea and China.

Both corporate travel and the materialisation rate of group travel have been clearly stronger than a year ago. Our new destinations, such as San Francisco, have sold well, similarly to the additional frequencies we added to Tokyo. Our expanded range of destinations and increased capacity in Europe matched the needs of our Asian and Finnish passengers. Outbound travel from Helsinki has picked up from a year ago, as has traffic from the United States to the Nordic countries and Russia due to our improved network of connections.

On the back of solid demand, our passenger load factor rose considerably in the second quarter, and ticket prices held up well. I am also pleased to see that ancillary revenue per passenger continued to increase, and the expected upturn in cargo materialised. These positive developments were also reflected in our result: our comparable operating profit in the second quarter improved by almost 35 million euros from the slightly positive result a year ago, marking nearly three years of result improvement. It was also particularly encouraging that our customer satisfaction has continued to improve: Finnair's Net Promoter Score during the quarter was 48, an all-time high. We are focusing on service development and improving the smoothness of the entire passenger journey to offer a unique Nordic experience to our customers.

The favourable first half of the year provides a solid foundation for us to build the future Finnair. In the second half of the year, our capacity will grow at a rate of approximately 15 per cent. The third quarter is seasonally the strongest in our business, and favourable market conditions appear likely to continue. Therefore, we anticipate our comparable full-year operating profit to broadly double from last year.

Business environment

Traffic continued to grow in Finnair's main markets in the second quarter of 2017. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations grew by 6.0 per cent year-on-year, while direct market capacity between Finnair's Asian and European destinations grew by 5.6 per cent year-on-year. Finnair's market share decreased slightly in European traffic, and slightly increased in traffic between Europe and Asia, to 5.6 per cent (5.5).*

The quarter was characterized by improving balance between market capacity and demand for travel between Asia and Europe. The Siberian Joint Business, covering flights between Europe and Japan, increased its market share in Q2. Demand continued to be strong particularly for traffic originating in Japan. Revenues improved versus last year due to volume and yield growth. The market environment for the Atlantic Joint Business remained challenging due to overcapacity and competition for traffic between Europe and North America. In June, Finnair launched a new seasonal flight between Helsinki and San Francisco.

The offering by tour operators active in Finland was clearly better in line with demand than during the first quarter. Consumer demand concentrated particularly on Greece, Croatia and continental Spain, as the supply of packaged travel to Turkey decreased.

There has been an upturn in the air cargo market after the comparison period, particularly in traffic between Europe and Asia. Market capacity continues to increase, but supply and demand are more balanced than previously, leading to higher cargo load factors and yields.

The market price of jet fuel was 11.0 per cent higher in the second quarter than in the comparison period. The US dollar, the most significant expense currency for Finnair after the euro, appreciated by 2.6 per cent against the euro year-on-year. With regard to key income currencies, the Japanese yen was 0.3 per cent weaker against the euro than in the comparison period. The Chinese yuan depreciated by 2.3 per cent against the euro year-on-year. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected one-for-one in its result.

** Based on external sources (capacities on SRS Analyzer data and market shares on DDS pax estimates for April and May). The basis for calculation is Finnair's non-seasonal destination cities.*

Financial performance

Revenue in April–June 2017

Finnair's revenue in the second quarter of 2017 grew by 11.2 per cent year-on-year to 633.4 million euros (569.6). Due to the positive market development and 6.8 per cent capacity growth, there was considerable revenue growth in passenger traffic, ancillary and retail sales, cargo and travel services. Only travel agency revenue decreased to zero after the comparison period, due to the divestment of SMT in November 2016. Unit revenue (RASK) increased by 4.1 per cent year-on-year and amounted to 6.96 euro cents, while the passenger load factor rose by 6.3 percentage point to 83.7 percent.

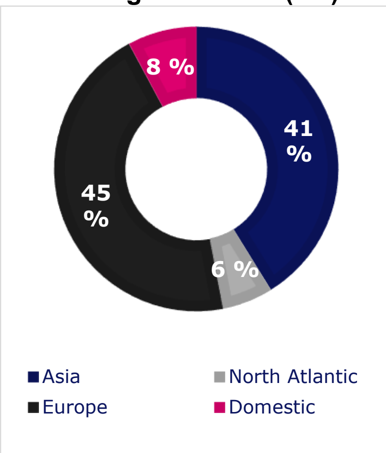
Revenue by product

EUR million	4–6/2017	4–6/2016	Change %
Passenger revenue	509.2	458.3	11.1
Ancillary and retail revenue	36.2	30.3	19.6
Cargo	49.4	42.6	16.1
Travel services	38.5	34.1	12.9
Travel agencies		4.4	-100.0
Total	**633.4**	**569.6**	**11.2**

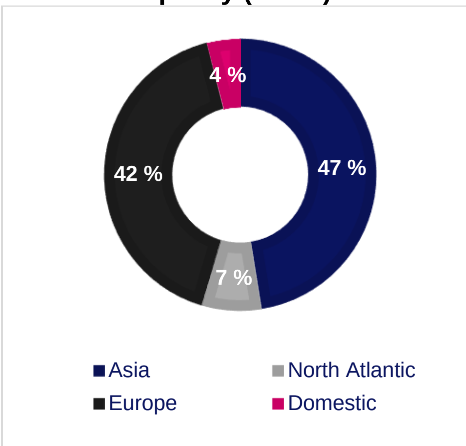
Ticket revenue and traffic data by area, 4–6/2017

Traffic area	Ticket revenue EUR mill.	Ticket revenue Change %	ASK Mill. km	ASK Change %	RPK Mill. km	RPK Change %	PLF %	PLF Change %-point
Asia	211.2	21.4	4,317.0	6.1	3,721.5	19.7	86.2	9.8
North Atlantic	29.9	4.1	646.9	-3.7	552.1	4.1	85.3	6.4
Europe	231.3	13.3	3,771.6	10.5	3,106.1	14.5	82.4	2.9
Domestic	40.3	1.6	359.2	0.6	236.2	-0.7	65.8	-0.9
Unallocated	-3.5	-129.6						
Total	**509.2**	**11.1**	**9,094.8**	**6.8**	**7,616.0**	**15.5**	**83.7**	**6.3**

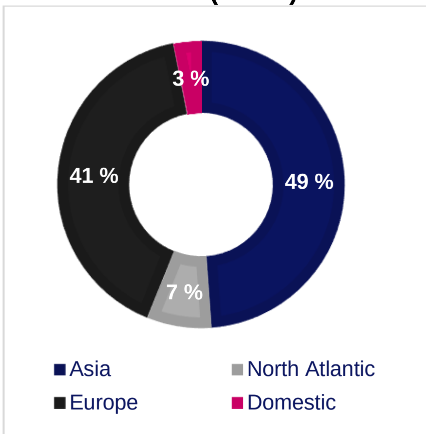
Passenger revenue (M€)



Capacity (ASKs)



Traffic (RPKs)



Passenger traffic capacity (measured in Available Seat Kilometres (ASK)) grew by 6.8 per cent overall in the second quarter. Traffic measured in revenue passenger kilometres (RPK) grew by 15.5 per cent reflecting a strong improvement in the passenger load factor (PLF) particularly in Asian traffic.

In Asian traffic, available seat kilometres rose by 6.1 per cent from the comparison period. This reflected the introduction of the A350 aircraft in Asian traffic and added frequencies on the Tokyo and Hong Kong routes. Meanwhile, there was a negative contribution from the suspension of the Chongqing route between 11 January and 2 May due to A350 pilot training. The capacity on the North Atlantic routes decreased by 3.7 per cent as the Miami route was suspended for the summer season starting in May. Instead, a new San Francisco route was launched in June until the end of September. Revenue passenger kilometres in North Atlantic traffic increased by 4.1 per cent and the passenger load factor rose by 6.4 percentage points to 85.3 per cent.

In European traffic, available seat kilometres grew by 10.5 and revenue passenger kilometres increased by 14.5 per cent as the passenger load factor rose by 2.9 percentage points to 82.4 per cent. Changes in Domestic traffic were limited: capacity grew by 0.6 per cent, traffic decreased by 0.7 per cent and the passenger load factor declined by 0.9 percentage point to 65.8.

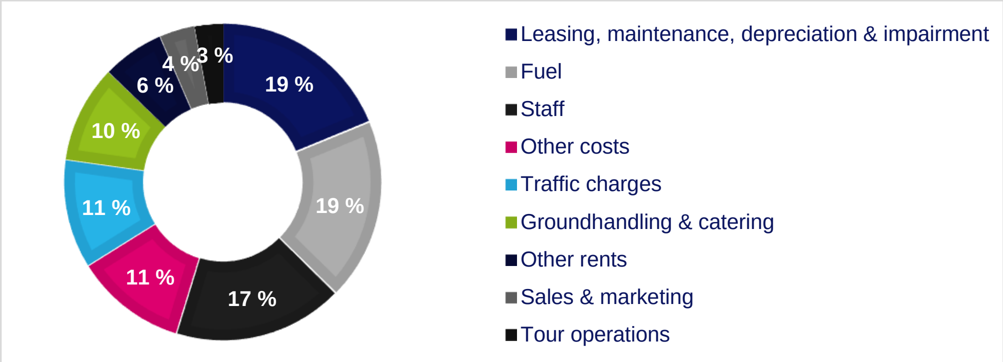
Ancillary and retail revenue increased by 19.6 per cent year-on-year and amounted to 36.2 million euros, or 11.8 euros per passenger. Growth remained particularly strong in advance seat reservations and excess baggage fees. Available cargo tonne kilometres decreased by 2.0 per cent, whereas revenue cargo tonne kilometres increased by 8.3 per cent due to a higher cargo load factor. Average cargo yields increased by 7.3 per cent year on year. Cargo traffic revenue increased by 16.1 per cent, amounting to 49.4 million euros.

In Finnair’s travel services (Aurinkomatkat Suntours) in the second quarter, the number of travellers increased by 7,9 per cent from the comparison period, and the load factor in Suntours’ fixed seat allotment was 99 per cent. Revenue increased by 12.9 per cent to 38.5 million euros (34.1). The reduction in travel agencies’ revenue after the comparison period to zero is attributable to the divestment of SMT, completed in November 2016.

Cost development and result April–June 2017

Finnair's operating expenses in the second quarter increased by 5.2 per cent to 614.6 million euros (584.3). Unit cost (CASK) decreased by 1.6 per cent and totalled 6.55 euro cents (6.65). CASK ex fuel at constant currency increased by 3.1 per cent.

Q2 split of operating costs (615 M€ in total)



Operating expenses excluding fuel increased by 9.2 per cent from the comparison period, and amounted to 500.2 million euros (458.0). The appreciation of the US Dollar after hedging increased costs*. The large-scale recruitment and training of flight crew continued to elevate costs. The growth and renewal of the fleet increased both lease payments and depreciation.

Fuel costs, including hedging results and emissions trading costs, decreased by 9.4 per cent to 114.4 million euros (126.4). Fuel efficiency as measured by fuel consumption per ASK also improved by 2.4 per cent reflecting in particular the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for improvements in the passenger and cargo load factors, improved by 8.1 per cent. Staff costs increased by 14.9 per cent to 106.9 million euros (93.0) mainly reflecting the migration of LSG Finland staff to Finnair Kitchen in April.

Aircraft lease payments increased due to fleet growth, whereas wet lease arrangements used by Finnair during the comparison period decreased materially. The 12.1 million growth in maintenance expenses is explained partly by fleet growth and higher costs based on the maintenance plan than in the comparison period. Other expenses decreased by 1.5 million euros. As a result of the implementation of IFRS 9, effective 1 January, 2017, the impacts of currency hedging are now allocated to the relevant expense rows (fuel costs, lease payments for aircraft, maintenance and traffic charges).

The previously announced 20-million euro cost-efficiency programme was completed in full and in schedule by the summer. Thereafter, cost control will continue as part of normal process improvement instead of a dedicated program.

Finnair's comparable EBITDAR increased by 46.9 million euros year-on-year to 103.2 million euros (56.3). Comparable operating result, or operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, improved by 34.4 million euros and amounted to 37.5 million euros (3.2).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 2.6 million euros (0.0). The items affecting comparability amounted to 48.9 million euros (-2.9), being mainly related to the sale and leaseback transaction concerning an A350 wide-body aircraft completed in April and one-time expenses related to the redelivery of three A340 aircraft to Airbus in accordance with a prior agreement. The operating result was 89.1 million euros (0.2), the result before taxes was 83.4 million euros (-1.3) and the result after taxes was 66.8 million euros (-1.1).

** Following the implementation of the Financial Instruments standard, as of the beginning of 2017, the hedging results related to USD-denominated maintenance expenses and traffic charges are allocated to the appropriate expense categories. Previously, these were recognised in other expenses. The information for the comparison period has not been adjusted to the new practice.*

Revenue in January–June 2017

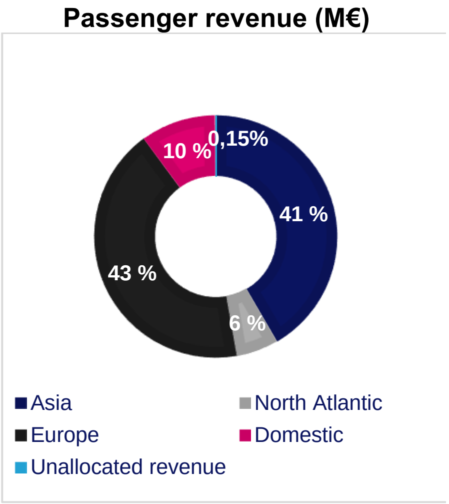
Finnair's revenue in the first half of 2017 grew by 7.4 per cent year-on-year to 1,187.7 million euros (1,106.0). All continuing business categories grew versus the comparison period, while the largest increase in absolute terms stemmed from passenger revenue. Travel agency revenue decreased to zero after the comparison period due to the divestment of SMT in November 2016. Unit revenue (RASK) increased by 3.7 per cent year-on-year and amounted to 6.90 euro cents (6.65), largely reflecting an improvement in the load factor.

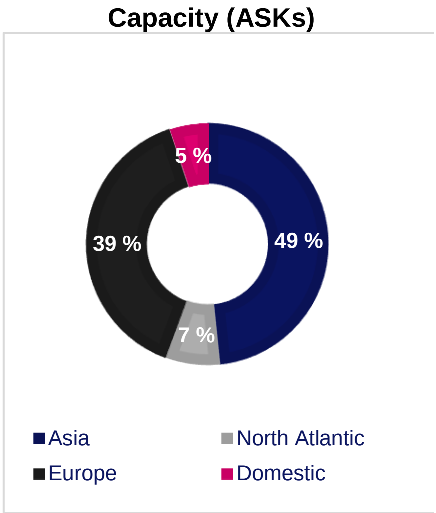
Revenue by product

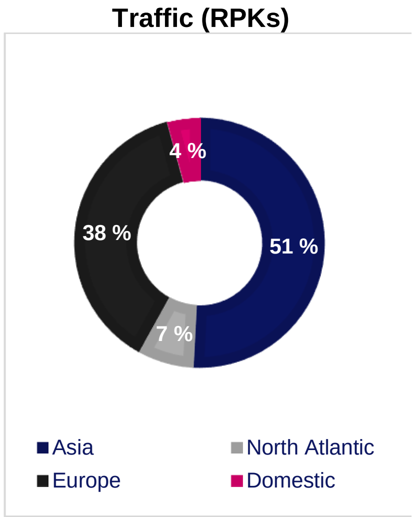
EUR million	1–6/2017	1–6/2016	Change %
Passenger revenue	931.8	862.3	8.1
Ancillary and retail revenue	70.0	60.0	16.8
Cargo	88.6	82.2	7.8
Travel services	97.3	93.2	4.4
Travel agencies	0.0	8.4	-100.0
Total	**1,187.7**	**1,106.0**	**7.4**

Ticket revenue and traffic data by area, 1–6/2017

	Ticket revenue		ASK		RPK		PLF	
Traffic area	EUR mill.	Change %	Mill. km	Change %	Mill. km	Change %	%	Change %-point
Asia	387.5	14.4	8,328.5	2.9	7,234.5	12.4	86.9	7.3
North Atlantic	52.7	-3.3	1,253.1	-3.9	1,026.5	-1.2	81.9	2.3
Europe	397.7	8.9	6,762.3	5.5	5,372.2	8.7	79.4	2.4
Domestic	92.5	4.7	878.6	6.5	599.9	4.8	68.3	-1.1
Unallocated	1.4	-91.2						
Total	**931.8**	**8.1**	**17,222.5**	**3.5**	**14,233.1**	**9.6**	**82.6**	**4.5**







Passenger traffic capacity (measured in Available Seat Kilometres (ASK)) grew by 3.5 per cent overall in H1 – 0.1 per cent in the first and 6.8 per cent in the second quarter. Traffic measured in revenue passenger kilometres (RPK) grew by 9.6 per cent reflecting an improvement in the passenger load factor (PLF) particularly in Asian traffic. ASKs grew from a year ago in all other traffic areas except North Atlantic, where the Miami route was suspended for the summer season as of May due to resource constraint stemming from A350 pilot training and where the New York route was operated at the beginning of the year with a smaller wet leased aircraft.

In Asian traffic, available seat kilometres were 2.9 per cent lower than in the comparison period. Capacity was augmented by the introduction of the A350 aircraft in Asian traffic, while there were negative contributions from the suspension of the Chongqing route between 11 January and 2 May due to A350 pilot training and several cancellations at the beginning of the year due to a temporary shortage of pilots. The passenger load factor in Asian traffic rose by 7.3 percentage points to 86.9 per cent. The capacity in North Atlantic traffic decreased by 3.9 per cent. Revenue passenger kilometres in North Atlantic traffic decreased by 1.2 per cent and the passenger load factor rose by 2.3 percentage points to 81.9 per cent.

In European traffic, available seat kilometres increased by 5.5 and revenue passenger kilometres increased by 8.7 per cent as the passenger load factor rose by 2.4 percentage points to 79.4 per cent. Domestic capacity increased by 6.5 per cent and traffic by 4.8 per cent due to increased flying to Northern Finland on the back of significantly increased tourist demand mid-winter. The passenger load factor declined by 1.1 percentage points to 68.3. The third-party labour disputes at the Helsinki Airport directly impacted Finnair's European and Domestic traffic.

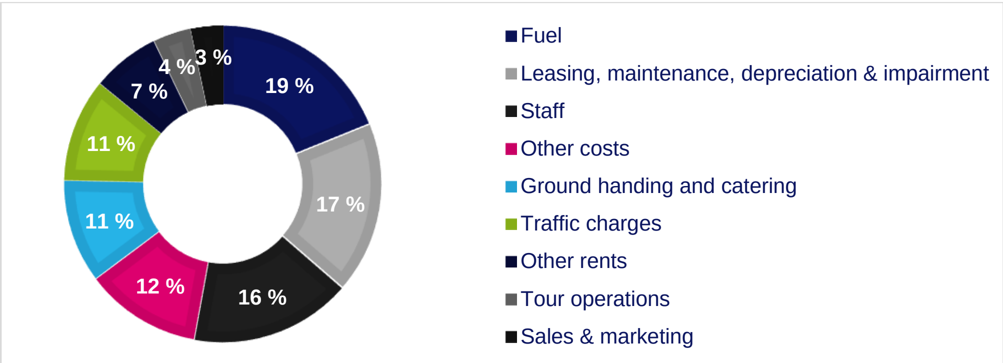
Ancillary and retail revenue increased by 16.8 per cent year-on-year and amounted to 70.0 million euros, or 12.3 euros per passenger. Available cargo tonne kilometres decreased by 1.4 per cent, but revenue cargo tonne kilometres increased by 2.9 per cent due to a higher cargo load factor. Average cargo yields increased by 4.7 per cent. Cargo traffic revenue increased by 7.8 per cent to 88.6 million euros.

Revenue from the tour operating business (Aurinkomatkat Suntours) increased by 4.4 per cent from the comparison period to 97.3 million euro. The decrease in travel agencies' revenue after the comparison period is attributable to the divestment of SMT, which was completed in November 2016.

Cost development and result January–June 2017

Finnair's operating expenses in the first year-half increased by 3.5 per cent to 1,198.2 million euros (1,158.1). Unit cost (CASK) increased by 0.1 per cent and totalled 6.73 euro cents (6.72). CASK ex fuel at constant currency increased by 2.2 per cent.

H1 split of operating costs (1,198 M€ in total)



Operating expenses excluding fuel increased by 6.8 per cent from the comparison period to 972.2 million euros (910.2). The appreciation of the US Dollar after hedging increased costs*. The large-scale recruitment and training of flight crew continued to elevate costs. The growth and renewal of the fleet increased both lease payments and depreciation.

Fuel costs, including hedging results and emissions trading costs, decreased by 8.9 per cent to 226.0 million euros (247.9). Fuel efficiency as measured by fuel consumption per ASK improved by 2.9 per cent reflecting in particular the introduction of the more fuel-efficient A350s. Fuel consumption per RTK, which also accounts for improvements in the passenger and cargo load factors, improved by 6.7 per cent. Staff costs increased by 6.8 per cent to 197.4 million euros (184.8) reflecting an increase in the number of personnel.

The increased lease payments, depreciations and maintenance cost were primarily due to fleet growth. Other expenses increased by 10.8 million euros to 142.5 million euros, reflecting largely a significant positive hedging result included in other expenses in the comparison period (9.0 million euros). As a result of the implementation of IFRS 9, effective 1 January, 2017, the impacts of currency hedging are now allocated, to the relevant expense rows (fuel costs, lease payments for aircraft, maintenance and traffic charges).

Finnair's comparable EBITDAR increased by 60.7 million euros year-on-year to 153.3 million euros (92.7). The comparable operating result, or operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, improved by 40.7 million euros to 28.5 million euros (-12.2).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 6.1 million euros (4.3). The items affecting comparability amounted to 44.4 million euros (-9.6), primarily relating to a gain on the sale and leaseback transaction concerning an A350 aircraft in April and one-time expenses related to A340 aircraft redelivered to Airbus. The operating result was 79.1 million euros (-17.4), the result before taxes was 73.5 million euros (-20.0) and the result after taxes was 58.8 million euros (-16.1).

** Following the implementation of the Financial Instruments standard, as of the beginning of 2017, the hedging results related to USD-denominated maintenance expenses and traffic charges are allocated to the appropriate expense categories. Previously, these were recognised in other expenses. The information for the comparison period has not been adjusted to the new practice.*

Balance sheet on 30 June 2017

The Group's balance sheet totalled 2,753.5 million euros at the end of the period under review (31 Dec 2016: 2,528.7). Non-current assets increased by 184 million euros primarily due to aircraft investments, while current assets increased by 150 million euros due to growth in financial assets and receivables. Assets held for sale decreased by 109 million euros, as three A340 aircraft were redelivered to Airbus in accordance with a previous agreement. Non-current liabilities increased by 59 million euros primarily due to the early refinancing of the senior unsecured bond. Current liabilities grew mostly due to strong growth in advances received. Shareholders' equity was 856,7 million euros (31 Dec 2016: 857.0), or 6.71 euros per share (31 Dec 2016: 6.73).

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of jet fuel and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of June 2017 was 3.0 million euros (31 Dec 2016: 33.9) after deferred taxes, and it was particularly affected by changes in the fair value of the hedging instruments mentioned above.

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In the first half of 2017, net cash flow from operating activities amounted to 186.1 million euros (130.0). The year-on-year increase in cash flow was primarily attributable to the growth of comparable operating result. Net cash flow from investments amounted to 8.6 million euros (-396.3) and was particularly attributable to aircraft investments and divestments as well as the expiry of money market investments with maturities exceeding three months used as part of the Group's liquidity management.

The equity ratio on 30 June 2016 stood at 31.1 per cent (31 Dec 2016: 33.9) and gearing was negative at -23.1 per cent (31 Dec 2016: -11.2). Adjusted gearing was 74.1 per cent (31 Dec 2016: 78.3). At the end of June, adjusted interest-bearing debt amounted to 781.4 million euros (31 Dec 2016: 701.5) and interest-bearing net debt was negative at -198.3 million euros (31 Dec 2016: -95.8).

The company’s liquidity was strong in the review period. The Group’s cash funds at period-end amounted to 979.7 million euros (31 Dec 2016: 797.3). 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. Using these reserves requires a bank guarantee. Finnair has an entirely unused 175-million-euro unsecured syndicated credit facility, intended as reserve funding. The arrangement has a maturity of three years from June 2016 with two optional one-year extensions. In March, Finnair issued a 200-million-euro senior unsecured bond and redeemed 85 million euros of its existing corresponding bond.

Finnair has a 200-million-euro short-term commercial paper program, which was unused at the end of the review period. Net cash flow from financing in January–June amounted to 78.6 million euros (341.8). Financial income was 0,1 million euros (1,0) due to negative interest rates, while financial expenses were -5.7 million euros (-3,6).

Capital expenditure

In the first half of 2017, capital expenditure excluding advance payments totalled 330,8 million euros (319,1) and was primarily related to fleet investments. Cash flow from investments totalled -241,7 million euros, including advance payments.

Cash flow from investments for 2017 is estimated at approximately 420 million euros, or 264 million net, taking into account e.g. the sale and leaseback agreement for the A350 aircraft delivered in April 2017. The cash flow from investments includes, in addition to investment commitments, also an estimate of investments which have been decided upon, but not yet concluded with a counterparty.

Finnair will add seating capacity to its current Airbus narrow-body aircraft in 2017–2018 by modifying storage and technical space at the front and rear of the aircraft.

In addition to fleet investments, Finnair is developing a modern cargo terminal to be commissioned in 2017. Finnair will also introduce WiFi connectivity to the majority of its current wide-body and narrow-body fleet between 2016–2018. All of Finnair’s wide-body fleet already has WiFi connectivity.

The current favourable state of the credit markets and Finnair’s good debt capacity enable the financing of future fixed-asset investments on competitive terms. The company has 3535 unencumbered aircraft, which account for approximately 62 per cent of the balance sheet value of the entire fleet of 1,121 million euros.

Fleet

<u>Fleet operated by Finnair</u>

Finnair’s fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of June 2017, Finnair itself operated 52 aircraft, of which 19 were wide-body and 33 narrow-body aircraft. Of the aircraft, 25 were owned by Finnair Aircraft Finance Oy, 20 were on operating lease and 7 on finance lease.

At the end of June 2017, the average age of the fleet operated by Finnair was 9,1 years.

Fleet operated by Finnair 30.6.2017*	Seats	#	Change from 31.12.2016	Owned**	Leased (Operating leasing)	Leased (Finance leasing)	Average age 30.6.2017	Ordered
Narrow-body fleet								
Airbus A319	138	8	-1	7	1		16.1	
Airbus A320	165	10		7	1	2	14.9	
Airbus A321	209/196	15	4	4	9	2	7.8	
Wide-body fleet								
Airbus A330	289/263	8			5	3	7.7	
Airbus A340	263/257	1	-3	1			8.9	
Airbus A350	297/336	10	3	6	4		0.9	9
Total		**52**	**3**	**25**	**20**	**7**	**9.1**	**10**

* Finnair's Air Operator Certificate (AOC).
** Includes JOLCO-financed (Japanese Operating Lease with Call Option) A350 aircraft.
*** None of the A340s have been in operation after January.

Fleet renewal

Finnair has ordered a total of 19 Airbus A350 XWB aircraft from Airbus S.A.S., three of which were delivered in 2015 and four in 2016. According to the current delivery schedule, Finnair will receive four new A350 aircraft in 2017 and the remaining eight between 2018 and 2023. By the end of the second quarter, Finnair had taken delivery of three of the aircraft scheduled for delivery in 2017. Finnair's investment commitments for property, plant and equipment, totalling 1,248 million euros, include the upcoming investments in the wide-body fleet.

Finnair has phased out its A340 aircraft, following the successful delivery and entry into service of the A350 XWB aircraft. Finnair agreed to sell its four Airbus A340-300 aircraft back to Airbus, all of which have left revenue service.

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

In 2017, Finnair will add seven new Airbus A321 narrow-body aircraft to its fleet with an operating lease agreement. By the end of the second quarter, Finnair had taken delivery of four of these aircraft.

Fleet operated by Norra (purchased traffic)

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

Fleet operated by Norra 30.6.2017*	Seats	#	Change from 31.12.2016	Owned**	Leased (Operating leasing)	Average age 30.6.2017	Ordered
ATR	68-72	12		6	6	7.9	
Embraer E190	100	12		9	3	9.0	
Total		**24**	**0**	**15**	**9**	**8.5**	

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

Air traffic services and products

Route network and alliances

Finnair specialises in traffic between Asia and Europe with 18 destinations in Asia and over 70 in Europe. There are more than 1,000 Finnair flights weekly from Helsinki to other Finnish and European destinations. The maximum weekly number of flights to Asia was 78 in the winter season 2016/2017 and 87 in the current summer season.

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

For the winter season 2016/2017, Finnair increased capacity from Helsinki to Finnish Lapland by approximately 10% and is planning on an even larger increase for the next winter. For summer 2017, Finnair added frequencies to Tokyo and Hong Kong, and introduced new routes from Helsinki to San Francisco, Alicante, Ibiza, Corfu, Menorca and Reykjavik.

For winter 2017/2018, Finnair will launch several new leisure-focused destinations, including Havana, Puerto Vallarta and Goa, and direct flights to Finnish Lapland from London, Paris, Frankfurt and Zurich.

Other renewals and services

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

Finnair was the first airline in the world to offer Alipay on board as a payment method, which is widely used by Chinese customers. The payment method was piloted on the Shanghai route from 27 January. Experiences were positive, and the Alipay system has been rolled out to all Chinese routes. In June, the sales system used on all Finnair flights was also replaced by a new SkyPay system, which speeds up inflight purchasing and enables the use of contactless payment by customers, among other things.

The entire Finnair wide-body fleet now has wireless WiFi connectivity. The new A350 aircraft have the service installed at the factory, and installations in the whole A330 fleet were completed in Q2. Installations in the Airbus narrow-body fleet begin this year and will last for about a year.

Finnair is testing digital Finnish-language newspapers and magazines on its long-haul flights in the summer. Customers can read the newspapers and magazines as PDF files free of charge on Finnair’s Nordic Sky portal, which is accessible on the customers’ own terminal devices free of charge.

The expansion of Finnair’s hub, Helsinki Airport, is proceeding, and the new south wing of Terminal 2 has been inaugurated. Finnair has recruited more customer service personnel to the airport for growing customer flows. In addition, the Finnair lounge in the non-Schengen area was refurbished and Fazer was introduced as the new service provider in mid-summer.

Finnair Kitchen’s integration into Finnair group since April has proceeded as planned. In honour of Finland’s 100 years of independence in December 2017, Finnair will serve a centennial themed menu for its long-haul business passengers in the coming winter season. To celebrate Finland’s world-renowned education system, the economy class offers a school lunch menu selected in cooperation with elementary school pupils.

Awards

The OAG Punctuality League publication released in January ranked Finnair's arrival punctuality in 2016 (84.12%) as the sixteenth-highest in the world. In January, FlightStats recognised the **one**world alliance as the most punctual airline alliance in 2016.

In March, Finnair was named the best European airline operating in China at the TTG China Travel Awards for the second consecutive year. The award was based on votes cast by the readers of TTG's publications.

The German ESG rating company oekom research AG confirmed its analysis of Finnair's responsibility. The ESG rating was affirmed as C+-, which is the highest rating in the category comprising 69 companies in the transport and logistics sector. Finnair kept its *Prime* status indicating the suitability of Finnair's securities for responsible investors.

In March, Aurinkomatkat - Suntours was again found to be Finland's most sustainable travel service company by Sustainable Brands Index, which is the largest brand study focused on sustainability and corporate responsibility in the Nordics. The study is made annually by interviewing consumers in four Nordic countries and the Netherlands. The survey is based on the 10 principles of the UN Global Compact initiative.

In June, the Skytrax World Airline Awards chose Finnair as the best airline in Northern Europe for the eigth consecutive time. The award is based on an independent Skytrax survey conducted between August 2016 and May 2017 in 105 countries. The survey covers more than 40 criteria including check-in, seat comfort, cabin cleanliness and service.

Personnel

Finnair employed an average of 5,254 (4,847)* people in January–June 2017, which is 8,4 per cent more than in the comparison period. Excluding the transition of LSG Finland personnel into Finnair Kitchen Ltd in April 2017 and the transfer of 50 maintenance employees from Norra to Finnair in a business transfer in May 2016, the number of personnel in continuing operations grew by 5.0 per cent from the comparison period.

The number of employees on 30 June 2017 was 5,753 (30 Jun 2016: 5,012; 31 Dec 2016: 4,838). During the review period (1–6/2017), the number of personnel increased by 915. The change was due to the migration of LSG Finland personnel (approximately 500) to Finnair Kitchen Ltd, and growth in the number of cabin crew and pilots in particular.

Terms of employment agreed between Finnair as represented by Service Sector Employers PALTA and office personnel, customer service personnel and technical personnel, represented by FINTO, PRO and IAU respectively, on terms of employment in line with the national competitiveness pact, have taken effect. Collective labour agreement was renewed with the cabin crew union SLSY in autumn 2016, and with the pilots' union SLL in February 2017.

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

Own shares

In April–June 2017, Finnair did not exercise the authorisation granted by the AGM to acquire or dispose of its own shares. During the first quarter, Finnair transferred a total of 348,257 shares as incentives to the participants of the FlyShare employee share savings plan and as a reward to the key personnel included in Finnair's share-based incentive scheme 2014–2016.

On 30 June 2017, Finnair held a total of 440,707 of its own shares (31 Dec 2016: 788,964), representing 0.34 per cent of the total share capital.

Share price development and trading

At the end of June 2017, Finnair’s market value stood at 821.4 million euros (31 Dec 2016: 516.4), and the closing price of the share was 6.41 euros (4,03); market capitalisation increased by 59%. In the first half of 2017, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 6.60 euros, the lowest price 3.98 euros and the average price 4.85 euros. Some 12.2 million of the company’s shares, with a total value of 59.9 million euros, were traded.

The number of Finnair shares recorded in the Trade Register was 128,136,115 at the end of the period. The Finnish state owned 55.8 per cent (55.8) of Finnair’s shares, while 10.4 per cent (8,9) were held by foreign investors or in the name of a nominee.

Corporate responsibility

Economic, social and environmental sustainability is integral to Finnair’s overall business strategy and operations. Finnair wants to be a responsible global citizen and respond to its stakeholders’ needs, also from the perspective of corporate responsibility. Finnair cooperates with industry operators and the authorities in areas such as reducing the climate impacts of aviation, promoting the use of biofuels and the consideration of sustainability within the supply chain. Finnair’s corporate responsibility is reflected in its strategy and vision as well as its values of commitment to care, simplicity and courage.

In 2016, Finnair revised its sustainability strategy, which was crystallised in a three-pronged commitment: cleaner, caring, collaborative, and it embeds sustainability even deeper in the group strategy, brand and product development. The programme measures are geared to contribute to cost containment, risk mitigation as well as value creation. In 2017, Finnair also updated its Corporate Responsibility Policy.

In May, Finnair undertook to implement the UN Agenda2030 for sustainable development goals by signing the Finnish Government's Society's Commitment to Sustainable Development. With these commitments, companies and communities pledge themselves to promoting sustainable development in their work and operations. Finnair’s commitment was themed “Equality and non-discrimination in both in the air and on ground” whereby Finnair will, in particular, emphasise equality and diversity in its own activities, promote equality and non-discrimination in customer processes and promote diversity in different occupational groups.

Finnair’s long term environmental target was to reduce the carbon emissions in its mainline traffic relative to the revenue tonne kilometres (RTK) by 20 per cent from the level of 2009 by 2017. The target was achieved almost completely, largely based on the purchase of new aircraft as well as an improvement in the passenger and cargo load factors, as the relative annual carbon emissions decreased by 19.4 per cent during the period. In addition, fuel efficiency improved during the period by modernising the existing fleet and by improving processes. In addition, Finnair is committed to the sector’s common goals of carbon-neutral growth from 2020 onwards, and cutting emissions from the 2005 level in half by 2050.

At the beginning of the year, Aurinkomatkat began cooperation with the Finnish Association for Fair Tourism to ensure that the entire personnel of the company are familiar with the key principles, concerns and development practices of fair tourism and apply them in practice. The topics of the training include biodiversity, climate change, challenges related to human rights and children’s rights, supporting local population, culture and economy in the travel destinations, and ethical tourism entrepreneurship.

Finnair’s GRI sustainability report was published in February as part of the Annual Report. The key performance indicators for corporate responsibility are presented in this half-year report under “Key Figures”, the first table in the tables section below.

Significant near-term risks and uncertainties

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

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

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

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

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

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

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

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website at https://investors.finnair.com/en/governance/risk-management.

Seasonal variation and sensitivities in business operations

Due to the seasonal variation of the airline business, the Group's revenue and profit are generally at their lowest in the first quarter and at their highest in the third quarter of the year. The growing proportional share of Asian traffic increases seasonal fluctuation due to destination-specific seasons in Asian leisure and business travel.

In addition to operational activities and market conditions, fuel price development has a key impact on Finnair's result, as fuel costs are the company's most significant expense item. Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. Significant dollar-denominated expense items are fuel costs and aircraft lease payments. The largest investments, namely the acquisition of aircraft and their spare parts, are also mainly denominated in US dollars. The most significant income currencies after the euro are the Japanese yen, the Chinese yuan and the Swedish krona.

The company hedges its currency, interest rate and jet fuel exposure by using a variety of derivative instruments, such as forward contracts, swaps and options, in compliance with the risk management policy approved by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months.

Sensitivities in business operations, impact on comparable operating profit (rolling 12 months from date of financial statements)	**1 percentage (point) change**
Passenger load factor (PLF, %)	EUR 23 million
Average yield of passenger traffic	EUR 21 million
Unit cost (CASK ex. fuel)	EUR 22 million

Fuel sensitivities (rolling 12 months from date of financial statements)	**10% change without hedging**	**10% change, taking hedging into account**	**Hedging ratio** H2/2017	H1/2018
Fuel	EUR 42 million	EUR 20 million	76%	61%

Currency distribution %	**4–6 2017**	**4–6 2016**	**1–6/ 2017**	**1–6/ 2016**	**2016**	**Currency sensitivities USD and JPY** (rolling 12 months from date of financial statements for operational cash flows)		**Hedging ratio for operational cash flows** (rolling next 12 months)
Sales currencies						10% change without hedging	10% change, taking hedging into account	
EUR	54	63	58	63	56	-	-	
USD*	4	4	4	4	4	see below	see below	see below
JPY	10	8	8	8	9	EUR 19 mill.	EUR 9 mill.	67%
CNY	7	6	6	6	7	-	-	
KRW	4	3	3	3	3	-	-	
SEK	4	5	5	5	5	-	-	
Other	17	11	16	11	16	-	-	
Purchase currencies								
EUR	57	53	52	57	54	-	-	
USD*	36	40	41	36	38	EUR 51 mill.	EUR 16 mill.	71%
Other	7	7	7	7	8			

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

Financial reporting

The publication dates of Finnair's remaining financial reports in 2017 are as follows:

Interim Report 1 January – 31 September 2017: 25 October 2017

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a result press conference on 20 July 2017 at 11:00 a.m. and an analyst briefing at 12:30 p.m. at its office at Tietotie 9. An English-language telephone conference and webcast will begin at 2:30 p.m. Finnish time. The conference may be attended by dialling your local access number 09 7479 0404 (Finland), 0200 883 464 (Sweden), 0800 279 7204 (UK) or +44 (0)330 336 9412 (all other countries). The confirmation code is 750402. To join the live webcast, please register at:
https://slideassist.webcasts.com/starthere.jsp?ei=1154164&tp_key=c3de9cad8c

For further information, please contact:

Chief Financial Officer **Pekka Vähähyyppä**, tel. +358 9 818 8550, pekka.vahahyyppa@finnair.com
Financial Communications Manager **Ilkka Korhonen**, tel. +358 9 818 4705, ilkka.korhonen@finnair.com

Key figures	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016
Revenue and result							
Revenue, EUR million	633.4	569.6	11.2	1,187.7	1,106.0	7.4	2,316.8
Comparable operating result, EUR million	37.5	3.2	> 200 %	28.5	-12.2	> 200 %	55.2
Comparable operating result, % of revenue	5.9	0.6	5.4 %-p	2.4	-1.1	3.5 %-p	2.4
Operating result, EUR million	89.1	0.2	> 200 %	79.1	-17.4	> 200 %	116.2
Comparable EBITDAR, EUR million	103.2	56.3	83.3	153.3	92.7	65.4	270.4
Net result, EUR million	66.8	-1.1	> 200 %	58.8	-16.1	> 200 %	85.1
Balance sheet and cash flow							
Equity ratio, %				31.1	29.6	1.5 %-p	33.9
Gearing, %				-23.1	-20.2	-3.0 %-p	-11.2
Adjusted gearing, %				74.1	82.1	-8.0 %-p	78.3
Interest-bearing net debt, EUR million				-198.3	-150.2	-32.0	-95.8
Adjusted net debt, EUR million				635.1	611.7	3.8	670.6
Adjusted net debt / Comparable EBITDAR, LTM				1.9	2.3	-0.4%-p	2.5
Gross capital expenditure, EUR million	297.5	208.0	43.0	330.8	319.1	3.7	518.9
Return on capital employed (ROCE), LTM, %				13.7	10.0	3.7 %-p	8.9
Return on equity (ROE), LTM, %				20.0	13.8	6.2 %-p	10.7
Net cash flow from operating activities, EUR million	162.2	119.6	35.6	186.1	130.0	43.1	219.7
Share							
Share price at the end of quarter, EUR				6.41	4.18	53.3	4.03
Earnings per share (EPS), EUR	0.50	-0.04	> 200 %	0.41	-0.19	> 200 %	0.55
Traffic data and responsibility indicators							
Passengers, 1,000	3,070	2,779	10.5	5,674	5,280	7.5	10,867
Available seat kilometres (ASK), million	9,095	8,513	6.8	17,223	16,633	3.5	33,914
Revenue passenger kilometres (RPK), million	7,616	6,591	15.5	14,233	12,992	9.6	27,065
Passenger load factor, %	83.7	77.4	6.3 %-p	82.6	78.1	4.5 %-p	79.8
Unit revenue per available seat kilometre, (RASK), cents/ASK	6.96	6.69	4.1	6.90	6.65	3.7	6.83
RASK at constant currency, cents/ASK	6.97	6.69	4.1	6.88	6.65	3.4	6.83
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.69	6.95	-3.8	6.55	6.64	-1.4	6.71
Unit cost per available seat kilometre (CASK), cents/ASK	6.55	6.65	-1.6	6.73	6.72	0.1	6.67
CASK excluding fuel, cents/ASK	5.29	5.17	2.4	5.42	5.23	3.6	5.22
CASK excluding fuel at constant currency, cents/ASK	5.33	5.17	3.1	5.35	5.23	2.2	5.22
Ancillary and retail revenue per passenger (PAX)	11.79	10.89	8.2	12.34	11.35	8.7	11.55
Available cargo tonne kilometres (cargo ATK), million*	360	368	-2.0	680	690	-1.4	1,385
Revenue cargo tonne kilometres (cargo RTK), million	247	228	8.3	439	427	2.9	873
Cargo and mail, tonnes	40,324	38,047	6.0	72,311	70,977	1.9	144,596
Cargo traffic unit revenue per revenue cargo tonne kilometre, cents/cargo RTK	20.00	18.65	7.3	20.16	19.25	4.7	19.90
Overall load factor, %	68.7	64.8	3.9 %-p	66.8	64.8	2.0 %-p	65.6
Flights, number	29,001	28,251	2.7	56,269	55,172	2.0	110,198
Arrival punctuality, %	86.7	91.1	-4.3 %-p	84.7	86.5	-1.8 %-p	85.3
Fuel consumption, tonnes	227,877	218,545	4.3	435,028	432,864	0.5	874,148
Fuel consumption, tonnes/ASK	0.0251	0.0257	-2.4	0.0253	0.0260	-2.9	0.0258
Fuel consumption, tonnes/RTK	0.2455	0.2672	-8.1	0.2541	0.2724	-6.7	0.2653
CO^2 emissions, tonnes	717,811	688,415	4.3	1,370,339	1,363,522	0.5	2,753,567
CO^2 emissions, tonnes/ASK	0.0789	0.0809	-2.4	0.0796	0.0820	-2.9	0.0812
CO^2 emissions, tonnes/RTK	0.7733	0.8418	-8.1	0.8003	0.8581	-6.7	0.8358
Customer satisfaction on a scale of 1 (very poor) - 10 (very good)	8.2	8.2	0.0	8.2	8.1	1.2	8.1
Personnel							
Average number of employees**	5,643	4,937	14.3	5,254	4,847	8.4	4,908

* Finnair has adjusted its methodology for the calculation of belly cargo capacity (available cargo tonne kilometres) from June 2017. The changes are described in more detail in note 18. Restatement of key ratio.

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

CONSOLIDATED INCOME STATEMENT

in mill. EUR	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016	LTM
Revenue	**633.4**	**569.6**	**11.2**	**1,187.7**	**1,106.0**	**7.4**	**2,316.8**	**2,398.5**
Other operating income	18.8	17.9	5.1	39.0	40.0	-2.4	75.5	74.5
Operating expenses								
Staff costs	-106.9	-93.0	14.9	-197.4	-184.8	6.8	-362.5	-375.1
Fuel costs	-114.4	-126.4	-9.4	-226.0	-247.9	-8.9	-491.5	-469.6
Other rents	-38.7	-37.2	4.0	-83.0	-79.2	4.8	-167.4	-171.2
Aircraft materials and overhaul	-49.7	-37.6	32.1	-85.3	-74.2	14.9	-147.3	-158.4
Traffic charges	-68.5	-66.4	3.2	-126.7	-127.4	-0.6	-262.8	-262.1
Ground handling and catering expenses	-59.8	-62.3	-3.9	-126.7	-127.4	-0.5	-258.9	-258.3
Expenses for tour operations	-17.9	-15.6	14.7	-46.4	-42.4	9.5	-87.8	-91.8
Sales and marketing expenses	-21.9	-20.1	9.0	-39.4	-38.2	3.2	-76.9	-78.1
Other expenses	-71.3	-72.8	-2.1	-142.5	-131.6	8.2	-266.6	-277.5
Comparable EBITDAR	**103.2**	**56.3**	**83.3**	**153.3**	**92.7**	**65.4**	**270.4**	**331.1**
Lease payments for aircraft	-35.2	-26.9	31.0	-65.3	-55.7	17.2	-109.5	-119.0
Depreciation and impairment	-30.4	-26.2	15.9	-59.5	-49.1	21.1	-105.8	-116.2
Comparable operating result	**37.5**	**3.2**	**> 200 %**	**28.5**	**-12.2**	**> 200 %**	**55.2**	**95.9**
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	2.6	0.0	> 200 %	6.1	4.3	40.6	32.0	33.8
Items affecting comparability	48.9	-2.9	> 200 %	44.4	-9.6	> 200 %	29.0	83.1
Operating result	**89.1**	**0.2**	**> 200 %**	**79.1**	**-17.4**	**> 200 %**	**116.2**	**212.7**
Financial income	0.1	0.4	-83.7	0.1	1.0	-93.5	1.0	0.1
Financial expenses	-5.7	-1.9	-196.7	-5.7	-3.6	-56.8	-11.5	-13.6
Result before taxes	**83.4**	**-1.3**	**> 200 %**	**73.5**	**-20.0**	**> 200 %**	**105.8**	**199.3**
Income taxes	-16.7	0.2	<-200 %	-14.7	3.9	<-200 %	-20.6	-39.2
Result for the period	**66.8**	**-1.1**	**> 200 %**	**58.8**	**-16.1**	**> 200 %**	**85.1**	**160.0**
Attributable to								
Owners of the parent company	66.8	-1.1	> 200 %	58.8	-16.1	> 200 %	85.1	160.0
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	0.50	-0.04	> 200 %	0.41	-0.19	> 200 %	0.55	1.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in mill. EUR	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016	LTM
Result for the period	**66.8**	**-1.1**	**> 200 %**	**58.8**	**-16.1**	**> 200 %**	**85.1**	**160.0**
Other comprehensive income items Items that may be reclassified to profit or loss in subsequent periods								
Change in fair value of hedging instruments	-43.8	64.5	<-200 %	-91.2	71.7	<-200 %	145.2	-17.7
Tax effect	8.7	-12.9	> 200 %	18.2	-14.3	> 200 %	-29.0	3.5
Items that will not be reclassified to profit or loss in subsequent periods								
Actuarial gains and losses from defined benefit plans	9.2	-16.8	> 200 %	33.7	-23.1	> 200 %	-18.1	38.8
Tax effect	-1.8	3.4	<-200 %	-6.7	4.6	<-200 %	3.6	-7.8
Other comprehensive income items total	**-27.7**	**38.2**	**<-200 %**	**-46.1**	**38.9**	**<-200 %**	**101.7**	**16.8**
Comprehensive income for the period	**39.1**	**37.1**	**5.4**	**12.7**	**22.7**	**-44.1**	**186.9**	**176.9**
Attributable to								
Owners of the parent company	39.1	37.1	5.4	12.7	22.7	-44.1	186.9	176.9

CONSOLIDATED BALANCE SHEET

in mill. EUR		30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS				
Non-current assets				
Intangible assets	O	14.6	9.2	12.4
Tangible assets	O	1,349.0	1,139.0	1,166.5
Investments in associates and joint ventures	O	2.5	2.5	2.5
Loan and other receivables	O	6.2	8.5	7.4
Deferred tax assets	O		3.9	
Non-current assets total		**1,372.3**	**1,163.1**	**1,188.7**
Current assets				
Inventories	O	15.8	13.4	14.9
Trade and other receivables	O	332.5	249.9	211.9
Derivative financial instruments	O/IA*	22.3	100.3	176.6
Other financial assets	IA	862.5	574.6	727.9
Cash and cash equivalents	IA	117.1	307.0	69.4
Current assets total		**1,350.3**	**1,245.3**	**1,200.7**
Assets held for sale	O	30.8	109.2	139.3
Assets total		**2,753.5**	**2,517.6**	**2,528.7**
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	E	75.4	75.4	75.4
Other equity	E	781.3	669.5	781.6
Equity total		**856.7**	**744.9**	**857.0**
Non-current liabilities				
Deferred tax liabilities	O	35.7		32.7
Interest-bearing liabilities	IL	692.0	597.6	617.3
Pension obligations	O	4.7	34.5	31.9
Provisions	O	71.7	57.4	63.6
Other liabilities	O	4.8	4.8	4.9
Non-current liabilities total		**808.9**	**694.3**	**750.4**
Current liabilities				
Provisions	O	15.6	25.9	22.2
Interest-bearing liabilities	IL	83.1	135.0	100.4
Trade payables	O	92.0	103.4	94.4
Derivative financial instruments	O/IL*	65.1	80.7	25.2
Deferred income and advances received	O	598.3	514.2	424.6
Liabilities related to employee benefits	O	104.9	88.6	93.4
Other liabilities	O	128.9	123.6	161.1
Current liabilities total		**1,087.8**	**1,071.4**	**921.3**
Liabilities related to assets held for sale	O		7.0	
Liabilities total		**1,896.7**	**1,772.7**	**1,671.7**
Equity and liabilities total		**2,753.5**	**2,517.6**	**2,528.7**

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

Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing	30 Jun 2017	30 Jun 2016	31 Dec 2016
Interest-bearing liabilities	775.0	732.6	717.7
Cross currency Interest rate swaps *	6.4	-1.1	-16.1
Adjusted interest-bearing liabilities	**781.4**	**731.4**	**701.5**
Other financial assets	-862.5	-574.6	-727.9
Cash and cash equivalents	-117.1	-307.0	-69.4
Interest-bearing net debt	**-198.3**	**-150.2**	**-95.8**
Lease payments for aircraft for the last twelve months (LTM) * 7	833.3	761.9	766.4
Adjusted interest-bearing net debt	**635.1**	**611.7**	**670.6**
Equity total	856.7	744.9	857.0
Adjusted gearing, %	**74.1 %**	**82.1 %**	**78.3 %**

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in Note 5, is considered an interest-bearing liability in the net debt calculation.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity total**
Equity 31 Dec 2016	**75.4**	**168.1**	**33.9**	**248.6**	**132.8**	**198.2**	**857.0**
Change in accounting principles			15.2		-16.1		-0.9
Equity 1 Jan 2017	**75.4**	**168.1**	**49.0**	**248.6**	**116.6**	**198.2**	**856.1**
Result for the period					58.8		58.8
Change in fair value of hedging instruments			-73.0				-73.0
Actuarial gains and losses from defined benefit plans			26.9				26.9
Comprehensive income for the period	**0.0**	**0.0**	**-46.1**	**0.0**	**58.8**	**0.0**	**12.7**
Dividend					-12.8		-12.8
Share-based payments				0.7			0.7
Equity 30 Jun 2017	**75.4**	**168.1**	**3.0**	**249.4**	**162.6**	**198.2**	**856.7**

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity total**
Equity 1 Jan 2016	**75.4**	**168.1**	**-67.9**	**248.1**	**67.6**	**236.2**	**727.5**
Result for the period					-16.1		-16.1
Change in fair value of hedging instruments			57.4				57.4
Actuarial gains and losses from defined benefit plans			-18.5				-18.5
Comprehensive income for the period	**0.0**	**0.0**	**38.9**	**0.0**	**-16.1**	**0.0**	**22.7**
Hybrid bond interests and expenses					-1.4		-1.4
Purchase of own shares					-4.3		-4.3
Share-based payments				0.4			0.4
Equity 30 Jun 2016	**75.4**	**168.1**	**-29.0**	**248.4**	**45.8**	**236.2**	**744.9**

CONSOLIDATED CASH FLOW STATEMENT

in mill. EUR	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	2016	LTM
Cash flow from operating activities						
Result for the period	66.8	-1.1	58.8	-16.1	85.1	160.0
Depreciation and impairment	30.4	24.7	59.5	52.7	102.9	109.8
Other adjustments to result for the period						
Financial income and expenses	5.6	1.5	5.6	2.6	10.5	13.5
Income taxes	16.7	-0.2	14.7	-3.9	20.6	39.2
EBITDA	**119.5**	**24.9**	**138.6**	**35.2**	**219.2**	**322.5**
Gains and losses on aircraft and other transactions	-49.4	2.6	-44.9	8.8	-30.4	-84.1
Non-cash transactions *	22.3	2.1	15.3	-4.1	-19.6	-0.1
Changes in working capital	80.3	89.0	85.8	90.6	55.5	50.7
Financial expenses paid, net	-10.5	0.8	-8.8	-0.5	-5.0	-13.3
Income taxes paid		0.2				
Net cash flow from operating activities	**162.2**	**119.6**	**186.1**	**130.0**	**219.7**	**275.7**
Cash flow from investing activities						
Investments in intangible assets	2.2	-2.0	-1.9	-4.6	-10.3	-7.5
Investments in tangible assets	-208.6	-194.8	-246.5	-311.7	-475.7	-410.4
Investments in group shares	6.7		6.7			6.7
Divestments of fixed assets and group shares	155.2	2.1	155.6	17.1	153.2	291.7
Net change in financial assets maturing after more than three months	-91.3	45.3	94.7	-97.8	-168.4	24.1
Change in non-current receivables	-0.7	0.4	0.0	0.7	1.6	0.8
Net cash flow from investing activities	**-136.5**	**-149.0**	**8.6**	**-396.3**	**-499.6**	**-94.6**
Cash flow from financing activities						
Proceeds from loans		241.7	199.3	377.4	377.4	199.3
Loan repayments and changes	-12.0	-16.6	-107.9	-29.6	-115.1	-193.5
Hybrid bond repayments					-38.3	-38.3
Hybrid bond interests and expenses		-1.7		-1.7	-19.1	-17.4
Purchase of own shares				-4.3	-4.3	
Dividends paid	-12.8		-12.8			-12.8
Net cash flow from financing activities	**-24.8**	**223.4**	**78.6**	**341.8**	**200.5**	**-62.7**
Change in cash flows	**0.9**	**194.0**	**273.2**	**75.6**	**-79.3**	**118.3**
Liquid funds, at beginning	650.8	339.3	378.4	457.7	457.7	533.3
Change in cash flows	0.9	194.0	273.2	75.6	-79.3	118.3
Liquid funds, at end **	**651.6**	**533.3**	**651.6**	**533.3**	**378.4**	**651.6**
Notes to consolidated cash flow statement						
*** Non-cash transactions**						
Employee benefits	4.2	3.8	7.0	7.3	15.1	14.8
Fair value changes in derivatives	1.7	-1.8	0.3	-3.1	-34.0	-30.6
Other adjustments	16.4	0.1	8.0	-8.3	-0.6	15.7
Total	**22.3**	**2.1**	**15.3**	**-4.1**	**-19.6**	**-0.1**
**** Liquid funds**						
Other financial assets	862.5	574.6	862.5	574.6	727.9	862.5
Cash and cash equivalents	117.1	307.0	117.1	307.0	69.4	117.1
Liquid funds in balance sheet	**979.7**	**881.6**	**979.7**	**881.6**	**797.3**	**979.7**
Maturing after more than three months	-328.1	-348.3	-328.1	-348.3	-418.9	-328.1
Total	**651.6**	**533.3**	**651.6**	**533.3**	**378.4**	**651.6**

NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL REPORT

1. BASICS OF PREPARATION

This Consolidated Half Year Financial Report has been prepared according to the International (IAS) Standard 34: Interim Financial Reporting.

2. ACCOUNTING PRINCIPLES

Finnair Group early adopted IFRS 9: Financial Instruments (2014), endorsed by the EU on 22.11.2016, with a date of initial application on 1 January 2017. The following changes to the accounting principles are described in the note 17 Changes in accounting principles. Otherwise the accounting principles applied are disclosed in the 2016 Consolidated Financial Statements.

The figures presented in this statement are not rounded; therefore, the total sum of individual figures does not necessarily match the corresponding sum stated herein. The key figures stated here are calculated using the exact figures.

3. CRITICAL ACCOUNTING ESTIMATES AND SOURCES OF UNCERTAINTY

The preparation of the half year financial report requires the company's management to make estimates and assumptions that influence the levels of reported assets and liabilities as well as of revenue and expenses. The actual outcome may differ from the estimates made. The critical accounting estimates and sources of uncertainty are disclosed in the financial statements 2016.

4. SEGMENT INFORMATION, REVENUE AND ITEMS AFFECTING COMPARABILITY

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

Revenue by product and traffic area

Q2 2017, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	211.2	29.9	231.3	40.3	-3.5	**509.2**	80.4
Ancillary and retail revenue	7.8	1.4	10.9	1.0	15.2	**36.2**	5.7
Cargo	36.9	3.1	7.5	0.6	1.4	**49.4**	7.8
Travel services	0.5	0.0	38.7	0.1	-0.8	**38.5**	6.1
Total	**256.4**	**34.4**	**288.4**	**42.0**	**12.3**	**633.4**	
Share %	40.5	5.4	45.5	6.6	1.9		

Q2 2016, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	173.9	28.8	204.2	39.7	11.8	**458.3**	80.5
Ancillary and retail revenue	5.5	1.2	9.0	0.7	13.9	**30.3**	5.3
Cargo	33.0	3.0	4.0	0.8	1.7	**42.6**	7.5
Travel services	0.1	0.0	34.0	0.2	-0.3	**34.1**	6.0
Travel agencies					4.4	**4.4**	0.8
Total	**212.5**	**33.0**	**251.2**	**41.4**	**31.5**	**569.6**	
Share %	37.3	5.8	44.1	7.3	5.5		

Q1-Q2 2017, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	387.5	52.7	397.7	92.5	1.4	**931.8**	78.5
Ancillary and retail revenue	16.5	2.3	18.9	2.2	30.1	**70.0**	5.9
Cargo	66.0	5.4	13.0	1.3	2.9	**88.6**	7.5
Travel services	22.5	7.1	68.1	0.1	-0.5	**97.3**	8.2
Total	**492.5**	**67.5**	**497.7**	**96.2**	**33.8**	**1,187.7**	
Share %	41.5	5.7	41.9	8.1	2.8		

Q1-Q2 2016, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	338.8	54.5	365.1	88.4	15.5	**862.3**	78.0
Ancillary and retail revenue	12.4	2.2	16.3	1.8	27.2	**60.0**	5.4
Cargo	63.2	5.6	7.9	1.8	3.6	**82.2**	7.4
Travel services	23.1	7.9	61.7	0.3	0.2	**93.2**	8.4
Travel agencies					8.4	**8.4**	0.8
Total	**437.7**	**70.2**	**451.0**	**92.3**	**54.9**	**1,106.0**	
Share %	39.6	6.3	40.8	8.3	5.0		

2016, in mill. EUR	Asia	North Atlantic	Europe	Domestic	Unallocated revenue	Total	Share %
Passenger revenue	739.5	115.7	761.0	165.1	34.9	**1,816.1**	78.4
Ancillary and retail revenue	27.5	4.6	35.8	3.5	54.1	**125.5**	5.4
Cargo	134.5	11.1	15.8	4.0	8.4	**173.8**	7.5
Travel services	35.5	11.4	139.2	0.5	1.0	**187.5**	8.1
Travel agencies					13.8	**13.8**	0.6
Total	**937.0**	**142.7**	**951.8**	**173.0**	**112.2**	**2,316.8**	
Share %	40.4	6.2	41.1	7.5	4.8		

PLF, %	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016
Asia	86.2	76.4	9.8 %-p	86.9	79.6	7.3 %-p	81.8
North Atlantic	85.3	78.9	6.4 %-p	81.9	79.6	2.3 %-p	79.5
Europe	82.4	79.5	2.9 %-p	79.4	77.1	2.4 %-p	78.6
Domestic	65.8	66.7	-0.9 %-p	68.3	69.4	-1.1 %-p	69.1
Total	**83.7**	**77.4**	**6.3 %-p**	**82.6**	**78.1**	**4.5 %-p**	**79.8**

ASK, mill. km	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016
Asia	4,317.0	4,070.1	6.1	8,328.5	8,091.6	2.9	16,434.2
North Atlantic	646.9	671.9	-3.7	1,253.1	1,304.4	-3.9	2,692.7
Europe	3,771.6	3,413.6	10.5	6,762.3	6,412.2	5.5	13,247.9
Domestic	359.2	356.9	0.6	878.6	825.1	6.5	1,539.4
Total	**9,094.8**	**8,512.5**	**6.8**	**17,222.5**	**16,633.2**	**3.5**	**33,914.2**

RPK, mill. km	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016
Asia	3,721.5	3,109.6	19.7	7,234.5	6,438.0	12.4	13,446.8
North Atlantic	552.1	530.2	4.1	1,026.5	1,038.9	-1.2	2,140.7
Europe	3,106.1	2,713.7	14.5	5,372.2	4,942.5	8.7	10,413.8
Domestic	236.2	237.9	-0.7	599.9	572.4	4.8	1,064.0
Total	**7,616.0**	**6,591.3**	**15.5**	**14,233.1**	**12,991.7**	**9.6**	**27,065.3**

Items affecting comparability

Items affecting comparability are classified into three categories: Gains and losses on aircraft transactions, Gains and losses on other transactions and Restructuring costs. Gains and losses on transactions include sales gains and losses and other items that can be considered to be directly related to the sale of the asset. As an example, write-down that might occur when item is classified as assets held for sale according IFRS 5, is reported as gains and losses on transactions. Restructuring costs include termination benefits and other costs that are directly linked to restructurings of operations.

in mill. EUR	Q2 2017	Q2 2016	Change %	Q1-Q2 2017	Q1-Q2 2016	Change %	2016
Unrealized changes in foreign currencies of fleet overhaul provisions	4.3	-1.8	> 200 %	6.4	1.2	> 200 %	-2.0
Fair value changes of derivatives where hedge accounting is not applied	-1.7	1.8	<-200 %	-0.3	3.1	<-200 %	34.0
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	**2.6**	**0.0**	**> 200 %**	**6.1**	**4.3**	**40.6**	**32.0**
Gains and losses on aircraft transactions	47.6	-2.3	> 200 %	42.6	-8.2	> 200 %	26.6
Gains and losses on other transactions	1.8	-0.3	> 200 %	2.2	-0.6	> 200 %	3.8
Restructuring costs	-0.5	-0.3	-43.4	-0.5	-0.8	43.4	-1.4
Items affecting comparability	**48.9**	**-2.9**	**> 200 %**	**44.4**	**-9.6**	**> 200 %**	**29.0**

5. MANAGEMENT OF FINANCIAL RISKS

No significant changes have been made to the Group's risk management principles in the reporting period. The objectives and principles of risk management are consistent with the information presented in the Group's 2016 financial statements. The tables below present the nominal value or the amount and net fair value of derivative contracts used in Group's hedge accounting.

Derivatives, in mill. EUR	**30 Jun 2017**		**30 Jun 2016**		**31 Dec 2016**	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
Currency derivatives						
Operational cash flow hedging (forward contracts)	386.2	-3.7				
Operational cash flow hedging (options)						
Bought options	147.2	4.2				
Sold options	157.8	-2.2				
Jet fuel currency hedging			300.1	4.5	307.3	16.5
Fair value hedging of aircraft acquisitions	320.9	-15.0	351.3	54.5	377.1	74.6
Currency hedging of lease payments	135.6	-4.1	164.4	7.9	172.4	9.6
Hedge accounting items total	1,147.7	-20.9	815.7	66.9	856.8	100.7
Operational cash flow hedging (forward contracts)			230.5	-2.7	157.4	3.3
Operational cash flow hedging (options)						
Bought options			179.8	1.2	173.2	5.9
Sold options			291.5	-12.2	245.4	-2.4
Hedging of assets held for sale	103.1	0.5			123.7	-7.3
Balance sheet hedging (forward contracts)	128.9	-1.1	223.9	-1.7	118.3	1.5
Items outside hedge accounting total	232.0	-0.6	925.6	-15.3	818.0	0.9
Currency derivatives total	**1,379.7**	**-21.5**	**1,741.3**	**51.6**	**1,674.8**	**101.6**
Commodity derivatives						
Jet fuel forward contracts, tonnes	753,000	-18.7	622,000	-40.6	650,000	18.9
Options						
Bought options, jet fuel, tonnes	217,000	1.7				
Sold options, jet fuel, tonnes	217,000	-4.6				
Electricity derivatives, MWh	6,626	0.0	13,141	-0.1	13,140	0.0
Hedge accounting items total		-21.6		-40.6		18.9
Jet fuel forward contracts, tonnes			12,000	-0.6	24,000	0.6
Options						
Bought options, jet fuel, tonnes			213,000	6.1	236,000	13.3
Sold options, jet fuel, tonnes	145,000	-0.1	426,000	-5.7	472,000	-4.4
Electricity derivatives, MWh			13,252	-0.1		
Items outside hedge accounting total		-0.1		-0.3		9.4
Commodity derivatives total		**-21.7**		**-41.0**		**28.4**
Currency and interest rate swaps and options						
Interest rate swaps	64.9	1.1	150.0	5.0	150.0	3.6
Hedge accounting items total	64.9	1.1	150.0	5.0	150.0	3.6
Cross currency Interest rate swaps	260.7	-6.4	289.5	1.1	291.8	16.1
Items outside hedge accounting total	260.7	-6.4	289.5	1.1	291.8	16.1
Interest rate derivatives total	**325.6**	**-5.3**	**439.5**	**6.1**	**441.8**	**19.8**
Equity derivatives						
Stock options						
Bought options	3.0	7.2	3.0	2.6	3.0	1.8
Sold options	3.0	-1.5	3.0	-0.4	3.0	-0.2
Hedge accounting items total	6.0	5.7	6.0	2.2	6.0	1.6
Equity derivatives total	**6.0**	**5.7**	**6.0**	**2.2**	**6.0**	**1.6**
Derivatives total		**-42.8**		**19.1**		**151.4**

6. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Fair value hierarchy of financial assets and liabilities valued at fair value			
Fair values at the end of the reporting period, in mill. EUR	30 Jun 2017	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	862.5	721.6	141.0
Derivatives held for trading			
Currency and interest rate swaps and options	1.1		1.1
- of which in fair value hedge accounting	1.1		1.1
Currency derivatives	10.4		10.4
- of which in cash flow hedge accounting	9.7		9.7
Commodity derivatives	3.6		3.6
- of which in cash flow hedge accounting	3.6		3.6
Equity derivatives	7.2		7.2
- of which in fair value hedge accounting	7.2		7.2
Total	**884.9**	**721.6**	**163.3**

Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency and interest rate swaps and options	6.4		6.4
Currency derivatives	31.9		31.9
- of which in fair value hedge accounting	15.0		15.0
- of which in cash flow hedge accounting	15.5		15.5
Commodity derivatives	25.3		25.3
- of which in cash flow hedge accounting	25.2		25.2
Equity derivatives	1.5		1.5
- of which in fair value hedge accounting	1.5		1.5
Total	**65.1**	**0.0**	**65.1**

During the reporting period no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are based fully on quoted (unadjusted) prices in active markets of the same assets and liabilities. The fair values of Level 2 instruments are 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 value hierarchy level, to which a certain item valued at fair value is classified in its entirety, is determined in accordance with the requirements of IFRS 7 based on the lowest level of input significant to the overall fair value of the said item. The significance of the input data has been assessed in its entirety in relation to said item valued at fair value.

7. COMPANY ACQUISITIONS AND DIVESTMENTS

During the second quarter, Finnair reassumed the control over its catering operations, as Finnair and LSG Sky Chefs agreed on 21st of April that LSG Sky Chefs Finland Oy will be transaferred under the control of Finnair. The company was renamed as Finnair Kitchen Oy. The transaction did not have material effect on Finnair's results.
There were no business acquisitions or disposals during Q1 2017.

8. INCOME TAXES

The effective tax rate for Q1-Q2 2017 was 20.0% (-19.5%).

9. DIVIDEND PER SHARE

A dividend for 2016 of 0.10 euro per share, amounting to a total of EUR 12.8 million, was decided in the Annual General Meeting on 16 March 2017. The dividend was paid on 4 April 2017.
The Annual General Meeting on 17 March 2016 decided that no dividend was paid for 2015.

10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	30 Jun 2017	30 Jun 2016	31 Dec 2016
Carrying amount at the beginning of period	1,178.8	821.0	821.0
Additions	330.8	319.1	518.9
Change in advances	-88.0	40.6	80.4
Currency hedging of aircraft acquisitions	89.6	26.5	6.4
Disposals and reclassifications	-88.0	-8.1	-139.9
Depreciation	-59.5	-49.1	-105.8
Depreciation included in items affecting comparability		-1.7	-2.2
Carrying amount at the end of period	**1,363.7**	**1,148.3**	**1,178.8**
Proportion of assets held for sale at the beginning of period	139.3	123.0	123.0
Proportion of assets held for sale at the end of period	30.8	102.7	139.3

11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include mainly aircraft. Aircraft classified as held for sale included at the end of 2016 four A340 aircraft, of which three were sold during Q2 2017 to Airbus. One A340 aircraft remain in assets held for sale and it is is expected to be sold to Airbus during 2017. These wide-body aircraft have been replaced or are going to be replaced by new A350 aircraft. The sale of one ATR 72 aircraft, that was classified as assets held for sale at the end of 2016, was cancelled and therefore reclassified to tangible assets.

Non-current assets held for sale	30 Jun 2017	30 Jun 2016	31 Dec 2016
Intangible and tangible assets	30.8	102.7	139.3
Inventories	0.0	1.4	0.0
Trade receivables and other receivables		5.1	
Total	**30.8**	**109.2**	**139.3**

Liabilities of non-current assets held for sale	30 Jun 2017	30 Jun 2016	2016
Trade payables and other liabilities		7.0	
Total	**0.0**	**7.0**	**0.0**

12. INTEREST-BEARING LIABILITIES

During the first quarter of 2017, Finnair issued a senior unsecured bond of EUR 200 million. The bond matures on 29 March 2022, it bears a fixed annual interest at the rate of 2.250 percent and had an issue price of 99.925 percent. The bond is callable before its final maturity. In conjunction with the new issue, Finnair purchased back EUR 85,082,000 out of the total outstanding nominal amount of EUR 150 million of its senior unsecured bond maturing in 29 August 2018. The purchase price for the notes was 107.096 percent.
During the second quarter of 2017 Finnair amortized its loans according to the loan instalment program.

13. CONTINGENT LIABILITIES

in mill. EUR	30 Jun 2017	30 Jun 2016	31 Dec 2016
Pledges on own behalf		159.0	
Guarantees on behalf of group undertakings	71.3	71.1	69.0
Guarantees on behalf of others		0.1	0.0
Total	**71.3**	**230.3**	**69.0**

Investment commitments for property, plant and equipment as at 30 June 2017 totalled 1,248 million euros (31 December 2016: 1,601).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	30 Jun 2017	30 Jun 2016	31 Dec 2016
Lease commitments for fleet payments	1,367.3	941.4	1,069.9
Other lease commitments	264.7	297.8	290.0
Total	**1,632.0**	**1,239.2**	**1,359.8**

15. RELATED PARTY TRANSACTIONS

in mill. EUR	Q1-Q2 2017	Q1-Q2 2016	2016
Sales of goods and services			
Associates and joint ventures	22.0	21.6	42.9
Pension fund			0.1
Purchases of goods and services			
Associates and joint ventures	52.9	57.4	106.8
Pension fund	1.6	0.8	3.2
Receivables			
Current receivables from associates and joint ventures	8.3	9.1	9.3
Liabilities			
Non-current liabilities to pension fund	2.4	32.2	29.7
Current liabilities to associates and joint ventures		0.1	0.2

16. EVENTS AFTER THE CLOSING DATE

There has not been any material events after the closing date.

17. CHANGES IN ACCOUNTING PRINCIPLES

IFRS 9 Financial Instruments

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

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

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

1 Impairment of financial assets

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

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

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

2 Changes in the classification of financial assets and liabilities

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

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

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

3 Hedge accounting

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

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

Risk components – IFRS 9 (2014) allows derivatives that are hedging a non-financial component of a price risk that is separately identifiable and measurable to be designated in a hedge relationship for that risk component only. The Group uses options and swaps on jet fuel, and could potentially use gasoil and Brent oil to hedge exposure to movements in the price of jet fuel. Previously, non-financial components were prohibited from being designated as hedged items under IAS39, and the use of such component hedges would have resulted in ineffectiveness stemming from the differences in the fair value changes of gasoil or Brent derivatives and the underlying jet fuel exposure. The change will allow Finnair to apply hedge accounting to such instruments under IFRS 9, which would not have been possible under IAS 39.

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

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

IFRS 9 (2014) requires that the hedge effectiveness assessment is forward-looking and does not prescribe defined effectiveness parameters for the application of hedge accounting. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively, and hedge accounting could only be applied if the relationship was 80 to 125 per cent effective. Under IFRS 9, hedge effectiveness is defined as the extent to which changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item.

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

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

Transition adjustment to retained earnings:

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

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

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

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

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

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

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

18. RESTATEMENT OF KEY RATIO

Finnair has adjusted its methodology for the calculation of belly cargo capacity (available cargo tonne kilometres) from June 2017. As opposed to the previous method based on fixed allotments by aircraft type and traffic area, the new method is utilises actual cargo capacity available for sale on each flight, which also reflects the weather conditions and other payload.

Key figures	Restated	Reported
Periodic key figures	Q1 2017	Q1 2017
Available cargo tonne kilometres (cargo ATK), million	320	336

Key figures		Restated				Reported		
Periodic key figures	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Available cargo tonne kilometres (cargo ATK), million	327	368	368	322	352	386	371	354

Key figures		Restated				Reported		
Cumulative key figures	2016	Q1-Q3 2016	Q1-Q2 2016	Q1 2016	2016	Q1-Q3 2016	Q1-Q2 2016	Q1 2016
Available cargo tonne kilometres (cargo ATK), million	1,385	1,057	690	322	1,464	1,112	725	354

19. CALCULATION OF KEY RATIOS

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

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

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

EBITDA:
Operating result + depreciation and impairment

Shareholders' equity:
Equity attributable to owners of the parent

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

Last twelve months (LTM):
Twelve months preceding the reporting date

Liquid funds:
Cash and cash equivalents + other financial assets

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

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

Adjusted interest-bearing net debt:
Interest-bearing net debt + lease payments for aircraft, LTMx7

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

Earnings per share:

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

Equity/share:

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

Equity ratio, %:

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

Gearing, %:

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

Adjusted gearing, %:

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

The figures of the half year financial report are unaudited.

Return on equity (ROE), %:

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

Return on capital employed (ROCE), %:

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

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

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

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

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

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

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

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

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

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

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

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

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