ANNUAL REPORT 2016

CONTENTS

About this report

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

Finnair considers sustainability a critical and strategic aspect of business performance. Thus sustainability reporting is an integral part of its annual reporting framework. The report describes Finnair's material activities in 2016 across all its units. Material aspects are listed on page 123. The Annual Report contains a description of material events in Finnair's business units in 2016, a statement by the CEO, a section on strategy and value creation, as well as a review of stakeholder engagement and megatrends. In addition, the Annual Report includes a disclosure on management approach and a tax footprint statement. The GRI section describes the materiality analysis process, and the resulting reporting aspects, indicators and data in more detail.

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

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

CEO'S REVIEW

2016 showed that Finnair is moving in the right direction. We are on a growth path, but we must pick up our speed.

There is a spirit of enthusiasm at Finnair as we are implementing our strategy with resolve. We are recruiting and focusing on both the customer and personnel experience, developing our brand, figuring out how to utilise new business opportunities provided by digitalisation. We are working to develop the Nordic customer experience.

In 2016, our revenues increased by 3 per cent to 2.3 billion euros and our comparable operating profit more than doubled to 55 million euros. However, in order to achieve our 6-per cent EBIT margin target, we need determined steps and profitable growth.

The most important strategic decision of the year was to accelerate Finnair's growth. Initially, as we are phasing out our last A340 aircraft, we also intended to take out two of our A330 widebody aircraft this year, while taking delivery of four new A350s. Instead, we made the decision to keep all of the A330s, which materially strengthens our long-haul fleet. And due to the growth in our long-haul traffic, we are also strengthening our feeder traffic with new A321 narrowbody aircraft.

Capacity growth reduces our average unit costs and is necessary for our competitiveness. It also enables us to provide new destinations and frequencies to our customers. In line with our strategy, our growth focuses on traffic between Europe and Asia, where we have a geographical competitive advantage due to the central location of our Helsinki hub. At the same time, we are also opening new connections for our home markets, business and leisure travellers alike.

In order to be able to grow, we need new personnel. We have accelerated in particular the recruitment of flight crew, since one widebody aircraft employs directly some one hundred persons. In 2016, the number of personnel in our continuing operations increased by 280 in net terms, and we currently estimate we will hire a total of one thousand people by 2020 since the beginning of 2016.

Growth also involves growth pains. There were delays in the deliveries of our new aircraft, and as a result, the crew type training was postponed and backlogged. At the same time, we were also training new recruits. To mend the resource deficit, we leased more external crew and aircraft than we had initially planned. This also somewhat affected the customer experience, caused operative irregularity, and, as a result eroded our profit by twenty million euros. Nevertheless, Finnair's customer satisfaction showed very positive developments in 2016.

The spirits at Finnair are high, although the transition period requires all of us to go the extra mile. In order to support our staff cope with the increased workload we are driven to develop our internal operating culture and improve the people experience further. Our people are

"*OUR REVENUE GREW* TO 2.3 BILLION EUROS AND COMPARABLE *OPERATING PROFIT MORE THAN DOUBLED* TO 55 MILLION EUROS."

– PEKKA VAURAMO, PRESIDENT AND CEO

"*CUSTOMER* IS AT THE CORE OF OUR BUSINESS".

excited about our growth and the new kinds of business emerging, new colleagues and career opportunities.

We also implemented an organisational reform, highlighting customer experience and an overarching focus on digitalisation. The customer is at the core of our business. We want to provide a unique Nordic experience, which inspires to choose Finnair again and again. The Nordic customer experience means among other things reliability and straightforwardness; things which we as Finns can be proud of. Digitalisation also plays a key role: Some of the most prominent examples are the application facilitating the trip throughout the service chain, the entertainment offered on board, our online shop supporting ancillary sales both on the ground and in the air, as well as the gradual introduction of wireless internet on all of our aircraft.

As Finland is celebrating its hundredth anniversary, it is exciting that the attractiveness of Finland as a travel destination is clearly on the rise. In 2016, Finnair signed a strategic partnership with a major Chinese travel platform, making Finnair and Helsinki one of their key European gateways to destinations in the Finnish Lapland and Europe. Towards the end of the year, Rovaniemi and Ivalo together were the top destination for our Chinese passengers in the whole of Europe. In addition, together with other parties in the travel sector, we have developed a stopover service for tourists who would like to stop in Finland for a few hours or a few days during their trip. Hence, we are part of the Finnish tourism sector, which has considerable growth potential.

The past year was also significant from the perspective of sustainable development. In the general assembly of ICAO, the International Civil Aviation Organisation, a far-reaching emissions agreement was concluded, which stabilises the emissions of the sector at the level of 2020. Finnair is among the undisputed pioneers in sustainability in the sector, and we received kudos for this in several independent assessments during the year. In 2016, we also reformed our sustainability programme and Code of Conduct while implementing SEDEX, a system created for the aviation industry, in the review of the sustainability of our supply chain. We are also committed to complying with the responsibility principles of the UN Global Compact initiative. Last year, we made an assessment to ensure that all of our operations are comprehensively aligned with the UN's sustainable development goals.

Finnair has now taken off, relying on cooperation. I want to thank our investors and passengers for the trust they have shown in our company. I also want to express my gratitude to our personnel for their enthusiastic and inspiring work both on the ground and in the air.

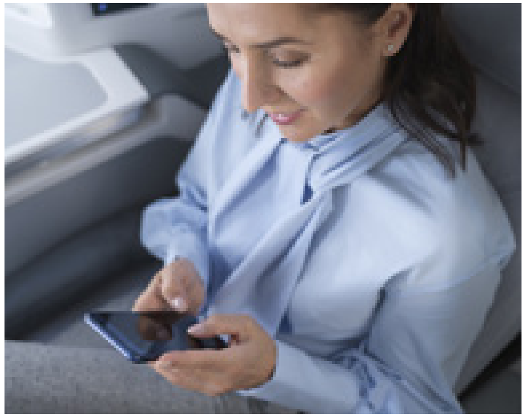
Pekka Vauramo
President and CEO
@pekkavau

HIGHLIGHTS 2016

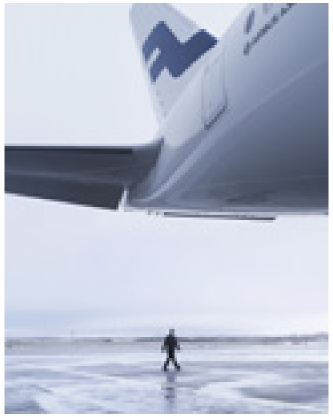
Finnair updated its growth strategy
In May, the Finnair Board of Directors, as part of the company's annual strategy work, determined the matters on which Finnair will focus in 2016–2018 in order to meet the company's strategic objectives. These are:

- Profitable growth – Finnair revised its capacity and market share targets slightly upwards. The company announced it would retain two A330 widebody aircraft, which it was initially planning to give up in 2017. The growth supports Finnair's profitability by decreasing unit costs.
- Customer experience – the Company will develop its customer service in a determined fashion, aligned with its vision of a Nordic customer experience.
- People experience – Finnair will focus on human resources development as part of its growth and productivity strategy by developing leadership, workplace community and occupational health initiatives, competence and cooperation.
- Digital transformation – in developing its activities, Finnair will utilise opportunities provided by digital innovations and best practices in business transformation.

The organisation was reformed and growth recruitments continued
Finnair reformed its organisation in order to speed up its growth strategy. In particular, two new positions were set up at the executive board level for the heads of customer experience and digitalisation. During the year, these units were built up and Finnair announced in the latter half of the year that it would seek to recruit a total of 70 software developers, project managers, service designers and other digital experts in 2017 in order to improve process efficiency and customer experience. In addition, Finnair recruited more than a hundred pilots and cabin crew during the year for the needs of its growing traffic



Fleet renewal proceeded
In 2016, Finnair took delivery of four new Airbus A350XWB widebody aircraft which hence totalled seven at year-end. Of the new aircraft, two were financed with so-called JOLCOs (Japanese Operating Lease with a Call Option), one with a sale and leaseback transaction and one in cash. In addition, Finnair stated it will expand its narrowbody fleet for the needs of growing feeder traffic by leasing eight new Airbus A321 aircraft from 2017 and 2018 onwards. During the year, three A340 widebody aircraft and two Embraer E170 narrowbody aircraft were retired from the fleet.



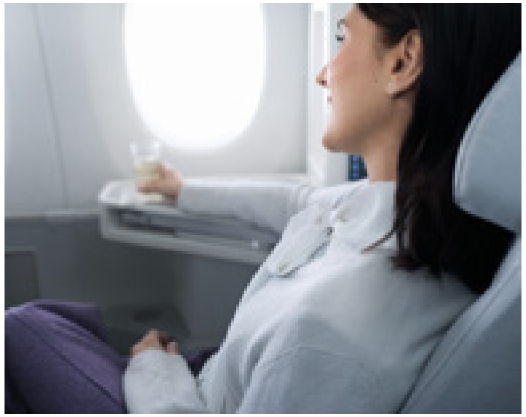
Long-term emissions target achieved almost in full

Finnair's long term 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 completed almost in full, as the relative annual carbon emissions decreased by 19.4 per cent during the period. The primary indicator used by Finnair in its emission target setting is RTK, since it measures fuel consumption and emissions in relation to the distance travelled and the volume of passengers and cargo. After all, flying with an efficiently filled aircraft is the most environmentally friendly way to fly. The achievement was largely based on the purchase of new aircraft as well as an improvement in the passenger and cargo load factors. In addition, fuel efficiency was improved during the period by modernising existing fleet and by improving processes.

New routes and products

For the summer season, Finnair launched Fukuoka in Japan and Guangzhou in China as new destinations in the long-haul traffic. These destinations will be back in the traffic programme in late spring 2017. In addition, Miami, previously a winter destination, was launched as a year-round one and frequencies to Chicago were increased for the summer. In Europe, Finnair's new scheduled flight destinations for the summer season 2016 from Helsinki were Edinburgh, Billund, Pula, Zakynthos, Skiathos, Santorini, Preveza, Rimini, Verona and Varna, as well as weekly flights from Oulu to Hania and Alanya. For the winter season 2016/2017, Finnair increased capacity to Lapland by 10 per cent, which was sold in cooperation with a Chinese travel agency.

For summer 2017, Finnair will add frequencies to Hong Kong and Tokyo and hence become the biggest European airline to Japan with 28 weekly flight to four Japanese cities. More destinations and frequencies than any other European airline. In addition, Finnair will introduce new routes from Helsinki to San Francisco, Alicante, Ibiza, Korfu, Menorca and Reykjavik. Capacity is also being increased to Copenhagen, which has emerged as a popular destination for Asian tourists



Finnair received multiple awards and recognition during the year

The German ESG rating company oekom research AG updated its analysis of Finnair's corporate responsibility in February. Finnair's current ESG rating is B-, which is the highest rating in its category comprising 77 companies in the transport and logistics sector. Finnair was also awarded Prime status indicating the suitability of Finnair's securities for responsible investors.

In April, Finnair was named the best European airline operating in China at the TTG China Travel Awards. The award was based on votes cast by the readers of TTG's publications. Finnair was also awarded a Gold Medal in the ICARUS sustainability competition organised by the Global Business Travel Association (GBTA) in recognition of its position as a leader in sustainability in the travel industry, whose commitment and actions have proved it is capable of providing its customer companies and passengers with travel services that are first-class from the perspective of sustainable development.

Skytrax World Airline Awards chose Finnair as the best airline in Northern Europe for the seventh consecutive time. The award is based on an independent Skytrax survey of some 19 million travellers from more than 160 countries. The survey covers more than 40 criteria including check-in, seat comfort, cabin cleanliness and service. Skytrax also awarded Finnair the overall rating of a four-star airline.

Aurinkomatkat – Suntours was 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 Scandinavia. The study is carried out annually by interviewing consumers in four Nordic countries. The survey is based on the 10 principles of the UN Global Compact initiative.

Strategy

ABOUT FINNAIR

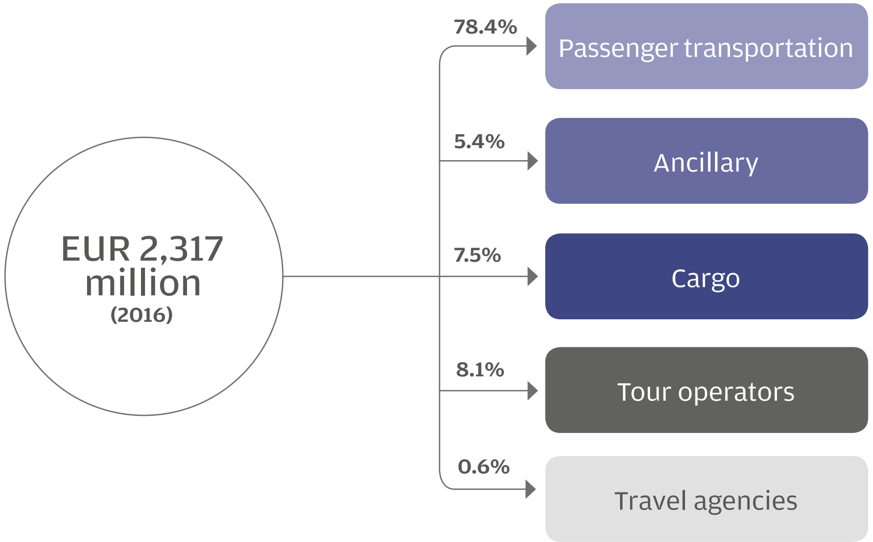
Finnair is a network airline specialising in passenger and cargo traffic between Asia and Europe. Helsinki's geographical location gives Finnair a competitive advantage, since the fastest connections between many European destinations and Asian megacities fly over Finland. Finnair's vision is to offer its passengers a unique Nordic experience, and its mission is to offer the smoothest, fastest connections in the northern hemisphere via Helsinki and the best network to the world from its home markets. Finnair is the only Nordic carrier with a 4-star Skytrax ranking and a member of the **one**world alliance. In 2016, Finnair's revenues amounted to EUR 2,317 million and it had personnel of over 4,900 at the year-end. Finnair shares are quoted on Nasdaq Helsinki.

Finnair as an investment

Finnair is a leading European network carrier, focussed on connecting Europe and Asia, with a compelling strategy in place to achieve its financial targets.

Finnair has a stable position in the domestic market and it is poised to benefit from expected growth in Asian markets. Our favourable geographic location for traffic between Europe and North-East Asia is supported by modern, efficient and growing airport (hub). Our all-Airbus fleet delivers strong economic benefits and with the growing new technology Airbus A350XWB fleet as the foundation of disciplined and profitable growth, we are well prepared to achieve our strategic targets. Finnair's net cash position and demonstrated capital discipline support upcoming investments.

Key revenue sources and split



Vision: A unique Nordic experience

Mission: Smoothest and fastest flight connections in the northern hemisphere

MEGATRENDS AFFECTING FINNAIR

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

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

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

Urbanisation

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

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

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

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

Increasing significance of sustainability

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

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

Significance of sustainability increases

Global shift in economic and political focus continues

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

A CHANGING OPERATING ENVIRONMENT

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

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

With the low margins in the airline business and the high capital expenditure needed to operate an airline, it is crucial to optimise all aspects of business operations to succeed. It is also crucial to build resilience and flexibility for unexpected changes in the market environment. Finnair aims to create value for shareholders by focusing on its core business and by investing in competitiveness and profitable growth.

Competitive, growing industry

A healthy economy acts as a catalyst for airline industry growth and changing demographics in developing countries have further increased the demand for air travel over the years. Based on ICAO statistics, revenue passenger kilometres have doubled every 15 years. Due to the slowdown of global economic growth, growth in air travel is expected to slow down slightly. Despite this, air travel is expected to continue to grow faster than the economy, on average 4 per cent per year globally. A growing middle class supports the demand particularly in Asia. China's share of global traffic is expected to increase in the coming decade, and the country is expected to surpass the United States by passenger volume as the world's largest market during this period. This will provide substantial opportunities for growth; Asian traffic already represents approximately half of Finnair’s passenger traffic.

The airline industry is highly competitive, and with the growth of the industry, the competitors have not just changed, but also multiplied. Finnair’s competitive landscape can be roughly divided into two parts; short haul point-to-point traffic and Asian long haul transfer traffic. In short haul point-to-point traffic, airlines with the lowest cost structures typically have the strongest competitive positions, and competition is mainly driven by price. On the long haul transfer traffic scene, the significance of a comprehensive network, comfort of travel, customer service and smooth transfers is highlighted.

External factors influencing airlines

FINNAIR INVESTS IN *COMPETITIVENESS AND PROFITABLE GROWTH.*

European network carriers, Finnair included, have revised their operating models and adjusted their cost base in recent years in response to competition from low-cost airlines and airlines based in the Middle East. Intense competition has led to more consolidation, alliances and joint ventures in the industry, with the aim of consumer benefits, improving capacity discipline and profitability.

Sources: ICAO, IATA, Oxford Economics.
For more information on industry development, please visit:
http://www.icao.int/
http://www.iata.org/
http://www.airbus.com/company/market/global-market-forecast-2016-2035/

VALUE CREATION AND STRATEGY

The cornerstone of Finnair's growth strategy is its geographical location enabling the fastest connections in the growing market of air traffic between Asia and Europe.

The creation of value for Finnair's shareholders and other stakeholders is based on the company's ability to operate and grow its route network resource efficiently and profitably, the way it treats customers, employees and other stakeholders and commits them to the company, and the ability to take the environmental and other external impacts of operations into consideration. Ultimately, the critical factors in value creation are process efficiency, ability to develop the company and manage the risks associated with operations.

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

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

Finnair's accelerated growth strategy's objective is to double its Asian traffic by 2018 compared to 2010 base. In 2016, Finnair operated flights to 17 Asian destinations in nine different countries, including financial hubs as well as holiday destinations. Finnair also operated flights to three cities in North America and approximately 70 destinations in Europe. In 2017, the network will grow with the San Francisco and Reykjavik route openings among others. Finnair's ability to operate its network safely and punctually from one of the world's northernmost air traffic hubs is integral to value creation. The transfer of passengers, baggage and cargo to connecting flights is ensured through efficient processes and cooperation with airport authorities. More information on destinations: https://www.finnair.com/gb/gb/destinations

GROWTH STRATEGY AIMS TO *DOUBLE THE ASIAN TRAFFIC* BY 2018.

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

More information on **one**world:
https://www.finnair.com/gb/gb/destinations/oneworld

A stable position in the domestic market and in Asian traffic

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

position to benefit from these growing markets. Asian traffic accounts approximately 50% per cent of Finnair's traffic. The company is among the top 5 airlines in terms of market share on the routes it operates.

Responsibility in all areas

As a responsible world citizen, Finnair targets sustainable growth. The company believes that including sustainability in all elements of its operations is essential. Without these elements, Finnair would not have a license to grow and operate. Finnair aims to reduce its environmental impacts in all areas while providing clear social and economic benefits to the societies it is present in. More information on corporate responsibility: https://www.finnair.com/gb/gb/corporate-responsibility

The KPI's of sustainability in Finnair's operations can be found in the GRI section of this Annual Report.

Vision of a unique Nordic Experience guides strategic direction

In last year's strategy update Finnair established a new vision: We want to provide a unique Nordic Experience to our customers.

The aim of the new vision is to provide strategic direction after many years of heavy restructuring and cost cutting: Finnair's route network connects Asia, North America and the northern regions of Europe and beyond through its hub at Helsinki Airport. The operations are based on quality, reliability, safety and design inspired by Nordic pure nature. The vision is expressed for example in easy-to-use digital services and in the enhancement of services. The goal is that as a result of the service offered at the airport, in lounges and on board, our customers arrive at their destinations relaxed and with peace of mind.

Vision gives direction to all Finnair employees and partners in the areas of customer service, operations or development of the company operations and services. Finnair's organisation has also been adapted to enable reaching strategic targets in best possible way.

Must Win Battles for Finnair's strategy implementation

To achieve Finnair's vision of providing a unique Nordic Experience, Finnair's Board of Directors adopted the following as the company's Must Win Battles for 2016–2018:

- **Profitable growth** – Aim is to accelerate growth and increase market share
- **Customer experience** – Our ambition is to offer the best European business class and unique Nordic experience
- **People experience** – Aim is to enable growth by increasing performance and productivity
- **Transformation** – Aim is to embrace and benefit from the business and digital transformation

Growth

The backbone of Finnair's growth strategy is the long term commitment made on its long-haul with the order of 19 Airbus A350 aircraft. The current revised long haul fleet plan will grow the fleet from 16 to 26 aircraft by 2023. (More information on A350 XWB aircraft: https://www.finnair.com/fi/gb/a350) The accelerated growth plan gives Finnair the ability to rebound and grow even faster than the market after years of no or low growth. The revised growth plan, where the A330 fleet will be kept as is at 8 aircraft instead of divesting two A330s in H12017, enables capacity compound annual growth rate (CAGR) of 8–10% in 2016–2018. Accelerated growth will also improve Finnair's cost position and overhead absorption.

Finnair will leverage its competitive advantage in selected markets by focusing on 30 cities and their catchment areas globally. Asia will be the focus area in network development and growth. While China continues to provide the highest long term potential, other countries in Northeast Asia and Southeast Asia offer new opportunities and growth potential. Finnair will also develop North America as a market aiming to maintain the current ratio between Asian and North American destinations.

As the long haul network grows, capacity in short haul feeder traffic must equally increase. Increasing the average narrow body aircraft size and adding more seats to current narrow body fleet support unit cost improvement and higher productivity while enabling long haul feeder growth.

The direct sales channels, both online and mobile, will be the most important sales channels in enabling sales of various ancillary services in the future. Ancillary and retail business is the fastest growing revenue line and the growth is expected to continue during the strategy period as Finnair aims to increase ancillary sales per passenger by 46% (from 10.2 euro to 14.9 euro) by 2018.

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

Customer Experience

Investments in customer experience are central to Finnair in order to succeed in implementing its growth strategy. The introduction of new A350 aircraft has already improved the customer experience in both business and economy classes, and more improvements and enhancements are being implemented to further uplift the experience and differentiate from competition. Finnair has set itself the target to deliver the best long haul business class experience of all European airlines. The Economy class product is also continuously enhanced.

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

Improving the customer service is a key priority to us. We develop customer service at airport, inflight and on phone and social media. New digital services and automation will further smoothen the customer journey. Customer analytics will be more widely used to provide increasinly personalised services. Additional ancillary services will enable customer to tailor his/her journey to fit the needs of the specific travel.

People Experience

Well-motivated employees are behind the execution of a unique Nordic experience and value creation at Finnair. Excellent employee experience equals great customer experience and together deliver unique Nordic experience. To strengthen and support People experience, Finnair focuses on timely resourcing, leadership, competence development and strengthening of change capacity. New agile ways of working necessitate continuous development of Finnair culture. Wellbeing of people is a key element in ensuring engaged and inspired personnel.

Leadership has a major impact on engagement and motivation, and Finnair focuses on leadership development by training, coaching and facilitating internal rotation. Finnair develops key competencies in service management and digitalization. Finnair needs to further focus on attracting, developing and retaining the right professionals to ensure that the right skills are available for its strategy implementation. Strategic personnel planning ensures the implementation of accelerated growth.

Finnair employees are well educated, skilled and experienced. To support the wellbeing of our employees, Finnair will renew its operational wellbeing service management system with the aim of reducing sick leaves and strengthening the working capacity of the personnel.

DEVELOPMENT OF DIGITAL SERVICES AND AUTOMATION WILL EASE THE CUSTOMER JOURNEY.

Finnair's personnel, wellbeing at work and key projects affecting personnel are described in the GRI section.

Transformation

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

Finnair is well positioned to start the transformation journey – in 2015/2016 the company invested in its Digital Finnair program which designed and implemented customer facing digital services such as Finnair.com, Mobile App and Nordic Sky. Finnair also started the digitalisation of its Operations unit with the first technology projects currently being implemented. In addition, multiple projects at the group functions level are also being implemented to support the Finnair way of working.

In addition to the work on products and services, Finnair will proceed to the next layers of digitalisation with the building of new intangible assets.

During autumn 2016 the digital vision for 2020 has been updated as Best Intelligent Travel Ecosystem. The aim is to take an active role in the travel ecosystem as it evolves around the opportunities with digital services, businesses and partnerships. With this vision statement Finnair has launched the digital journey towards 2020.

In Finnair's strategy for 2016–2018, the company will support the business units with their digital agenda and build assets for a future-proof Finnair:

- Core capabilities (data, innovation, user-centric thinking)
- Digital people experience (skills and tools)
- Continued transformation of IT

Creating value for society

Finnair's current route network and its future expansion ensure that Finland will have more direct flight connections to other parts of the world than domestic demand alone could support. This has a significant impact on the travel opportunities of Finnish consumers and businesses. In addition, aviation sector is a major job creator in the Finnish society. Aviation accounts for almost 4 per cent of Finnish GDP*, and according to an analysis conducted in autumn 2014 by ETLA, the Research Institute of the Finnish Economy, Finnair is the 10th most significant company for the Finnish economy.** One of Finnair's strategic goals is to continue to grow air traffic through Helsinki by leveraging Finland's geographical location.

* Oxford Economics, "Economic Benefits from Air Transport in Finland". http://www.iata.org/policy/Documents/Benefits-of-Aviation-Finland-2011.pdf
** ETLA Brief 28. http://pub.etla.fi/ETLA-Muistio-Brief-28.pdf

Value creation at Finnair

Inputs / Key capitals

Human capital
4,937 personnel, training hrs 44/ employee, expertise

Financial
Adjusted interest-bearing debt EUR 701.5 million
Equity capital EUR 857.0 million

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

Natural
874,148 tonnes of jet fuel

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

Fleet and infra
Over 70 aircraft

Business Model

Our vision, mission, strategy

Our governance

Our values

Business processes:

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

Products/outputs

- Passenger transportation (10.9 million passengers)
- Cargo transportation (145 million kilos)
- Travel packages
- Customer experience and service
- Other

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

Value created and impacts

Fastest connections between Europe and Asia

Customer value
Customer satisfaction NPS 43%

Financial
Operating result EUR 116.2 million, taxes, traffic charges, return on equity and debt investments

Natural
Flight emissions 2,753,567 tonnes CO_2, noise, waste

Social
Traffic connections, direct and indirect employment, employee experience 3.69/5, added value to partners, brand value, innovative and sustainable products

STAKEHOLDER ENGAGEMENT

How Finnair communicates and cooperates with its stakeholders

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

FIT FOR THE FUTURE

The only thing we know for sure about the future is that it will be different from today. Be that as it may, we must actively and consciously act in such a way that our actions our sustainable, even by future standards, and that we deserve to grow and continue to operate going forward.

In other words, our aim is to be "Fit for the future". Finnair has programs underway with this title in relation to both the digital transformation and employee well-being. We must also be "fit" from the perspective of responsibility: our long-term value creation comprises not only economic, but also social and environmental elements.

The business sector and the way companies operate have a major impact on the future of the Earth. We can't simply focus on minimising the impacts of our operations – instead, we must find opportunities for developing our operations, grow responsibly and benefit society.

To change the world, you must first change the way people think

Finnair has a long history of social responsibility. Its environmental policy working group was established in 1987 and the company has reported on its actions since 1996.

The three pillars of sustainability—environmental, social and economic sustainability—were incorporated into Finnair's reporting in 2008. While responsibility is about much more than just reporting, our past reports provide a good overview of the development of sustainability and our operations as well as our focus areas. We carried out a major process in 2016 by analysing what is genuinely material and significant to Finnair's stakeholders in the future, and what aspects we should cover in our communications on responsibility.

During the process, we noted that our stakeholders know we are involved in many things. Their understanding of Finnair's responsibility targets and strategy, on the other hand, was not clear. Our response was to work on these themes in workshops, interviews and by analysing trends. This led us to the core: **the Nordic Way—the Finnair way—of doing things.**

WE ARE COMMITTED TO LEAD THE WAY TOWARDS *A CLEANER, CARING AND COLLABORATIVE* FUTURE.

Responsibility is at the core of what we do and who we are, as it should be. It is not about reporting, slogans or campaigns. The Nordic Way also reflects our responsibility: we care about, respect and look after the environment and each other. There is a strong link between our responsibility strategy and the essence of our brand. Our strategy and values also reflect the same ideas.

This formed the corporate responsibility commitment.

Firmly anchored in the North, we pride ourselves in our Nordic mindset. Looking at the world from our unique viewpoint, we see a need for change. There's a need for a more caring approach towards our planet and its people. We believe that steps can be taken, little by little, as long as we all pull together.

From our northern position, we gain a head start on this journey. Openness and respect for the environment and human rights are intrinsic to our Nordic mindset. Our unique position also helps us keep routes short and work towards lowering emissions. Maintaining a profitable business helps us offer stability to our customers, partners, and employees.

It's on this Northern mindset we want to build our future – and the future of air travel, for that matter. It will take time, but we believe we can be among the leaders of the industry in environmental issues and social responsibility. Efficient routes, an ambitious approach to biofuels and a profound respect towards people, all lay the groundwork for a better future.

We are committed to lead the way towards a cleaner, caring and collaborative future

A very Nordic commitment.

Our responsibility strategy and mission are the foundation for a program built around three main themes: cleaner, caring and collaborative. Going forward, our performance indicators, actions and objectives will be grouped according to these themes. We will use them to communicate our achievements as well as our targets, which still require a lot of work to achieve. These themes will guide all of us at Finnair as we work towards a more responsible and caring world.

Kati Ihamäki
Director Corporate Sustainability

P. s. A significant milestone was achieved last year in the cooperation towards a cleaner future for aviation. In October 2016, the Assembly of the International Civil Aviation Organisation ICAO approved a significant resolution on the implementation of an emissions offsetting system for the global aviation industry. The system will cap aviation emissions at 2020 levels. We have actively worked towards achieving this resolution since 2009. The resolution will support Finnair and the entire industry in more sustainable growth — we'll be fit for the future together!

KEY PERFORMANCE INDICATORS

Targets and KPI's		Actions taken in 2016	Performance in 2016
Financial targets			
Profitability, return on investment and indebtedness	Comparable operating result at least 6% of revenue	Business and revenue growth, cost efficiency improvements, the introduction of the new technology A350 aircraft, 20 million euro cost savings program, aircraft financing arrangements, read more from Report of the Board of Directors p. 25	× Comparable EBIT 2.4% of revenue
	Comparable EBITDAR at least 17% of revenue		× Comparable EBITDAR 11.7% of revenue
	Return on capital employed (ROCE) at least 7%		√ ROCE 8.9%
	Adjusted gearing no more than 175%		√ Adjusted gearing 78.3%
Dividend	To pay, on average, at least one-third of the earnings pers share as a dividend during an economic cycle taking into account company's earnings outlook, financial situation and capital needs for any given period	The Board of Directors proposes that a dividend of EUR 0.10 per share be paid for 2016	Earnings per share EUR 0.55. The Board of Directors proposes that a dividend of EUR 0.10 per share be paid for 2016
Business and sustainability targets			
Growth	Capacity growth (ASK), of 8–10% on average, revenue growth, increase of ancillary and retail revenue per passenger	The introduction of Airbus A350, route network expansion with new routes and additional frequencies to old destinations	x Capacity (ASK) +6,5% √ Revenue +2.8% √ Ancillary and retail revenue per passenger +15.2%
Customer Experience	Customer satisfaction, NPS *% increase on the previous year, punctuality at least 89%	Improving customer service in all encounters, the improvement of business-class experience, the development of additional services	√ Customer satisfaction, NPS-% 43%, (+4 % from 2015), x Punctuality 85,3%
People and Culture	Personnel Experience overall grade of at least 3.75, absences due to illness decrease from the previous year, less than 14.8 work related accidents	Wellness programs, conditions of employment, education and training, OSH, gender equality policy and plan, the development of managers' skills in occupational safety, implementation of the safety monitoring process, updating the reporting tool.	x Personnel Experience overall grade 3,69 √ absences due to illness 4,6% (-0,2% from 2015) x work related accidents 16.5
Transformation	Growth of sales through digital touch-points >15%, productivity improvement in selected areas of at least 10%	Commercial digitalisation project, spearhead projects in digitalization of core processes, Finnair Technical Services in particular, Digital Vision 2020 and strategy work, Digital Maturity Index survey.	√ Ticket sales through digital touch-points +19%, √ Ancillary sales through digital touch-points +31%. Flown ticket revenue sold through digital channels totalled 429 million euros in 2016
Environment	20% carbon dioxide emission reduction per RTK 2009-2016, 1.5% efficiency improvement annually, carbon neutral growth in 2020 and beyond	Efficient route planning, Weight Watchers program, a single engine taxiing, APU engines, CDA landings	x CO_2 emission reduction of 19.4% 2009-2016 (Per RTK) √ CO_2 emissions, tonnes / RTK -4,0%, √ CO_2 emissions, tonnes / ASK -1,7%

*NPS = Net Promoter Score

Finance

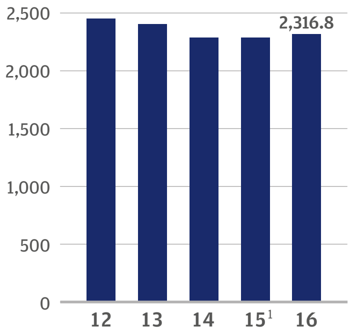
KEY FIGURES

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

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

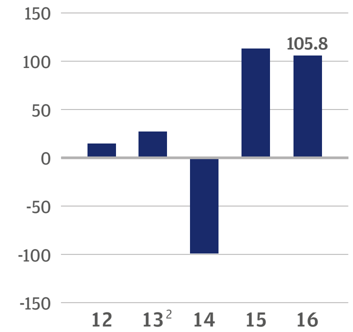
Revenue

€ million



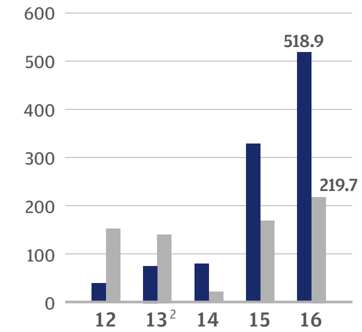
Result before taxes

€ million



Capital expenditure and net cash flow from operations

€ million

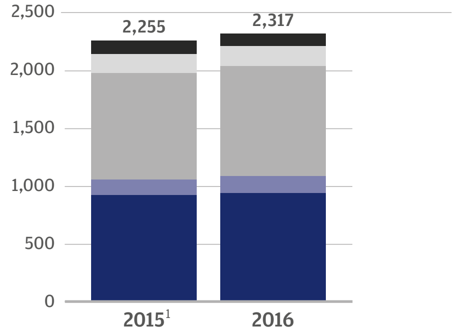


Gross investments

Net cash flow from operations

Revenue by traffic area

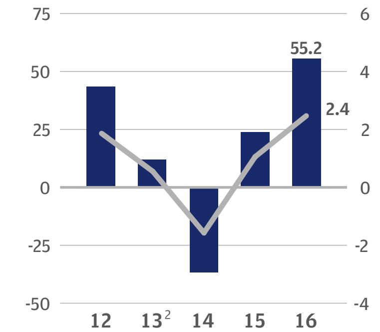
€ million



Asia
North Atlantic
Europe
Domestic
Unallocated

Comparable operating result*

€ million %

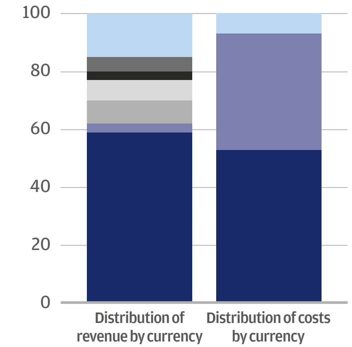


% of revenue

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

Distribution of revenue and costs by currency in 2016

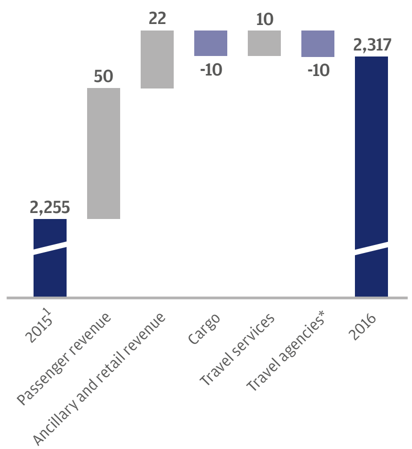
%



EUR
USD
JPY
CNY
KRW
SEK
Other

Revenue by product

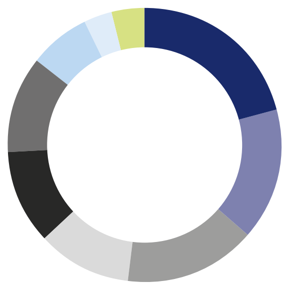
€ million



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

Distribution of operating expenses € 2,337.1 million

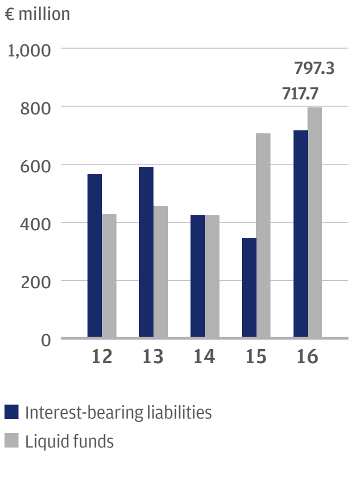
%



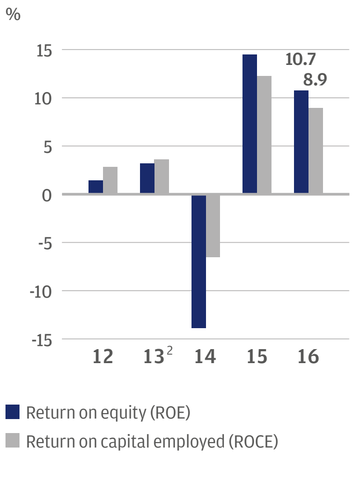
Fuel costs 21.0%
Staff costs 15.5%
Leasing, maintenance, depreciation & impairments 15.5%
Traffic charges 11.2%
Ground handling & catering 11.1%
Other expenses 11.4%
Other rents 7.2%
Sales and marketing 3.3%
Expenses for tour operations 3.8%

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

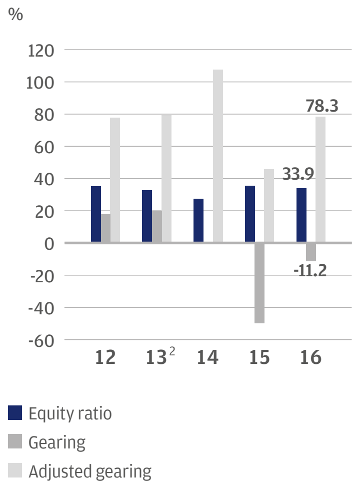
Interest-bearing liabilities and liquid funds



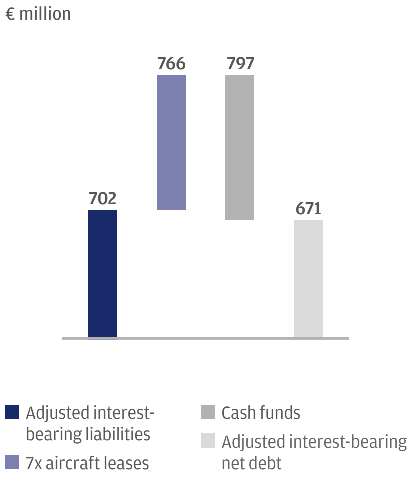
Return on equity (ROE) and return on capital employed (ROCE)



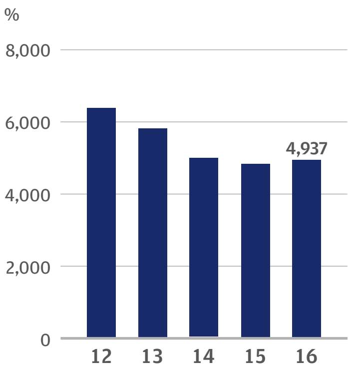
Equity ratio, gearing and adjusted gearing



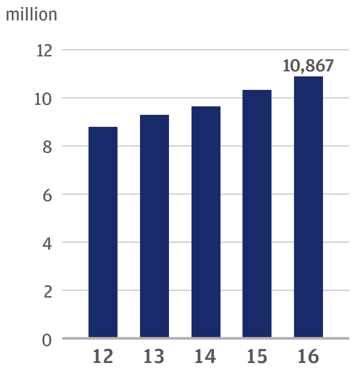
Composition of adjusted interest-bearing net debt



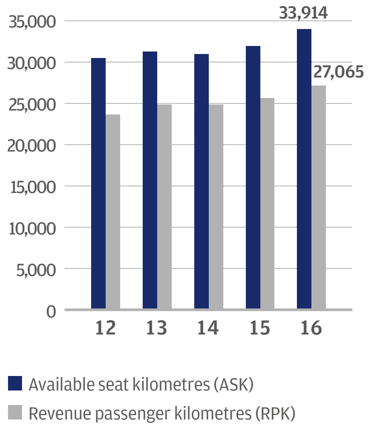
Number of persons employed by Finnair at year-end



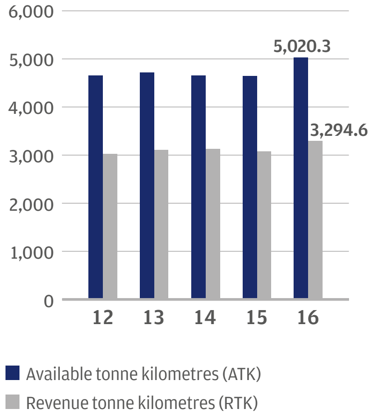
Number of passengers



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



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



THE REPORT OF THE BOARD OF DIRECTORS 2016

Business environment

Traffic continued to grow in Finnair's main markets in 2016. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations grew by approximately 2.9 per cent year-on-year, while direct market capacity between Finnair's Asian and European destinations grew by 2.4 per cent year-on-year. Finnair's market share increased in European traffic (between Helsinki and Finnair's European destinations) and also rose in Asian traffic (between AY operated European cities in Europe and in Asia) slightly, to 5.6 per cent (5.5).*

During 2016 the travel from Asia to certain European destinations suffered from security concerns, while the traffic to Nordic destinations grew robustly. The strong growth in market capacity weighed on long-haul load factors and unit revenue. Long-haul market capacity development was uneven, with China-Europe market capacity growing strongly while growth between Japan and Europe was negative. In Atlantic traffic fierce competition lowered unit revenues.

2016 was a challenging year for the Atlantic Joint Business covering flights between Europe and North America. Overcapacity and tightened competitive situation weighed on average prices and load factors in all travel classes. At the same time, the Siberian Joint Business continued to strengthen its market share as the market capacity between Japan and Europe contracted throughout the year. In the summer, Finnair was the only European airline offering direct connections from Europe to four Japanese metropoles.

The supply of packaged travel by tour operators active in Finland in 2016 was mostly in balance with the demand. In the summer season, demand shifted from Turkey towards Western Europe, and the number of visitors in Croatia and Greece in particular increased. In the winter, the number of travellers in the Canary Islands increased while the demand for long-haul destinations, particularly Thailand, was more sluggish. Cargo traffic between Europe and Asia suffered from overcapacity throughout the year, weighing on average yields and load factors on Finnair's key cargo markets with the exception of the last few months of the year.

The declining trend in the price of jet fuel that began in autumn 2014 ended in the spring and has since turned upwards. The dollar price of jet fuel was still 19.4 per cent lower in the year 2016 than in the comparison period. The US Dollar, the most significant expense currency after the euro, appreciated by 0.2 per cent against the euro year-on-year and is at a significantly stronger level than in 2014. In regards to key income currencies, the Japanese yen, which has been appreciating since autumn 2015, weakened towards the end of the year. However the Japanese yen was still 11.7 per cent stronger against the euro than in the comparison period. The Chinese yuan depreciated by 5.2 per cent 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.

Strategic objectives and strategy implementation

In May, as part of the company's annual strategy work, Finnair's Board of Directors confirmed the company's strategic objectives, and decided on four new strategic focus areas aimed at reaching these objectives: profitable growth, improved customer experience, improved people experience, and digital transformation. During the year, Finnair's sustainability strategy was revised. The strategy is crystallised in a three-pronged commitment: cleaner, caring and collaborative. It embeds sustainability even deeper in group strategy and the Finnair brand. The programme measures are geared to contribute to cost containment, risk mitigation and value creation.

The investments, recruitments and trainings necessitated by growth will also continue this year. The cost effectiveness programme introduced in the autumn has proceeded, and so far approximately 9 million euros of savings have been achieved. In addition, there are another 11 million of identified savings, for which we have planned actions starting from the second year-half.

Significant events in the review period

In November, as LSG announced it would not use its purchase option of LSG Sky Chefs Finland Oy, Finnair and the LSG Group entered into negotiations regarding new forms of cooperation in catering. LSG Sky Chefs Finland Oy is Finnair's 100-per cent owned subsidiary, but fully under LSG's control since 2012, operating on the Helsinki Airport premises and employing some 480 persons. The company prepares and supplies meals and other services for inflight sales products, primarily for Finnair but also for other airlines operating at Helsinki Airport.

At the end of September, Finnair took delivery of its seventh Airbus A350 and finalised an agreement to sell the aircraft to GE Capital Aviation Services Limited ("GECAS") and lease it back for its own operation. The arrangement had a positive effect of approximately 40 million euro on Finnair's operating profit in items affecting comparability for 2016, including a gain on sale and currency gains on pre-delivery payments and hedges.

In the spring, Finnair secured financing totaling approximately 243 million euros for two A350 aircraft. The transactions were implemented using a Japanese Operating Lease with a Call Option (JOLCO) structure, where the transaction amount is treated in Finnair's IFRS accounting as a loan and the aircraft as owned. Earlier in the winter Finnair secured JOLCO financing amounting to approximately 135 million euros for an A350 XWB aircraft, delivered at the end of 2015.

Financial performance

Revenue in January–December 2016

Finnair's revenue grew by 2.8 per cent year-on-year to 2,316.8 million euros (2,254.5)**. Revenue was boosted by higher passenger revenue, ancillary and retail revenue and travel services revenue, and it was negatively affected by a decrease in cargo revenue as well as the elimination of revenue from businesses sold after the comparison period. Unit revenue (RASK) decreased by 3.5 per cent year-on-year and amounted to 6.83 euro cents (7.08).

Revenue by product

EUR million	1–12/2016	1–12/2015	Change , %
Passenger revenue	1,816.1	1,766.0	2.8
Ancillary and retail revenue	125.5	103.2	21.6
Cargo	173.8	183.7	-5.4
Travel services	187.5	177.8	5.5
Travel agencies	13.8	23.8	-42.0
Total	**2,316.8**	**2,254.5**	**2.8**

* Finnair's estimate. The basis for calculation is destination cities, not airports. Calculation method was revised from last year.
** Adjusted, see note 5.4.

Passenger revenue and traffic data by area, 1–12/2016

	Ticket revenue			ASK			RPK			PLF	
Traffic area	EUR mill.	Change, %	Share %	Mill. km	Change, %	Share %	Mill. km	Change, %	Share %	%	Change, %-point
Asia	739.5	1.3	40.7	16,434.2	7.7	48.5	13,446.8	6.5	49.7	81.8	-1.0
North Atlantic	115.7	9.6	6.4	2,692.7	20.1	7.9	2,140.7	14.9	7.9	79.5	-3.6
Europe	761.0	3.1	41.9	13,247.9	2.8	39.1	10,413.8	2.9	38.5	78.6	0.1
Finland	165.1	5.9	9.1	1,539.4	6.4	4.5	1,064.0	8.2	3.9	69.1	1.1
Unallocated	34.9	-5.5	1.9								
Total	**1,816.1**	**2.8**		**33,914.2**	**6.5**		**27,065.3**	**5.8**		**79.8**	**-0.6**

Passenger traffic capacity measured in Available Seat Kilometres (ASK) grew by 6.5 per cent, while traffic measured in revenue passenger kilometres grew by 5.8 per cent. Capacity growth in European and domestic traffic partly reflects differences in traffic structure between the review period and the comparison period, namely the inclusion of flights previously operated at Norra's risk as Finnair's traffic starting from the second quarter of 2015.

On the long-haul side, in Asian traffic, capacity grew by 7.7 per cent from the previous year. The increase was attributable to several factors, including the additional capacity due to the new A350 being larger than the aircraft they are replacing, the new Fukuoka and Guangzhou routes operated in the summer, and an increase in average stage length due to higher frequencies on the Singapore and Shanghai routes. The passenger load factor in Asian traffic declined by 1.0 percentage points to 81.8 per cent. The capacity in North Atlantic traffic rose by 20.1 per cent year-on-year, in particular due to the year-round operation of the Miami route and higher frequencies on the Chicago route. The passenger load factor for the traffic area decreased by 3.6 percentage points to 79.5 per cent.

Ancillary and retail revenue increased by 21.6 per cent year-on-year and amounted to 125.5 million euros. Growth was particularly strong in advance seat reservations as well as additional baggage fees. Cargo traffic increased considerably: revenue cargo tonne kilometres increased by 11.0 per cent while available cargo tonne kilometres increased by 6.1 per cent. However, due to weak market conditions, average cargo yields declined and cargo revenue decreased by 5.4 per cent year-on-year, amounting to 173.8 million euros.

The revenue of Finnair's travel services (Aurinkomatkat Suntours) increased by 5.5 per cent from the previous year and amounted to 187.5 million euros (177.8). The number of travellers increased by 6 per cent from the comparison period, and the load factor in Suntour's fixed seat allotment was solid at 96%. The year-on-year decrease in travel agencies' revenue is attributed to the divestment of SMT's Baltic subsidiary Estravel in December 2015 and the divestment of SMT completed in November 2016.

Cost development and result January–December 2016

Finnair's operating costs increased by 0.9 per cent in 2016 and amounted to 2,337.1 million euros (2,316.0). Unit cost (CASK) decreased by 4.8 per cent and totalled 6.67 euro cents (7.01).

Fuel costs decreased by 17.5 per cent and amounted to 491.5 million euros, while operating costs excluding fuel increased by 7.3 per cent and amounted to 1,845.6 million euros. The review period was affected by various costs relating to the implementation of accelerated growth, including temporary wet lease arrangements, roll-out of the A350 fleet and related flight crew training. In January–December, these cost items totalled some 23 million euros. Furthermore, costs paid in US dollar were realised at some 20 million euros higher than in the comparison period due to the expiry of old, more profitable currency hedges.

Finnair's comparable EBITDAR grew by 39.3 million euros and amounted to 270.4 million euros (231.2). The comparable operating result, which refers to the operating result excluding items affecting comparability, such as sales gains, and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, increased by 31.4 million euros and amounted to 55.2 million euros (23.7).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 32.0 million euros (-12.3). The items affecting comparability amounted to 29.0 million euros (110.2), positive items being primarily related to the sale and leaseback of an A350 and negative items to the phasing out of A340 aircraft. The operating result was 116.2 million euros (121.7), the result before taxes was 105.8 million euros (113.3) and the result after taxes was 85.1 million euros (89.7).

Balance sheet on 31 December 2016

The Group's balance sheet totalled 2,528.7 million euros at the end of the period under review (31 Dec 2015: 2,050.3). The balance sheet grew in 2016 mainly due to debt-financed aircraft purchases, the sale and leaseback of one A350 aircraft, and positive operating cash flow. Shareholders' equity was 857,0 million euros (31 Dec 2015: 727.5), or 6.73 euros per share (31 Dec 2015: 5.69). Shareholders' equity increased primarily due to the company's profitable comprehensive income.

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of oil and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of December 2016 was 33.9 million euros (31 Dec 2015: -67.9) after deferred taxes, and it was affected particularly by changes in the fair value of the aforementioned hedging instruments. In addition, pension liability increased primarily due to a change in the discount rate reflecting the decline in the general interest rate level.

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In 2016, net cash flow from operating activities amounted to 219.7 million euros (171.0). The year-on-year increase in cash flow was primarily attributable to the improvement of comparable operating result. Net cash flow from investments amounted to -499.6 million euros (78.6) and was particularly attributable to the acquisition of new A350 aircraft and additions to money market investments with maturities exceeding three months as part of the Group's liquidity management.

The equity ratio on 31 December 2016 stood at 33.9 per cent (31 Dec 2015: 35.5) and gearing was negative at -11.2 per cent (31 Dec 2015: -49.8). The adjusted gearing was 78.3 per cent (31 Dec 2015: 45.8). At the end of December, adjusted interest-bearing debt amounted to 701.5 million euros (31 Dec 2015: 346.3) and interest-bearing net debt was negative at -95.8 million euros (31 Dec 2015: -362.0). During the first nine months of the year, Finnair secured three JOLCO financing arrangements for its new A350 aircraft and finalised a sale and leaseback agreement on an A350 aircraft, with the total acquired financing amounting to approximately 507 million euros.

The company's liquidity was strong in the review period. The Group's cash funds at year-end amounted to 797.3 million euros (31 Dec 2015: 708.2). 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 syndicated credit facility, which is intended as reserve funding and was signed in June as the previous corresponding agreement matured. The new arrangement has a maturity of three years with two optional one-year extensions. Finnair prepaid all of its bank debt, approximately 67 million euros in he autumn and redeemed the outstanding principal of its hybrid bond issued in 2012, amounting to 38.3 million euros.

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–December amounted to 200.5 million euros (18.1). Financial expenses were -11.5 million euros (-9.7) and financial income stood at 1.0 million euros (1.3).

Capital expenditure

In 2016, capital expenditure excluding advance payments totalled 518.9 million euros (329.7) and was primarily related to fleet investments. Net cash flow from investments (capital expenditure) totalled -475.7 million euros, including advance payments.

Cash flow from investments for 2017 is estimated at approximately 530 million euros, or 300 million net, if the sale and leaseback agreement signed for the A350 aircraft scheduled for delivery in 2017 will be finalised as planned. Current estimate of the sales and foreign exchange gain on the transaction is unchanged at 40–45 million euros depending on the EUR/USD rate at the time of transaction. The cash flow from investments includes, in addition to investment commitments, also an estimate of investments which have been decided on, but not yet concluded with a counterparty. The investment financing need in 2017 may potentially be reduced by sales of aircraft to be carried out at a later time.

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. The investment concerns 23 narrow-body Airbus aircraft.

In addition to fleet investments, Finnair is developing a modern cargo terminal to be commissioned in 2017. Finnair will also introduce wireless Internet connectivity to the majority of its current wide-body and narrow-body fleet in 2016–2018. The first installations in A330 aircraft were made already in 2016.

The current favourable state of the credit market and Finnair's good debt capacity enable the financing of future fixed-asset investments on competitive terms. The company has 34 unencumbered aircraft, the balance sheet value of which corresponds to approximately 57 per cent of the value of the entire fleet of 933 million euros. The balance sheet value includes seven finance-leased aircraft.

Fleet

Fleet operated by Finnair

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of December 2016, Finnair itself operated 49 aircraft, of which 19 are wide-body and 30 narrow-body aircraft. Of the aircraft, 26 were owned by Finnair, 16 were on operating lease and 7 on finance lease.

The average age of the fleet operated by Finnair was 10.1 years at the end of 2016.

Fleet operated by Finnair on 31 December 2016*

					Leased			
	Seats	#	Change from 31.12.2015	Own**	(Operating lease)	(Finance lease)	Average age 31.12.2016	Ordered
Narrow-body fleet								
Airbus A319	138	9		7	2		15.4	
Airbus A320	165	10		7	1	2	14.4	
Airbus A321	209/196	11		4	5	2	10.1	
Wide-body fleet								
Airbus A330	289/263	8		0	5	3	7.2	
Airbus A340	263/257	4	-1	4***			9.0	
Airbus A350	297	7	4	4	3		0.8	12
Total		**49**	**3**	**26**	**16**	**7**	**10.1**	**12**

* Finnair's Air Operator Certificate (AOC).

** Includes JOLCO-financed A350 aircraft.

*** Only one of the A340s was in operation at end-December.

Renewal of the long-haul fleet

Finnair has ordered a total of 19 Airbus A350 XWB aircraft from Airbus, 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. Finnair's investment commitments for property, plant and equipment, totalling 1,601 million euros, include the upcoming investments in the long-haul fleet.

Finnair plans to phase out its A340 aircraft by the end of 2017, following the successful delivery and entry into service of the A350 XWB aircraft. Finnair has agreed to sell its remaining four Airbus A340-300 aircraft back to Airbus. Finnair has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements of different durations.

Fleet operated by Norra (purchased traffic)

Nordic Regional Airlines (Norra) operates a fleet of 24 aircraft for Finnair on a contract flying basis. Of the aircraft operated by Norra, 14 are owned by Finnair and 10 are on operating lease. The planned disposal of one ATR 72 from the fleet was postponed to the first half of 2017.

Fleet operated by Norra on 31 December 2016*

	Seats	#	Change from 31.12.2015	Aircraft owned by Finnair	Leased** (Operating lease)	Average age 31.12.2016	Ordered
ATR 72	68-72	12		6	6	7.4	
Embraer 170	76	0	-2				
Embraer 190	100	12		8	4	8.5	
Total		**24**	**-2**	**14**	**10**	**8.0**	**0**

* Nordic Regional Airlines Oy's Air Operator Certificate (AOC).

** Finnair's subsidiary Finnair Aircraft Finance has leased these aircraft and subleased them to Nordic Regional Airlines.

Air traffic services and products

Route network and alliances

Finnair offers connections between Asia and Europe with over 200 route pairs and also operates more than 800 flights weekly from Helsinki to other Finnish and European destinations. The maximum weekly number of flights to Asia was 78 in the winter season 2015/2016, 80 in the summer season 2016 and 78 in the current winter season.

Finnair is part of the oneworld alliance and it also engages in closer cooperation with certain oneworld partners through participation in joint businesses, namely the Siberian Joint Business and Atlantic Joint Business. The joint businesses are agreements covering revenue sharing as well as price and capacity coordination for flights to the route areas in question. In autumn 2016, Iberia joined Finnair, Japan Airlines and British Airways as a member of the SJB.

Finnair's new scheduled flight destinations for the summer season 2016 from Helsinki were Edinburgh, Billund, Pula, Zakynthos, Skiathos, Santorini, Preveza, Rimini, Verona and Varna, as well as weekly flights from Oulu to Hania and Alanya. In long-haul traffic, Finnair launched Miami as a year-round destination and increased connections to Chicago for the summer. In Asia, Finnair introduced three weekly flights to Fukuoka and four to Guangzhou for the summer.

For the winter season 2016/2017, Finnair increased flights to Lapland by approximately 10%. For summer 2017, Finnair will add frequencies to Tokyo and Hong Kong and introduce new routes from Helsinki to San Francisco, Alicante, Ibiza, Korfu, Menorca and Reykjavik.

Finnair also announced several new leisure-focused destinations for winter 2017/2018, including Havana, Puerto Vallarta and Goa.

Other renewals and services

In April, Finnair began to offer stopovers in Finland for its passengers travelling between Asia and Europe. The stopover flights can be booked on the new stopover.finnair.com website, which also includes information on various stopover activities and destination information on Finland. StopOver Finland is a project led by Visit Finland, and the travel packages are implemented by an external travel agency partner. The duration of the stopover travel packages ranges from five hours to five days.

In July, Finnair and Fliggy (Alitrip), a Chinese travel agency, signed a long-term strategic partnership aiming to bring approximately 3,000 Chinese tourists to the Finnish Lapland in the winter season 2016/2017 and over 10,000 tourists the next winter. Finnair is the first strategic European airline partner for Fliggy with a project of this magnitude. Fliggy is a fast-growing travel platform in China owned by the Alibaba Group, listed on the New York Stock Exchange.

Awards

In August, the Finnair mobile app was awarded a Red Dot Award in the Communications Design category. The Finnair app, which is available for iOS and Android devices was also recognised by the European Design organization with a Silver Award in the Mobile Apps category earlier this year. Celebrating the best in design, the Red Dot Awards are selected by a jury of well-known experts in the design industry.

In July, the Skytrax World Airline Awards chose Finnair as the best airline in Northern Europe for the seventh consecutive time. The award is based on an independent Skytrax survey of some 19 million travellers from more than 160 countries. The survey covers more than 40 criteria including check-in, seat comfort, cabin cleanliness and service. Skytrax also awarded Finnair the overall rating of a four-star airline.

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

Finnair was awarded a Gold Medal in the ICARUS sustainability competition organised by the Global Business Travel Association (GBTA) in recognition of its position as a leader in sustainability in the travel industry, whose commitment and actions have proved it capable of providing its customer companies and passengers with travel services that are first-class from the perspective of sustainable development.

The German ESG rating company oekom research AG updated its analysis of Finnair's responsibility in February. Finnair's current ESG rating is B-, which is the highest rating in its category comprising 77 companies in the transport and logistics sector. Finnair was also awarded Prime status indicating the suitability of Finnair's securities for responsible investors.

The OAG Punctuality League publication released in January ranked Finnair's arrival punctuality in 2015 (89.5%) as the sixth-highest in the world. In January, FlightStats recognised the oneworld alliance as the most punctual airline alliance in 2015.

In April, Aurinkomatkat - Suntours was 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 Scandinavia. The study is made annually by interviewing consumers in four Nordic countries. The survey is based on the 10 principles of the UN Global Compact initiative.

Changes in senior management

Finnair announced on 16 February 2016 the acceleration its growth and renewal of its organisation as of 1 March 2016 in line with its growth strategy. Piia Karhu, Senior Vice President in charge of Customer Experience, Katri Harra-Salonen, Chief Digitalisation Officer, and Jaakko Schildt, SVP Operations were introduced as new Executive Board members.

Ville Iho, Finnair's Deputy CEO and SVP for Strategy and Resource Management, left the company as of December 31, 2016.

Personnel

Finnair employed an average of 5,045 (4,906) people in January–December 2016, which is 2.8 per cent more than in the comparison period. The number of employees in an employment relationship on 31 December 2016 was 4,937 (31 Dec 2015: 4,817). During the review period, the net number of personnel increased by 120, primarily due to an increase in the number of cabin crew and pilots. The increase in total headcount was offset by the divestment of SMT in November. In addition, 50 maintenance employees were transferred from Norra to Finnair in conjunction with a transaction in May.

Representing Finnair, Service Sector Employers PALTA reached an agreement with office personnel, customer service personnel and technical personnel, represented by FINTO, PRO and IAU, on terms of employment in accordance with the framework of the national competitiveness pact, within the timeframe set by the central labour market organisations. Collective labour agreements were renewed with the cabin crew union SLSY in autumn 2016, and a preliminary agreement with the pilots' union SLL was reached in early 2017.

Shares and shareholders

Shares and share capital

On 31 December 2016, the number of Finnair shares entered in the Trade Register was 128,136,115 and the registered share capital was 75,442,904.30 euros. The company's shares are quoted on NASDAQ Helsinki. Each share confers one vote at the General Meeting.

Government ownership

At the end of 2016, the Finnish Government owned 55.8 per cent of Finnair's shares and votes. According to the decision made by the Finnish Parliament on 20 June 1994, the Government must own more than half of Finnair Plc's shares. Decreasing ownership below this level would require revision of the Parliament decision.

Share ownership by management

On 31 December 2016, members of the company's Board of Directors did not own any Finnair shares, and the CEO owned 91,102 shares. Members of the Executive Board, including the CEO, owned a total of 250,128 shares, representing 0.20 per cent of all shares and votes.

Own shares

In January 2016, Finnair used its authorisation granted by the AGM to buy back its own shares. In total, Finnair acquired 800,000 shares. In February, 277,596 shares were transferred as incentive bonuses to members of the FlyShare employee share savings plan, and a further 3,540 shares in October. In June, a total of 28,464 shares were transferred under the rules of the share-based incentive scheme 2013–2015 as a reward payment, and a further 26,641 shares in December.

On 31 December 2016, Finnair held a total of 788,964 of its own shares (325,205), representing 0.62 per cent of the total share capital.

Flagging notifications

No flagging notices were issued in 2016.

Acquisition and delivery of own shares and returns of shares

Period	Number of shares	Acquisition value, EUR	Average price, EUR
2004	422,800	2,275,666.49	5.38
2005	-37,800	-209,838.54	5.55
2005	150,000	1,516,680.00	10.11
2006	-383,097	-2,056,847.88	5.37
2007	0	0.00	0.00
2008	235,526	1,538,956.35	6.53
2009	0	0.00	0.00
2010	22,758	114,719.52	5.04
2011	0	0.00	0.00
2012	0	0.00	0.00
2013	600,000	1,684,650.10	2.81
2013	-731,019	-4,055,744.86	5.55
2014	33,864	85,801.22	2.53
2014	-940	-2,334.40	2.48
2015	14,893	37,734.40	2.53
2015	-1,780	-6,764.00	3.80
2016	800,000	4,327,860.54	5.41
2016	-336,241	-975,326.55	2.90
31.12.2016	**788,964**	**4,275,212.40**	**5.42**

Finnair Plc largest shareholders as at 31 December 2016

		Number of shares	%	Changes 2016
1	State of Finland; Office Counsil Of State	71,515,426	55.8	0
2	KEVA	6,200,875	4.8	0
3	Varma Mutual Pension Insurance Company	3,354,002	2.6	0
4	Kyöstilä Heikki	2,950,000	2.3	80,000
5	Ilmarinen Mutual Pension Insurance Company	2,701,390	2.1	-974,174
6	Tiiviste-Group Oy	2,200,000	1.7	-250,000
7	State Pension Fund	2,100,000	1.6	0
8	Nordea Funds	1,263,426	1.0	-321,358
9	OP Funds	1,234,957	1.0	-196,643
10	Veritas Pension Insurance Company	1,050,151	0.8	-199,849
11	Etra Invest Oy	1,000,000	0.8	0
12	Finnair Plc	788,964	0.6	463,759
13	Finnair Plc Staff Fund	594,000	0.5	-165,000
14	Nordea Henkivakuutus Suomi Oy	517,280	0.4	511,500
15	Laakkonen Mikko	500,000	0.4	90,000
	Nominee registered	11,026,859	8.6	-150,406
	Others	19,138,785	14.9	
	Total	**128,136,115**	**100.0**	

Breakdown of shares at 31 December 2016

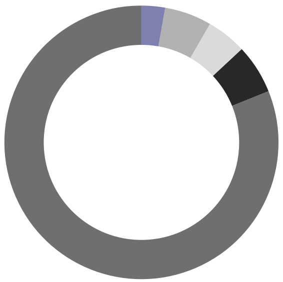
	Number of shares	%	Number of shareholders	%
1-200	722,314	0.2	8,113	48.5
201-1,000	3,069,417	2.7	5,765	34.5
1,001-10,000	7,107,025	5.6	2,597	15.5
10,001-100,000	5,735,418	4.7	208	1.2
100,001-1,000,000	7,214,298	5.7	20	0.1
1,000,001-	93,243,062	81.1	9	0.1
Total	**128,136,115**	**100.0**	**16,723**	**100.0**
From Which Nominee Registered	11,026,859	8.6	11	0.1
Not converted into the book entry system	17,722	0	-	-
Number of Shares Issued	128,136,115	100.0	0	0

Shareholders by type at 31 December 2016

	Number of shares	%	Number of shareholders	%
Public bodies	87,537,983	68.3	13	0.1
Households	17,348,592	13.5	16,073	96.1
Private companies	6,786,195	5.3	510	3.0
Financial institutions	4,134,905	3.2	20	0.1
Associations	858,259	0.7	45	0.3
Finnish shareholders, total	116,665,934	91.0	16,661	99.6
Registered in the name of a nominee	11,026,859	8.6	11	0.1
Outside Finland	425,600	0.3	51	0.3
Nominee registered and foreign shareholders, total	11,452,459	8.9	62	0.4
Not converted into the book entry system	17,722	0.0	-	-
Total	**128,136,115**	**100.0**	**16,723**	**100.0**

Shareholding by number of shares owned

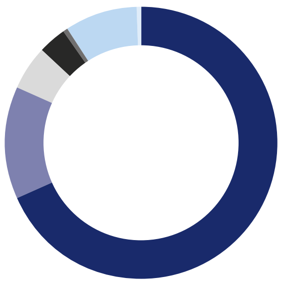
%



1-200 0.2%
201-1,000 2.7%
1,001-10,000 5.6%
10,001-100,000 4.7%
100,001-1,000,000 5.7%
1,000,001- 81.1%

Shareholding by type

%



Public bodies 68.3%
Households 13.5%
Private companies 5.3%
Financial institutions 3.2%
Associations 0.7%
Registered in the name of a nominee 8.6%
Outside Finland 0.3%

Shareholder agreements

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

Change of control provisions in material agreements

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

Share-based incentive schemes

Employee share savings plan FlyShare

In December, Finnair's Board of Directors decided to launch a new 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan established in 2013 is to encourage the employees to become shareholders in the company, and thereby strengthen the employees' interest in the development of Finnair's shareholder value and to reward them over the long-term. Approximately 770 Finnair employees, or 17 per cent of those invited, participated in the fourth phase of the plan in 2016. The share savings plan is described in more detail in Finnair's Remuneration Statement and on the company's website. Previously concluded share-based plans are described in Finnair's Remuneration Statement and on the company's website.

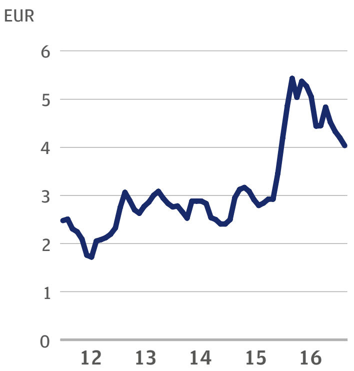
Share-based incentive plan for key personnel

The Board of Directors also decided in December to simplify the structure of performance share plans within the company's long-term incentive scheme for Finnair key personnel. The Board of Directors of Finnair approved the first performance share plan covering the years 2017–2019 within the above described revised structure. Within the plan, the participants have the opportunity to earn Finnair shares as a long-term incentive reward, if the performance targets set by the Board of Directors for the plan are achieved. The potential share rewards will be delivered to the participants in the spring 2020. The plan applies to some 60 people, and it is described in a stock exchange release issued on 21 December 2016 and in the Remuneration Statement.

Share price development and trading

At the end of December 2016, Finnair's market value stood at 516.4 million euros (694.5), and the closing price of the share was 4.03 euros (5.42). In 2016, the highest price for the Finnair Plc share on the NASDAQ Helsinki Stock Exchange was 5.92 euros (5.50), the lowest price 3.80 euros (2.49) and the average price 4.74 euros (3.54). Some 28.1 million (25.5) of the company's shares, with a total value of 133.2 million euros (90.1), 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 8.9 per cent (8.9) were held by foreign investors or in the name of a nominee.

Finnair share 2012–2016



Average price

Comparison European Airlines

Finnair
European Airlines

Comparison Nasdaq Helsinki

Finnair
OMX Helsinki
OMX Helsinki benchmark

Number of shares and share prices

EUR mill.		2016	2015	2014	2013	2012	2011
Average number of shares adjusted for share issue	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Average number of shares adjusted for share issue (with diluted effect)	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
The number of shares adjusted for share issue at the end of financial year	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
The number of shares adjusted for share issue at the end of financial year(with diluted effect)	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Number of shares, end of the financial year	pcs	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115	128,136,115
Trading price highest	EUR	5.92	5.50	3.01	3.25	2.64	5.37
Trading price lowest	EUR	3.80	2.49	2.30	2.40	1.67	2.30
Market value of share capital Dec. 31	EUR mill.	516	695	318	355	305	295
No. of shares traded	pcs	28,099,932	25,456,779	10,750,318	26,024,070	19,668,495	21,422,076
No. of shares traded as % of average no. of shares	%	21.93	19.87	8.39	20.31	15.35	16.72

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

The aim of Finnair's dividend policy is to pay, on average, at least one-third of the earnings per share as a dividend during an economic cycle. The aim is to take into account the company's earnings trend and outlook, financial situation and capital needs in the distribution of dividends. In 2016, earnings per share was 0.55 (0.57) euros.

Finnair Plc's distributable equity amounted to 381,792,655.73 euros on 31 December 2016. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.10 euros per share be distributed for 2016.

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 is cooperating with industry operators and the authorities in areas such as reducing the climate impacts of aviation and promoting the use of biofuels. Finnair's corporate responsibility is reflected in its strategy and vision as well as its values of commitment to care, simplicity and courage. Responsibility is integral to all Finnair operations. The purpose of the responsibility strategy is to reduce environmental impacts and generate financial and social utility for society.

The assembly of the International Civil Aviation Organization (ICAO) concluded a historic agreement, called Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), in the autumn on market-based measure to help stabilize airline emissions at the level of 2020. Sixty-five ICAO member states, including Finland, have agreed to join the agreement from the outset. This means an obligation for airlines to compensate their emissions exceeding the target by purchasing emission reduction units primarily from other sectors. These units will be sold by projects reducing greenhouse gas emissions. The CORSIA agreement is one element in the aviation sector's actions on climate change. Other environmental improvement measures include the use of modern technology, the adoption of sustainable alternative fuels, efficient operational practices and improvements in infrastructure. The countries participating in the scheme in the first stage as of 2021 cover approximately 85% of the world's aviation activity. From 2027 onwards, it will be mandatory on a global scale.

In June 2016, Finnair signed a cooperation agreement with UNWomen to support women's rights. Finnair also signed the United for Wildlife Transport Taskforce Buckingham Palace Declaration, which denounces the illegal transportation and trade of wildlife and wildlife products. The pledge also aims to increase partnerships with government authorities and conservation organisations in the fight against traffickers and smugglers of endangered animals. For several years, Finnair has refused to carry any animals or wildlife products that are contrary to the Convention on International Trade in Endangered Species of Wildlife Fauna and Flora (CITES). In 2015, Finnair took the extra step of prohibiting the transport of hunting trophies or memorabilia originating from endangered species in its cargo network.

During the year, Finnair revised its sustainability strategy, which was crystallised in a three themes: cleaner, caring, collaborative, and it embeds sustainability even deeper in the group strategy and brand. The programme measures are geared to contribute to cost containment, risk mitigation as well as value creation.

The key performance indicators for corporate responsibility are presented on page 21 of the Annual Report.

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 to ticket prices or affect capacity growth in Finnair's main markets pose 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 strategic advantages and cost reductions sought through Finnair's partnership and outsourcing projects involves risks. For example, quality or availability issues and/or unexpected additional costs of partnerships and suppliers can have a negative effect on Finnair's product, reputation and profitability.

The delivery schedule and use of the Airbus A350 XWB aircraft involves risks associated with new technology and roll-out processes. In addition, the implementation of Finnair's strategy includes significant operating and internal changes, which involve risks. 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 decisions made by the Court of Justice of the European Union 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.

The upcoming exit of the United Kingdom from the European Union involves general economic uncertainty that may also be reflected in the demand for air travel.

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. The expansion will facilitate the increase of the airport's annual passenger volume to 20 million and the implementation of Finnair's growth strategy.

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website.

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, aircraft leasing payments and sales revenue denominated in foreign currencies. Significant dollar-denominated expense items are aircraft leasing payments and fuel costs as well as traffic charges. The largest investments, namely the acquisition of aircraft and their spare parts, are 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 protects itself against the risks of currency, interest rate and jet fuel positions by using different derivative instruments, such as forward contracts, swaps and options, according to the risk management policy verified by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months.

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 22 million
Average yield of passenger traffic	EUR 19 million
Unit cost (CASK ex. fuel)	EUR 18 million

Fuel sensitivities (rolling 12 months from date of financial statements)	**10% change without hedging**	**10% change, taking hedging into account**	**Hedging ratio H1/2017**	**Hedging ratio H2/2017**
Fuel	EUR 50 million	EUR 23 million	72%	66%

Currency distribution %	**2016**	**2015**	**Currency sensitivities USD and JPY** (rolling 12 months from date of financial statements for operational cash flows)		**Hedging ratio for operational cash flows** (rolling 12 months from date of financial statements)
Sales currencies			10% change without hedging	10% change, taking hedging into account	
EUR	56	59	-	-	
USD*	4	3	see below	see below	see below
JPY	9	8	EUR 19 million	EUR 9 million	69%
CNY	7	7	-	-	
KRW	3	3	-	-	
SEK	5	5	-	-	
Other	16	15	-	-	
Purchase currencies					
EUR	54	53	-	-	
USD*	38	40	EUR 56 million	EUR 19 million	72%
Other	8	7			

* Hedging ratio for USD basket. The sensitivity analysis assumes that the Chinese yuan and the Hong Kong dollar continue to correlate strongly with the US dollar.

Outlook

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.

FINNAIR PLC
Board of Directors

Financial indicators 2012–2016

INCOME STATEMENT		2016	2015	2014	2013	2012
Revenue*	EUR mill.	2,317	2,255	2,284	2,400	2,449
change from previous period	%	2.8	-1.3	-4.8	-2.0	8.5
Comparable operating result	EUR mill.	55	24	-36	12	43
in relation to revenue*	%	2.4	1.1	-1.6	0.5	1.8
Operating result	EUR mill.	116	122	-72	8	34
in relation to revenue*	%	5.0	5.4	-3.2	0.3	1.4
Comparable EBITDAR	EUR mill.	270	231	177	210	240
in relation to revenue	%	11.7	10.3	7.7	8.8	9.8
Net result	EUR mill.	85	90	-83	23	11
in relation to revenue	%	3.7	4.0	-3.6	1.0	0.4

BALANCE SHEET		2016	2015	2014	2013	2012
Equity and non-controlling interests	EUR mill.	857	727	514	678	775
Equity and liabilities total	EUR mill.	2,529	2,050	1,885	2,118	2,231
Gross capital expenditure	EUR mill.	519	330	82	77	41
in relation to revenue*	%	22.4	14.6	3.6	3.2	1.7
Average capital employed	EUR mill.	1,324	1,008	1,106	1,295	1,413
Dividend for the financial year**	EUR mill.	13	0	0	0	13
Interest-bearing liabilities	EUR mill.	718	346	428	593	569
Liquid funds	EUR mill.	797	708	426	459	430
Interest-bearing net debt	EUR mill.	-96	-362	1	134	138
in relation to revenue*	%	-4.1	-16.1	0.1	5.6	5.6
Adjusted interest-bearing net debt	EUR mill.	671	333	553	537	603
in relation to revenue	%	28.9	14.8	24.2	22.4	24.6

KEY FIGURES		2016	2015	2014	2013	2012
Basic and diluted earnings per share	EUR	0.55	0.57	-0.71	0.11	0.01
Equity/share	EUR	6.73	5.69	4.02	5.30	6.06
Dividend/share**	EUR	0.10	0.00	0.00	0.00	0.10
Dividend/earnings**	%	15.0	0.0	0.0	0.0	121.2
Dividend yield**	%	2.5	0.0	0.0	0.0	4.2
Cash flow from operating activities/share	EUR	1.73	1.34	0.19	1.12	1.21
P/E ratio		7.32	9.46	-3.47	25.02	174.96
Adjusted net debt / Comparable EBITDAR		2.5	1.4	3.1	2.6	2.5
Equity ratio	%	33.9	35.5	27.3	32.0	34.7
Net debt-to-equity (Gearing)	%	-11.2	-49.8	0.3	19.9	18.0
Adjusted gearing	%	78.3	45.8	107.5	79.2	77.8
Return on equity (ROE)	%	10.7	14.4	-13.8	3.2	1.4
Return on capital employed (ROCE)	%	8.9	12.2	-6.5	3.6	2.8

CASH FLOW		2016	2015	2014	2013	2012
Operational cash flow	EUR mill.	220	171	24	142	155
in relation to revenue*	%	9.5	7.6	1.1	5.9	6.3

PERSONNEL	2016	2015	2014	2013	2012
Personnel on average	5,045	4,906	5,172	5,859	6,784

* Revenue from non-core businesses, is reclassified from revenue to other operating income. Comparative periods have been restated accordingly from the beginning of 2015 onwards. The changes are described in more detail in Note 5.4 Restatement of operating income and key ratios.

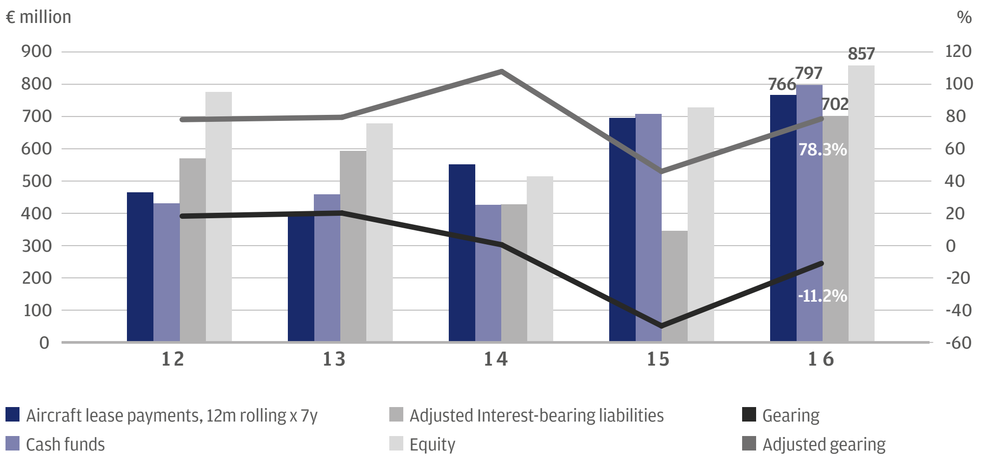
** The dividend for year 2016 is a proposal of the Board of Directors to the Annual General Meeting.

★ Finnair is net debt-free and profit performance positive; Board of Directors proposes a dividend of 0.10 euro per share.

Finnair's liquid funds continued to outweigh its interest-bearing liabilities, even though the fleet renewal continued and Finnair financed the purchase of three new A350 aircraft with debt. Liquid funds remained high, reflecting operating cash flow and aircraft financing transactions. The adjusted gearing, which also accounts for future operating lease payments on aircraft, remained at a low level (78.3%), clearly below the maximum of 175 per cent set by the Board of Directors.

Profit performance was positive. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.10 euros per share be distributed on the profit for the period.

Gearing



★ = Highlights

FINANCIAL STATEMENTS 1 JANUARY–31 DECEMBER 2016

How to read Finnair Financial Statements?

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

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

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

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

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

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

Consolidated income statement

EUR mill.	Note	2016	2015
Revenue	1.1, 1.2	**2.316.8**	**2.254.5**
Other operating income		75.5	85.2
Operating expenses			
Staff costs	1.3.7	-362.5	-353.2
Fuel costs		-491.5	-595.5
Other rents	1.3.2	-167.4	-159.4
Aircraft materials and overhaul		-147.3	-118.9
Traffic charges		-262.8	-258.5
Ground handling and catering expenses		-258.9	-250.3
Expenses for tour operations		-87.8	-79.6
Sales and marketing expenses		-76.9	-74.0
Other expenses	1.3.3	-266.6	-219.3
Comparable EBITDAR		**270.4**	**231.2**
Lease payments for aircraft	1.3.2	-109.5	-99.3
Depreciation and impairment	2.1, 2.4	-105.8	-108.1
Comparable operating result		**55.2**	**23.7**
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	1.3.6	32.0	-12.3
Items affecting comparability	1.3.6	29.0	110.2
Operating result		**116.2**	**121.7**
Financial income	3.1	1.0	1.3
Financial expenses	3.1	-11.5	-9.7
Share of results in associates and joint ventures	4.4	0.0	0.1
Result before taxes		**105.8**	**113.3**
Income taxes	5.1	-20.6	-23.6
Result for the financial year		**85.1**	**89.7**
Attributable to			
Owners of the parent company		85.1	89.4
Non-controlling interests		0.0	0.3
Earnings per share attributable to shareholders of the parent company. EUR (basic and diluted)		0.55	0.57

★ Comparable operating result doubled from the previous year 55.2 (23.7)

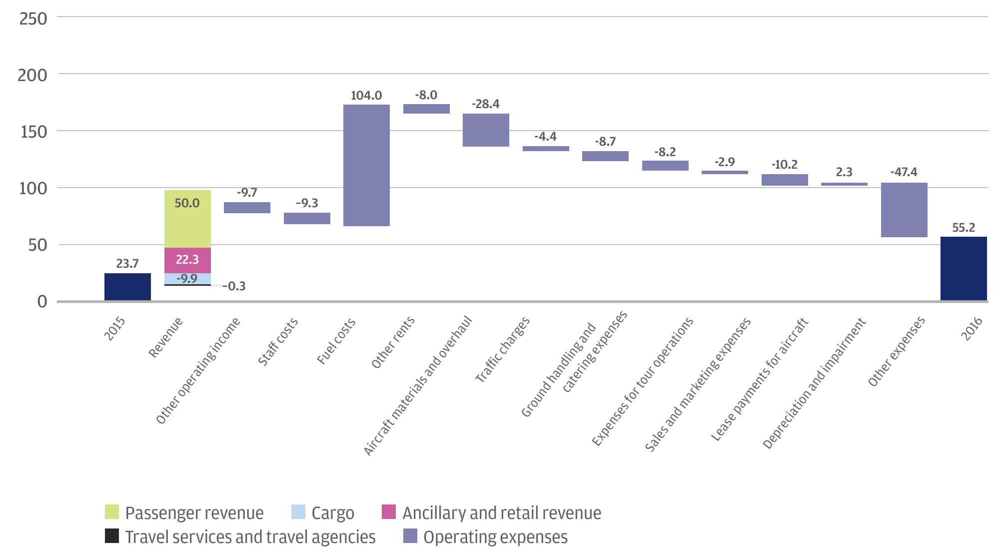
Positive profit performance continued in 2016 due to growing traffic, ticket revenue and ancillary sales. Operational costs were on previous year's level reflecting the low fuel cost, although accelerated growth caused extra costs and the strong USD increased the cost level.

Consolidated statement of comprehensive income

EUR mill.	Note	2016	2015
Result for the period		**85.1**	**89.7**
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		145.2	-14.1
Translation differences		0.0	0.6
Tax effect		-29.0	2.8
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.7.2	-18.1	37.7
Tax effect		3.6	-7.5
Other comprehensive income items total		**101.7**	**19.5**
Comprehensive income for the financial year		**186.9**	**109.2**
Attributable to			
Owners of the parent company		186.9	108.9
Non-controlling interests		0.0	0.3

Change in comparable operating result 2016

€ million



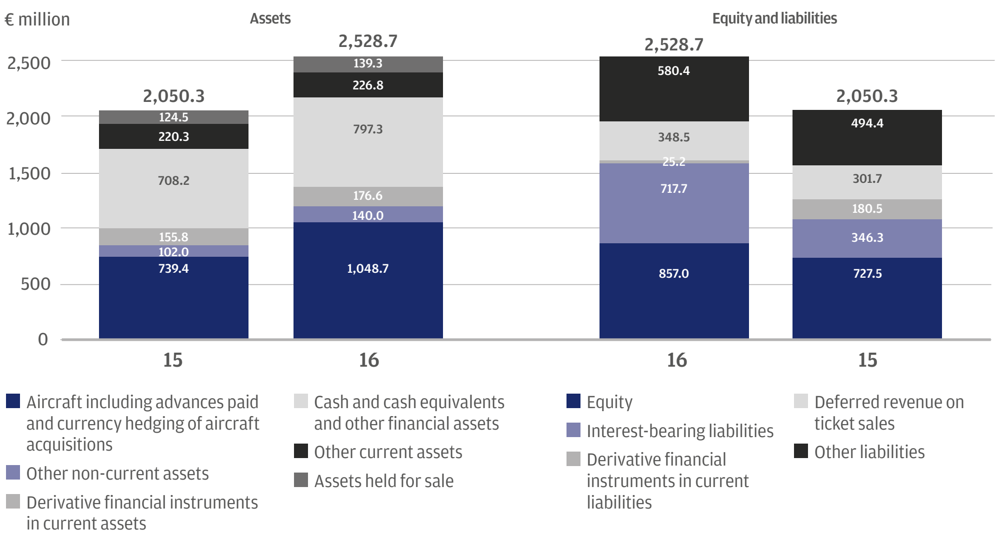
★ = Highlights

Consolidated balance sheet

EUR mill.		Note	31 Dec 2016	31 Dec 2015
ASSETS				
Intangible assets	O	2.4	12.4	9.5
Tangible assets	O	2.1	1,166.5	811.6
Investments in associates and joint ventures	O	4.4	2.5	2.6
Loan and other receivables	O		7.4	8.7
Deferred tax assets	O	5.1	0.0	9.1
Non-current assets total			**1,188.7**	**841.5**
Inventories	O		14.9	11.8
Trade and other receivables	O	1.2.4	211.9	208.5
Derivative financial instruments	O/IA*	3.8	176.6	155.8
Other financial assets	IA	3.2.1	727.9	427.7
Cash and cash equivalents	IA	3.2.2	69.4	280.5
Current assets total			**1,200.7**	**1,084.3**
Assets held for sale	O	2.3	139.3	124.5
Assets total			**2,528.7**	**2,050.3**

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

The fleet renewal continued: Finnair acquired four new A350 aircraft during the year. Three were purchased onto own balance sheet. Three A350's were financed with a JOLCO-loan (Japanese Operating Lease with Call Option). One was sold and leased back.



= Highlights

EUR mill.		Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES				
Share capital	E		75.4	75.4
Other equity	E		781.6	652.0
Equity total			**857.0**	**727.5**
Deferred tax liabilities	O	5.1	32.7	0.0
Interest-bearing liabilities	IL	3.3	617.3	271.0
Pension obligations	O	1.3.7.2	31.9	4.4
Provisions	O	1.3.5	63.6	55.7
Other liabilities	O	3.3	4.9	15.8
Non-current liabilities total			**750.4**	**346.9**
Provisions	O	1.3.5	22.2	38.3
Interest-bearing liabilities	IL	3.3	100.4	75.2
Trade payables	O		94.4	67.5
Derivative financial instruments	O/IL*	3.8	25.2	180.5
Deferred income and advances received	O	1.2.5	424.6	374.8
Liabilities related to employee benefits	O	1.3.7.1	93.4	91.0
Other liabilities	O	1.3.4	161.1	148.7
Current liabilities total			**921.3**	**976.0**
Liabilities total			**1,671.7**	**1,322.9**
Equity and liabilities total			**2,528.7**	**2,050.3**

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

Additional information to Balance Sheet: Interest-bearing net debt and adjusted gearing	31.12.2016	31.12.2015
Interest-bearing liabilities	717.7	346.0
Cross currency Interest rate swaps*	-16.1	0.2
Adjusted interest-bearing liabilities	**701.5**	**346.3**
Other financial assets	-727.9	-427.7
Cash and cash equivalents	-69.4	-280.5
Interest-bearing net debt	**-95.8**	**-362.0**
Lease payments for aircraft for the last twelve months (LTM) * 7	766.4	695.2
Adjusted interest-bearing net debt	**670.6**	**333.2**
Equity total	857.0	727.5
Adjusted gearing, %	**78.3%**	**45.8%**

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

Consolidated cash flow statement

EUR mill.	2016	2015
Cash flow from operating activities		
Result for the period	85.1	89.7
Depreciation and impairment	102.9	148.5
Other adjustments to result for the period		
Financial income and expenses	10.5	8.4
Share of results in associates and joint ventures	0.0	-0.1
Income taxes	20.6	23.6
EBITDA	**219.2**	**270.2**
Non-cash transactions *	-50.0	-137.5
Changes in working capital	55.5	43.1
Financial expenses paid, net	-5.0	-4.6
Income taxes paid	0.0	-0.2
Net cash flow from operating activities	**219.7**	**171.0**
Cash flow from investing activities		
Investments in intangible assets	-10.3	-4.3
Investments in tangible assets	-475.7	-352.5
Divestments of fixed assets and group shares	153.2	448.1
Net change in financial assets maturing after more than three months	-168.4	-14.4
Change in non-current receivables	1.6	1.7
Net cash flow from investing activities	**-499,6**	**78.6**
Cash flow from financing activities		
Proceeds from loans	377.4	0.0
Loan repayments and changes	-115.1	-82.5
Hybrid bond repayments	-38.3	-81.7
Proceeds from hybrid bond	0.0	200.0
Hybrid bond interests and expenses	-19.1	-17.6
Purchase of own shares	-4.3	0.0
Dividends paid	0.0	-0.2
Net cash flow from financing activities	**200.5**	**18.1**
Change in cash flows	**-79,3**	**267.7**
Liquid funds, at beginning	**457.7**	**190.1**
Change in cash flows	-79.3	267.7
Liquid funds, at end **	**378.4**	**457.7**

★ = Highlights

Notes to consolidated cash flow statement

*** Non-cash transactions**

EUR mill.	2016	2015
Employee benefits	15.1	15.6
Fair value changes in derivatives	-34.0	2.1
Gains and losses on aircraft and other transactions	-30.4	-121.5
Other adjustments	-0.6	-33.7
Total	**-50.0**	**-137.5**

Other adjustments mainly include changes in maintenance and other provisions.

**** Liquid funds**

EUR mill.	2016	2015
Other financial assets	727.9	427.7
Cash and cash equivalents	69.4	280.5
Liquid funds in balance sheet	**797.3**	**708.2**
Maturing after more than three months	-418.9	-250.5
Total	**378.4**	**457.7**

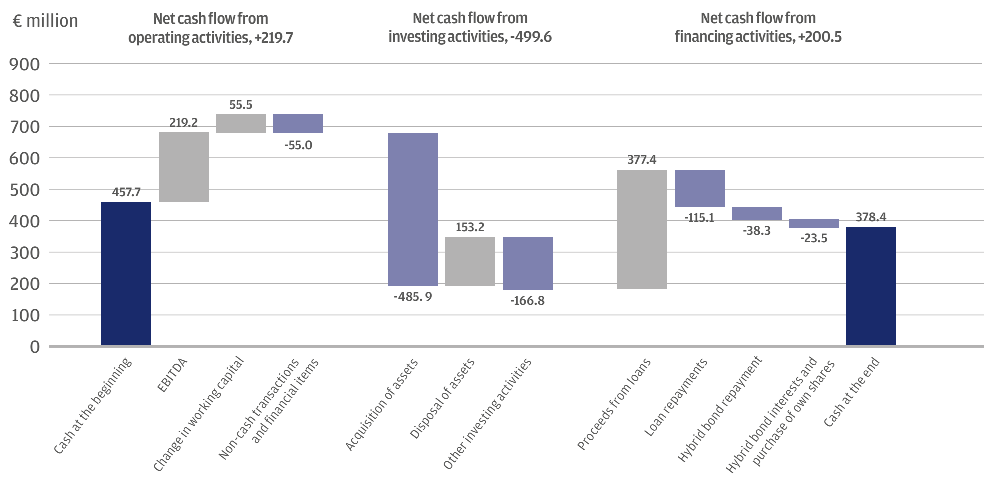
★ Strong financing position enables development of operations and financing of fleet transition

Operating cash flow strengthened during the year due to the profit improvement and changes in working capital, including an increase in prepaid flight tickets.

Finnair is investing in new widebody fleet, and it took delivery of four A350 aircraft in 2016. One of the aircraft was sold immediately at the time of purchase and leased back with an operating lease agreement. Three were financed with Japanese Operating Lease with Call Option (JOLCO)-financing, included in the prodeeds from loans in the financing cash flow.

Finnair prepaid all of its bank loans during the finacial year.

Cash Flow change 2016, -79.3 € million



Consolidated statement of changes in equity

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

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to owners of the parent	Non-controlling interests	Equity total
Equity 1 Jan 2015	**75.4**	**168.1**	**-87.4**	**247.4**	**-8.8**	**118.9**	**513.7**	**0.6**	**514.3**
Result for the financial year					89.4		89.4	0.3	89.7
Change in fair value of hedging instruments			-11.3				-11.3		-11.3
Actuarial gains and losses from defined benefit plans			30.2		-0.1		30.1		30.1
Translation differences			0.6				0.6		0.6
Comprehensive income for the period	**0.0**	**0.0**	**19.5**	**0.0**	**89.3**	**0.0**	**108.8**	**0.3**	**109.1**
Proceeds from hybrid bond						198.2	198.2		198.2
Hybrid bond repayments						-81.7	-81.7		-81.7
Hybrid bond interests and expenses					-13.0	0.7	-12.2		-12.2
Dividend					0.0		0.0	-0.2	-0.2
Share-based payments				0.6			0.6		0.6
Changes in non-controlling interests							0.0	-0.7	-0.7
Equity 31 Dec 2015	**75.4**	**168.1**	**-67.9**	**248.1**	**67.6**	**236.2**	**727.5**	**0.0**	**727.5**

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

★ Positive result and change in fair value of hedging instruments resulted in strengthened equity

Finnair's equity strengthened during the period from 727.5 million euro to 857.0 million euro primarily due to the profit for the period (85.1) and the change in the fair value of hedging instruments (116.2). The fair value reserve turned positive due to fuel hedges, as the fuel price rose towards the year-end and hedges committed during previous periods above market price were realised. Due to hedging strategy, developments in the market price for fuel have a delayed impact on Finnair's result.

★ = Highlights

Notes to the consolidated financial statements

Accounting principles

How should the Finnair's accounting principles be read?

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

Accounting principle	Note	Nr.	IFRS
Segment reporting	Segment information	1.1	IFRS 8
Revenue recognition, other income and trade receivables	Operating income	1.2	IAS 18, IAS 39, IFRS 7
Provisions and contingent liabilities	Provisions	1.3.5	IAS 37
Employee benefits and share-based payments	Remuneration	1.3.7	IAS 19, IFRS 2
Pensions	Pensions	1.3.7.2	IAS 19
Tangible assets	Tangible assets	2.1	IAS 16, IAS 36
Operating and finance lease arrangements	Leasing arrangements	2.2	IAS 17
Assets held for sale	Non-current assets and liabilities held for sale	2.3	IFRS 5
Intangible assets	Intangible assets	2.4	IAS 38
Interest and dividend income	Financial income and expenses	3.1	IAS 18, IAS 32
Financial assets and impairment of financial assets	Financial assets	3.2	IAS 39, IFRS 7
Cash and cash equivalents	Financial assets	3.2	IAS 39, IFRS 7
Financial liabilities	Financial liabilities	3.3	IAS 39, IFRS 7
Derivative contracts and hedge accounting	Derivatives	3.8	IAS 39, IFRS 7
Equity, dividend and treasury shares	Equity-related information	3.9	IAS 32, IAS 33
Consolidation principles of subsidiaries	Subsidiaries	4.2	IFRS 10
Non-controlling interests and transactions with non-controlling interests	Subsidiaries	4.2	IFRS 10
Investments in associates and joint ventures	Investments in associates and joint ventures	4.4	IFRS 11
Income and deferred taxes	Income taxes	5.1	IAS 12

Description of the company

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 9, Vantaa. The parent company is listed on the NASDAQ OMX Helsinki Stock Exchange. The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 14 February 2017. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, change or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc's consolidated financial statements for 2016 have been prepared according to the International Financial Reporting Standards (IFRS) and IFRIC interpretations in effect on 31 December 2016 and as adopted by the European Union. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law. New and amended standards applied in 2016 and future periods are described in the Note 4.6 Application of new and amended IFRS standards and IFRIC interpretations.

The 2016 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euro. This means that the sum of the individual figures may differ from the total shown.

Presentation of Consolidated Income Statement and Balance Sheet

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

Consolidated income statement includes, in addition to operating result, comparable operating result and EBITDAR which are presented to better reflect the Group's business performance when comparing results to previous periods. Comparable operating result doesn't include capital gains and losses, changes in the value of foreign currency denominated fleet maintenance reserves, changes in the unrealised fair value of derivatives or restructuring costs. Comparable EBITDAR is a common measure in airline business which aims to reflect comparable operating result excluding capital cost, independent of whether aircraft are owned or leased. Therefore, comparable EBITDAR is calculated by excluding depreciations and operating lease payments for aircraft from comparable operating result.

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

Presentation of alternative performance measures

Finnair has adopted the Guidelines on Alternative Performance Measures published by the European Securities Markets Authority (ESMA), effective from 3rd of July 2016 onwards. Finnair uses alternative performance measures referred to in the Guidelines to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. With a view to the Guidelines, Finnair has renamed its non-recurring items as "Items affecting comparability" and reconciled those in the note 1.3.6 Items excluded from the comparable operating result. In the same context, Finnair also clarified the calculation of interest-bearing liabilities, net debt and adjusted gearing by giving additional information to the balance sheet. Furthermore, Finnair no longer presents "Result for the period per share, EUR" as a supplementary indicator to the EPS (Earnings per Share).

Use of estimates

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

Critical accounting estimates and sources of uncertainty

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

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

Critical accounting estimates and sources of uncertainty	Note number	Note
Finnair Plus Customer Loyalty Program	1.2	Operating income
Maintenance reserves of the fleet	1.3.5	Provisions
Pension obligations	1.3.7.2	Pensions
Impairment testing	2.1	Tangible assets
Judgements of classifying lease arrangements	2.2	Leasing arrangements
Deferred taxes	5.1	Income taxes

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

1 Segments and operating result

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

1.1 Segment information

A Segment reporting

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

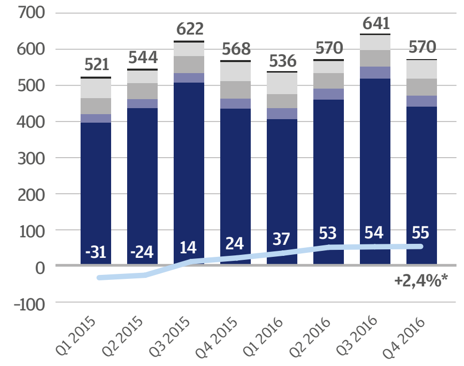
Due to Finnair's recent business developments and restructuring of organisation, Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is no longer reported. The previous operational segment Travel Services is combined with the Airline Business segment, since management sees Travel Services as one sales channel in airline business instead of considering it as separate business line and thus operating segment.

The revenue by product is presented in the note 1.2.1 Revenue by product and by geographical area in the note 1.2.2 Revenue by traffic area. The division is based on the destination of the Finnair flight. Finnair operates international and domestic routes but the assets are almost solely owned in Finland. The fleet composes major part of the non-current assets (see note 2.1 Tangible assets). Fleet is owned or leased by Finnair's Finnish subsidiary and the aircraft are operated flexibly across different traffic (geographical) areas. More details about fleet management and ownership can be found in the management report in the section "Fleet".

Finnair transported more than 10 million passengers in 2016. Due to the large number of customers and nature of business, sales to any individual customer is not material compared to Finnair's total revenue.

Revenue and comparable operating result (unaudited)

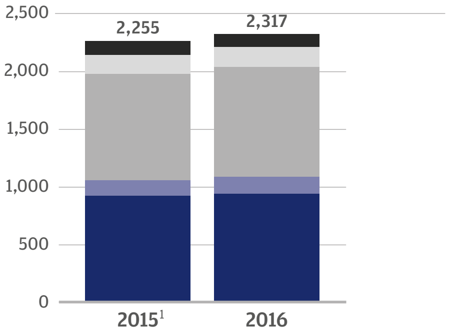
€ million



* Comparable operating result -%

Revenue by traffic area

€ million



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

1.2 Operating income

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

A Revenue recognition

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

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

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

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

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

Tour operations revenue includes sale of travel packages and is recognised as revenue at the date of the departure. Travel agency revenue is recognised at the time of sale. In commission based sales, only the part of commission is included in the revenue.

Trade receivables

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

! Finnair Plus Customer Loyalty Program

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

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

1.2.1 Revenue by product

EUR mill.	2016	2015
Passenger revenue	1,816.1	1,766.0
Ancillary and retail revenue	125.5	103.2
Cargo	173.8	183.7
Travel services	187.5	177.8
Travel agencies	13.8	23.8
Total	**2,316.8**	**2,254.5**

Finnair traffic grew and revenue increased in all the product categories but Cargo and Travel agencies. Cargo revenue suffered from low market yields, and decrease in travel agencies revenue is explained by the sale of subsidiaries. Travel agency called Estravel AS was sold at the end of 2015. At the end of 2016 Finnair also sold another travel agency and subsidiary, SMT Oy, after which Finnair does not have any travel agency operations.

Finnair has revised the calculation of revenue. From the beginning of 2016 onwards, revenue from non-core businesses, mainly including aircraft leasing income, is reclassified from revenue to other operating income. Comparative periods have been restated accordingly. The changes are described in more detail in Note 5.4 Restatement of operating income and key ratios.

1.2.2 Revenue by traffic area

2016

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

The division of revenue by traffic area is based on the destination of the Finnair flight.

2015

EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	729.7	105.6	738.0	155.9	36.9	**1,766.0**	78.3
Ancillary and retail revenue	19.6	3.4	29.5	2.6	48.1	**103.2**	4.6
Cargo	143.2	12.7	16.6	4.6	6.7	**183.7**	8.1
Travel services	30.8	9.3	132.9	0.9	4.0	**177.8**	7.9
Travel agencies					23.8	**23.8**	1.1
Total	**923.2**	**130.9**	**916.9**	**164.0**	**119.5**	**2,254.5**	
Share, % of revenue by traffic area	41.0	5.8	40.7	7.3	5.3		

1.2.3 Revenue by currency

EUR mill.	2016	2015
EUR	1,308.0	1,303.3
JPY	202.0	191.4
CNY	158.5	163.0
SEK	123.4	110.3
USD	101.6	57.6
GBP	70.4	65.7
Other currencies	352.7	363.3
Total	**2,316.8**	**2,254.5**

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

1.2.4 Trade and other receivables

EUR mill.	2016	2015
Trade receivables	98.6	113.0
Prepaid expenses, accrued income and other receivables total	113.4	95.5
Accrued income	55.8	51.6
Prepaid aircraft operating leases	6.6	7.4
Interest and other financial items	5.7	3.2
Employee benefit related receivables	5.0	7.6
VAT receivables	4.2	8.1
Other items	36.1	17.7
Total	**211.9**	**208.5**

The fair value of trade and other receivables do not materially differ from balance sheet value. Other items have increased due to prepaid aircraft maintenance at the end of 2016.

Aging analysis of trade receivables	2016	2015
Not overdue	91.3	98.4
Overdue less than 60 days	5.6	1.9
Overdue more than 60 days	1.7	12.7
Total	**98.6**	**113.0**

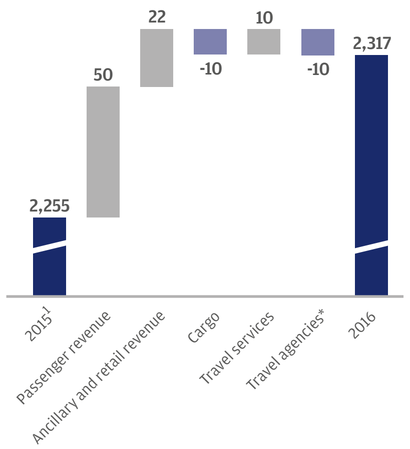
The Group has recognised a total of 1.3 million euros (2.4) of credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2016	2015
EUR	60.5	69.9
USD	5.5	6.2
JPY	5.1	5.4
CNY	4.3	6.0
GBP	3.7	2.8
SEK	3.3	4.3
Other currencies	16.1	18.3
Total	**98.6**	**113.0**

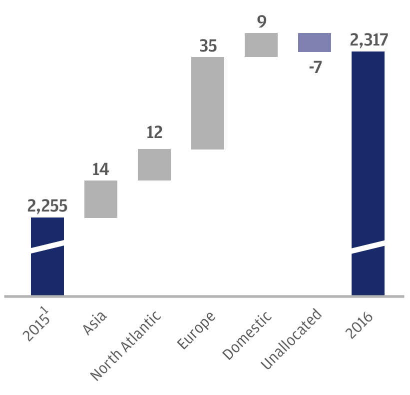
Revenue by product

€ million



Revenue by traffic area

€ million



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

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

1.2.5 Deferred income and advances received

EUR mill.	2016	2015
Deferred revenue on ticket sales	348.5	301.7
Loyalty program Finnair Plus	33.4	31.9
Advances received for tour operations	30.4	30.8
Other items	12.4	10.4
Total	**424.6**	**374.8**

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

1.3 Operating expenses

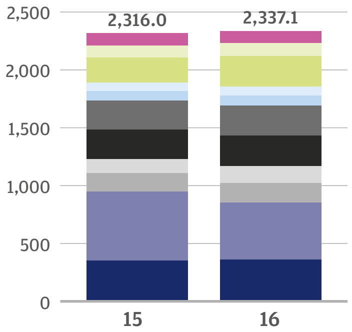
Operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this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

1.3.1 Operational expenses by currency

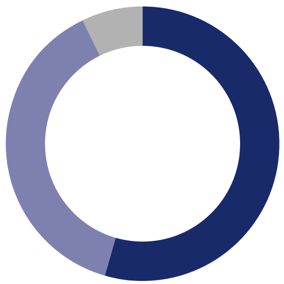
EUR mill.	2016	2015
EUR	1,270.4	1,211.3
USD	892.7	919.2
Other currencies	173.9	185.4
Total	**2,337.1**	**2,316.0**

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

Operational expenses



Operational expenses by currency



1.3.2 Leasing expenses

EUR mill.	2016	2015
Leasing payments for cargo capacity	10.3	11.1
Payments for purchase traffic and wet leases	123.2	116.3
Office and other rents	34.0	32.0
Other rents total (included in operational EBITDAR)	**167.4**	**159.4**
Lease payments for aircraft (dry leases)	109.5	99.3
Total	**276.9**	**258.7**

1.3.3 Other expenses

EUR mill.	2016	2015
IT expenses and booking fees	107.5	93.2
Realised currency hedging	-13.8	-33.4
Other items	172.9	159.5
Total	**266.6**	**219.3**

Currency hedging of operating cash flow don't qualify for hedge accounting and the realised fair value changes are recognised in other expenses.

Audit fees in other expenses

EUR mill.	2016	2015
PricewaterhouseCoopers Oy		
Auditor's fees	0.2	0.2
Tax advising	0.1	0.1
Other fees	0.2	0.2
Total	**0.5**	**0.5**

1.3.4 Other liabilities

EUR mill.	2016	2015
Jet fuels and traffic charges	67.8	67.2
Liabilities for tour operations	11.2	9.8
Aircraft materials and overhaul	15.3	5.4
Interest and other financial items	5.4	5.0
Other items	61.5	61.4
Total	**161.1**	**148.7**

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

1.3.5 Provisions

A Provisions

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

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

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

EUR mill.	Aircraft maintenance provision	Other provisions	2016	Aircraft maintenance provision	Other provisions	2015
Provision at the beginning of period	86.8	7.1	**94.0**	82.5	13.8	**96.3**
Provision for the period	43.2	1.0	**44.2**	30.6	4.4	**35.0**
Provision used	-50.4	-3.9	**-54.3**	-36.5	-11.1	**-47.5**
Exhange rate differences	2.0		**2.0**	10.1		**10.1**
Total	**81.6**	**4.2**	**85.8**	**86.8**	**7.1**	**94.0**
Of which non-current	61.5	2.1	**63.6**	52.0	3.7	**55.7**
Of which current	20.1	2.1	**22.2**	34.8	3.5	**38.3**
Total	**81.6**	**4.2**	**85.8**	**86.8**	**7.1**	**94.0**

Non-current aircraft maintenance provisions are expected to be used by 2028. Other provisions include items related to group's restructurings.

! Aircraft maintenance provision

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

A = Accounting principles
! = Critical accounting estimates

1.3.6 Items excluded from comparable operating result

Comparable operating result aims to provide a comparable view on business development between periods. Therefore unrealised fair value changes of derivatives where hedge accounting is not applied, are not included in the comparable operating result, as the business transactions which they are hedging are recognised to the comparable operating result only when they occur. The treatment of realised gains and losses on these derivatives is described in the note 3.8 Derivatives.

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

In addition to above, items affecting comparability (earlier non-recurring items) are not included in the comparable operating result. These items affecting comparability are divided into three categories: gains and losses on aircraft transactions, gains and losses on other transactions, and restructuring costs. Gains and losses on transactions include sales gains and losses as well as other items that can be considered to be directly related the sale of the asset. For example, a write-down that might occur when an asset is classified as "Assets held for sale" in accordance with IFRS 5, is included in gains and losses on the transactions. Restructuring costs include termination benefits and other costs that directly related to the restructuring of operations.

EUR mill.	2016	2015
Unrealised changes in foreign currencies of fleet overhaul provisions	-2.0	-10.1
Fair value changes of derivatives where hedge accounting is not applied	34.0	-2.1
Fair value changes in derivatives and changes in exchange rates of fleet overhauls total	**32.0**	**-12.3**
Gains and losses on aircraft transactions	26.6	101.7
Gains and losses on other transactions	3.8	19.8
Restructuring costs	-1.4	-11.3
Items affecting comparability total	**29.0**	**110.2**

1.3.7 Employee benefits

1.3.7.1 Employee benefit expenses and share-based payments

A Share-based payments

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

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

Termination benefits

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

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

Staff costs

EUR mill.	2016	2015
Wages and salaries	281.2	277.1
Pension expenses	61.0	57.0
Defined contribution schemes	50.6	40.9
Defined-benefit schemes	10.4	16.2
Other social expenses	20.3	19.0
Total	**362.5**	**353.2**
Staff costs included in items affecting comparability	1.7	2.9
Total staff costs in income statement	**364.2**	**356.1**

In Finnair, the total salary of personnel consists of fixed pay, allowances, short-and long-term incentives, fringe benefits and other personnel benefits. The total amount of short-term incentives recognised for 2016 were 7.1 million euro (6.3). In addition to staff cots, items affecting comparability include personnel related restructuring costs of 1.7 million euros (2.9) as agreed in the Group's statutory employer-employee negotiations. Including items affecting comparability, total staff costs amounted to 364.2 million euros (356.1).

Transfer to Personnel Fund

Finnair has a Personnel Fund that is owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined based on the targets set by the Board of Directors. The participants of the performance share plan (LTI) are not members of the Personnel Fund. Personnel Fund is obliged to invest part of the bonus in Finnair Plc's shares. In 2016, the comparable operating result exceeded the limit set by the board of directors. Therefore Finnair has recognised 0.5 million euro to the staff costs and liability, to be transferred to the personnel fund. In 2015 profits were not allocated to the fund, because the set performance criteria were not met.

Liabilities related to employee benefits

EUR mill.	2016	2015
Holiday payment reserve	62.0	62.0
Other employee related accrued expenses	31.4	29.0
Liabilities related to employee benefits	**93.4**	**91.0**

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs. In addition, restructuring provisions related to termination benefits (see note 1.3.5 Provisions) amounted to 3.5 million euros (5.5).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	President and CEO Pekka Vauramo	Executive Board	Total 2016	President and CEO Pekka Vauramo	Executive Board	Total 2015
Fixed pay	649	1,687	**2,336**	649	1,196	**1,845**
Short-term incentives*	196	552	**748**	235	352	**588**
Fringe benefits	2	79	**82**	3	61	**63**
Termination benefits		360	**360**		369	**369**
Share-based payments	172	222	**394**	115	182	**297**
Pensions (statutory)**	159	410	**570**	153	277	**429**
Pensions (voluntary, defined contribution)	124	93	**217**		69	**69**
Total	**1,303**	**3,404**	**4,707**	**1,155**	**2,506**	**3,661**

* Short-term incentives for the financial year 2016 are estimates as at the balance sheet date the final review of targes has not been done. Short-term incentives for 2015 realised according to what was presented in the 2015 financial statements.

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

A = Accounting principles

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

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

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

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2016	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2015
Board of Directors	**422,895**	248,400	153,000	21,495	**383,015**
Friman Maija-Liisa	47,548	32,400	10,800	4,348	
Heinemann Klaus	82,800	61,200	21,600	0	
Itävuori Jussi	75,148	32,400	36,000	6,748	
Karvinen Jouko, from 17th of March onwards	54,129	24,300	26,400	3,429	
Kerminen Harri, until 17th of March	12,900	8,100	4,800	0	
Kronman Gunvor	43,314	30,000	10,800	2,514	
Tuominen Jaana	45,257	30,000	10,800	4,457	
Turner Nigel	61,800	30,000	31,800	0	

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

Share-based payments

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

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

Finnair's share based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement. Each share based incentive arrangement is divided into four-six-year share plan, and the commencement of each new plan is subject to a separate decision made by Finnair's Board of Directors. The first plan commenced in 2013, and at the end of 2016 there are four plans ongoing (plans with measurement periods of 2013-2015, 2014–2016, 2015–2017, 2016–2018). The purpose of these plans is to encourage the management to work to increase long-term shareholder value. The share plan is in line with the statement by the Finnish Cabinet Committee on Economic Policy regarding the remuneration of executive management and key individuals.

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

The potential reward will be delivered in Finnair shares. The shares are delivered to the participants during the year following the performance period.

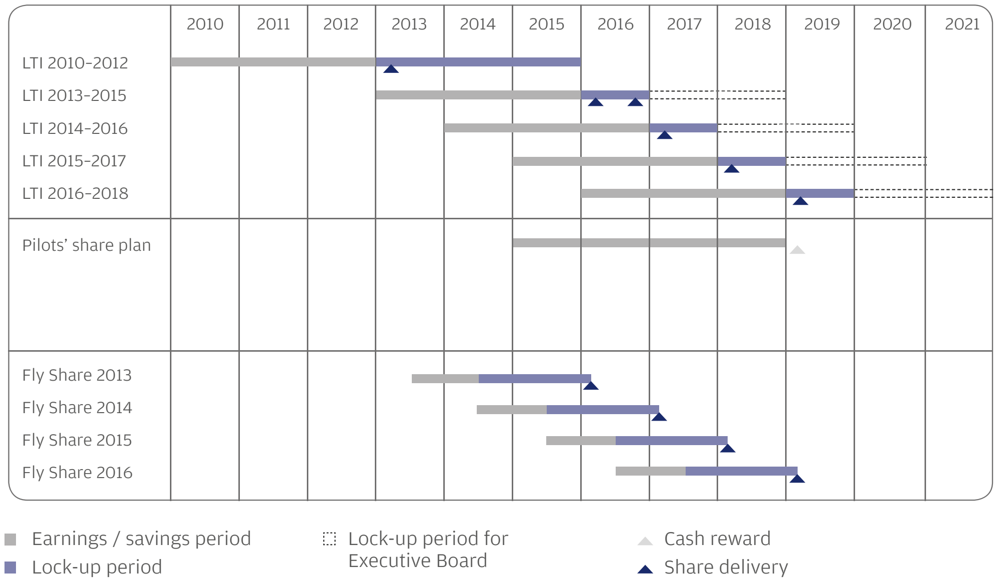
If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board participating in the program will be 30% of his or her annual base salary. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60% of the participant's annual base salary. The target level for incentives for other key personnel is 20–25% of the person's average annual base salary according to the job grade.

According to the rules of the share plan, the maximum value of shares delivered to an individual participant based on the share plan in any given year may not exceed 60% of the person's annual base salary. The amounts of shares paid are stated before tax. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the incentive at the time of payment.

The performance criteria applied to the plan 2013-2015 were the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria were assigned weights of 60 per cent and 40 per cent, respectively. The achieved pay-out rate of the plan was 27 per cent of the maximum. As Finnair has adopted a program consisting of annually commencing individual plans at 2013, and the share plan will not be in full effect until 2018, the 2013 plan included a a bridge element to supplement payments in 2016 and 2017. The performance criterion for this bridge element was the comparable operating result margin but the criterion was not met.

The performance criteria applied to the plans 2014–2016, 2015–2017 and 2016–2018 are Return on Capital Employed (ROCE, weight 50%) and Total Shareholder Return (TSR, weight 50%). The target levels and maximum levels set for the criteria are based on the long-term strategic objectives set by the company's Board of Directors. Criteria are monitored against the performance on a quarterly basis.

Finnair share-based payment plans



The total expense for the share-based payments is recognised over the vesting period (4–6 years). The compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. Therefore the whole cost effect is recognised as debt until the end of performance period (grant date), and the debt is divided into equity settled and cash settled part only at grant date. At the same time, the equity settled part is recognised in equity. The expense recognised for 2016 amounted to 1.2 million euros (1.0).

	2013–2015*	2014–2016	2015–2017	2016–2018	Total
Maximum earning, million euros	1.9	2.2	2.6	3.3	9.8
Maximum earning, million shares	0.5	0.5	0.6	0.8	2.4
Target earning, million euros	0.9	1.1	1.3	1.6	4.9
Target earning, million shares	0.2	0.3	0.3	0.4	1.2
Expenses recognised for the financial year, LTI's total (million euros)	0.3	0.4	0.3	0.2	1.2
of which share-settled (recognised as debt until grant date)	0.2	0.2	0.2	0.1	0.8
of which cash-settled	0.1	0.1	0.1	0.1	0.4
Liability related to LTI's at closing the date	0.0	1.0	0.5	0.2	1.8
Shares granted, million shares	0.1	-	-	-	0.1

* For the 2013-2015 plan, the shares were granted during 2016. No more shares will be granted based on the plan. The achieved pay-out rate of the 2013-2015 plan was 27 per cent of the maximum.

FlyShare employee share savings plan 2013 onwards

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

Each plan consists of one year savings period followed by two year lock-up period. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8 per cent and the minimum 2 per cent of each participant's gross base salary per month, with the annual maximum savings set at 8,000 euros per participant. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair's interim reports.

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

Effect of FlyShare share savings plan on Group's results and financial position, million euros	2016	2015
Total Income statement effect of share-based payments	0.9	1.6
of which, share-settled	0.7	0.5
of which, cash-settled	0.1	1.2
Liabiltity related to share-based payments at the closing date	1.0	1.3

A = Accounting principles
! = Critical accounting estimates

Long-term incentive plan for pilots

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

The plan is considered as cash-settled share-based arrangement. The cost effects are accrued over the vesting period from grant date onwards (2014–2018), and the corresponding liability is fair valued at each reporting date. The 2016 closing rate of Finnair's share (4.03 euro) was above the minimum required level (4 euro). The liability accrued by the end of 2016 amounted to 6.1 million euro (4.5). The cost recognised in comparable operating result for 2016, net of hedging effects, amounted to 2.9 million euro (3.2).

1.3.7.2 Pensions

A Defined benefit and defined contribution plans

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

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

Description of pension plans in Finnair

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

Exposure to most significant risks

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

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

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

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

Defined benefit pension plans

EUR mill.	2016	2015
Items recognised in the income statement		
Current service costs	9.7	9.2
Past service cost	0.7	5.3
Settlements and curtailments	0.0	1.7
Service cost total, recognised in staff costs	**10.4**	**16.2**
The defined benefits related to sold subsidiaries, net (recognised as items affecting comparability in the income statement)	-0.6	
Net interest expenses	0.1	0.5
Total recognised in income statement	**9.8**	**16.7**
Amounts recognised through other comprehensive income		
Experience adjustment on plan obligation	1.6	2.8
Changes is financial actuarial assumptions	19.1	-28.9
Changes in demographical actuarial assumptions	0.0	10.6
Net return on plan assets	-2.7	-22.2
Transfer of actuarial items related to terminated plan to retained earnings		-0.1
Amounts recognised through other comprehensive income total	**18.1**	**-37.7**
Number of persons involved, pension fund	4,732	4,797
Other defined benefit plans, persons involved	21	10

Items recognised in the balance sheet

EUR mill.	2016	2015
Present value of funded obligations	438.9	426.3
Fair value of plan assets	-407.0	-422.0
Net defined benefit liability	**31.9**	**4.4**

The net defined benefit liability in 2016 includes 29.7 million euro (2.6) related to defined benefit plans insured through the pension fund and 2.2 million euro (1.7) related to other defined benefit plans. The pension obligation increased during 2016 mainly due to changes in actuarial assumptions, such as decrease in discount rate from 2.0% to 1.52%. These effects are included in the amount recognised through other comprehensive income as actuarial gains and losses.

In Finnish national pension system the mortality rate used was updated from 31st of December 2016 onwards. The redefined assumption was applied in accounting of IFRS pension liability already in the financial statements of 2015. The amendment to the Finnish employee pension legislation, passed by Finnish Parliament in November 2015 and effective from 2017 onwards, did not have an effect to Finnair defined benefit plans and supplementary pensions.

Changes in pension obligations

EUR mill.	2016	2015
Fair value of pension obligations at 1 January	426.3	436.0
Current service costs	9.7	9.2
Past service cost	0.7	5.3
Settlements and curtailments		1.7
Interest expense	8.3	9.0
Disposal of a subsidiary*	-7.2	
Expense recognised in income statement	**11.4**	**25.1**
Changes in actuarial assumptions	19.1	-18.3
Experience adjustment on plan obligation	1.6	2.8
Remeasurements recognised through OCI	**20.7**	**-15.5**
Benefits paid	-19.7	-19.3
Net present value of pension obligations	**438.9**	**426.3**

Changes in plan assets

EUR mill.	2016	2015
Fair value of plan assets at 1 January	422.0	410.7
Interest income	8.2	8.4
Disposal of a subsidiary*	-6.6	
Items recognised through profit and loss	**1.6**	**8.4**
Acturial gain (loss) on plan assets	2.7	22.2
Items recognised through OCI	**2.7**	**22.2**
Contributions paid	0.4	0.0
Benefits paid	-19.7	-19.3
Fair value of plan assets at 31 December	**407.0**	**422.0**

*Finnair sold its subsidiary SMT Oy during 2016. The pension obligations and assets related to SMT's personnel were transferred from Finnair Pension Fund to an insurance company at the time of sale. The difference between amount of assets and liabilities transferred, 0.6 million euro, was recognised as an adjustment of the sales gain, included in the items affecting comparability.

Plan assets are comprised as follows

%	2016	2015
Listed shares	21.0	21.4
Debt instruments	53.0	53.6
Property	18.4	17.5
Other	7.6	7.5
Total	**100.0**	**100.0**

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

Defined benefit plans: principal actuarial assumptions

	2016	2015
Discount rate %	1.52%	2.0%
Inflation %	1.12%	1.2%
Annual rate of future salary increases %	1.70%	2.1%
Future pension increases %	1.36%	1.4%
Estimated remaining years of service	11	11

Sensitivity analysis

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

Sensitivity analysis on principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate %	0.25%	-14.9	-3.5%	15.8	3.7%
Annual rate of future salary increases %	0.25%	4.6	1.1%	-4.5	-1.1%
Future pension increases %	0.25%	11.1	2.6%	-10.8	-2.5%
Life expectancy at birth	1 year	12.1	2.9%	-11.8	-2.8%

According to Finnish legislation, pension fund needs to be fully funded. Expected contribution payments for the future five years are approximately 45 million euros. The amount of payments depends on future returns on plan assets.

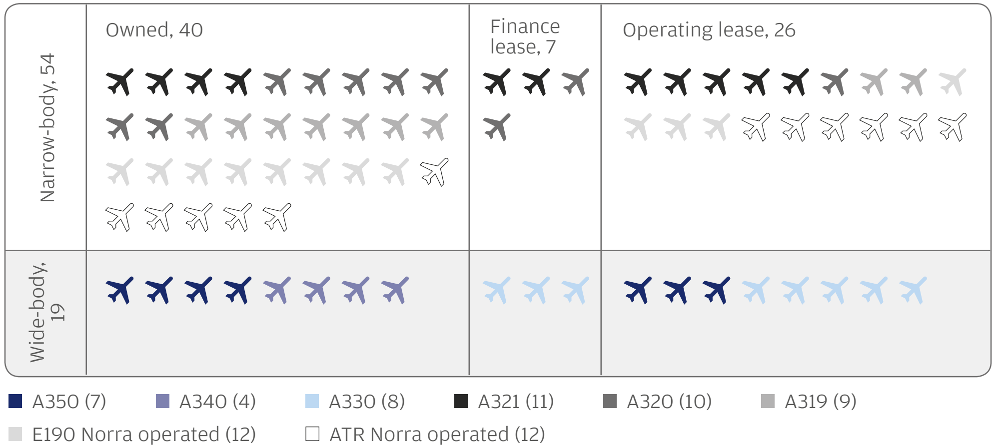
The duration of defined benefit obligation is 15.21 years. The duration is calculated by using discount rate of 1.52 %.

2 Aircraft and other intangible and tangible assets and leasing arrangements

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

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

Fleet



Fleet

Fleet in Finnair balance sheet

EUR mill.	2016	2015	Change
Advances paid for aircraft	99.4	55.2	44.2
Owned aircraft in use	764.1	538.0	226.1
Aircraft finance lease	168.4	129.2	39.2
Aircraft held for sale	139.1	121.0	18.1
Book value total	**1,171.0**	**843.5**	**327.6**
Depreciation for the period	**87.1**	**117.7**	**-30.6**
Operating leases of aircraft			
Operating lease commitments (nominal value)	1,069.9	1,040.3	29.6
Leasing expenses for the period (Lease payments for aircraft)	109.5	99.3	10.2

2.1 Tangible assets

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

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

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

- Aircraft and engines as well as flight simulators (other equipment) on a straight-line basis as follows:
  - Airbus A350 fleet, over 20 years to a residual value of 10 %
  - Airbus A320 and Embraer fleet, over 20 years to a residual value of 10 %
  - Airbus A330 fleet, over 18 years to a residual value of 10 %
  - Airbus A340 fleet, over 15 years to a residual value of 10 %
  - Turboprop aircraft (ATR fleet), over 12 years to a residual value of 10 %
- Heavy maintenance of aircraft frame and performance maintenance and life limited parts of the engines, on a straight-line basis during the maintenance period
- Rotable spare parts and components, over 15-20 years to a residual value of 10 %
- Buildings, over 50 years from the time of acquisition to a residual value of 10 % or 3-7 % of the diminishing balances
- Other tangible assets, over 3-15 years or 23 % of the diminishing balances

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

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

Impairment

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

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

! Impairment testing

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

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

Tangible assets 2016

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

The carrying value of rotable parts included in aircraft is 16.4 million euros (15.1). In addition, inventories include non-rotable aircraft parts 12.9 million euros (10.1). Currency hedging of aircraft acquisitions are described in Notes 3.5 Management of financial risks and 3.8 Derivatives.

Tangible assets 2015

EUR mill.	Aircraft	Buildings and land	Other equipment	Advances	Total
Acquisition cost 1 Jan 2015	1,620.2	138.5	72.4	66.4	1,897.5
Additions	248.7	17.4	1.7	91.3	359.1
Disposals	-264.3	-113.3	-35.5		-413.1
Currency hedging of aircraft acquisitions				-14.7	-14.7
Reclassifications	57.1		11.7	-62.4	6.4
Transfer to assets held for sale	-311.3	-16.7			-328.0
Acquisition cost 31 Dec 2015	**1,350.3**	**25.9**	**50.4**	**80.6**	**1,507.1**
Accumulated depreciation and impairment 1 Jan 2015	-842.6	-108.4	-48.8		-999.7
Disposals	110.1	102.7	32.0		244.8
Depreciation for the financial year	-94.2	-3.6	-2.5	-3.1	-103.5
Depreciation in items affecting comparability	-31.2	-9.2	-0.1		-40.4
Reclassifications			-2.3		-2.3
Transfer to assets held for sale	190.3	15.2			205.5
Accumulated depreciation and impairment 31 Dec 2015	**-667.5**	**-3.3**	**-21.7**	**-3.1**	**-695.6**
Book value 31 Dec 2015	**682.8**	**22.6**	**28.7**	**77.5**	**811.6**

Capitalised borrowing costs

	Aircraft		Advances		Total	
EUR mill.	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Book value 1 Jan	1.0		6.1	1.9	7.1	1.9
Additions		2.2	7.5	5.0	7.5	7.1
Disposals	-1.8	-1.9			-1.8	-1.9
Reclassifications	6.3	0.8	-6.3	-0.8		
Depreciation	-0.2					
Book value 31 Dec	**5.4**	**1.0**	**7.3**	**6.1**	**12.8**	**7.1**

In 2016, borrowing costs of 7.5 million euros (7.1) were capitalised in tangible assets related to the Airbus A350 investment program. The interest rate used was 5.0%, which represents the costs of the loan used to finance the investment. Disposal is related to the sale and and leaseback of one A350 aircraft.

Pledged assets and other restrictions on tangible assets

The value of the aircraft that have been pledged as a security for bank loans amount to 0.0 million euro (250.0), as Finnair prepaid its bank loans during 2016. In addition, Finnair has three A350 aircraft financed with JOLCO-loans (see 3.3 Financial liabilities) and three finance leased A330 aircraft where the legal title is transferred to Finnair after loans are repaid. On top of that, Finnair has 4 finance leased aircraft in the balance sheet where the legal title will not transfer to Finnair at the end of the lease term (see 2.2 Leasing arrangements). The value of these aircraft at the end of 2016 amounted to 402.8 million euro.

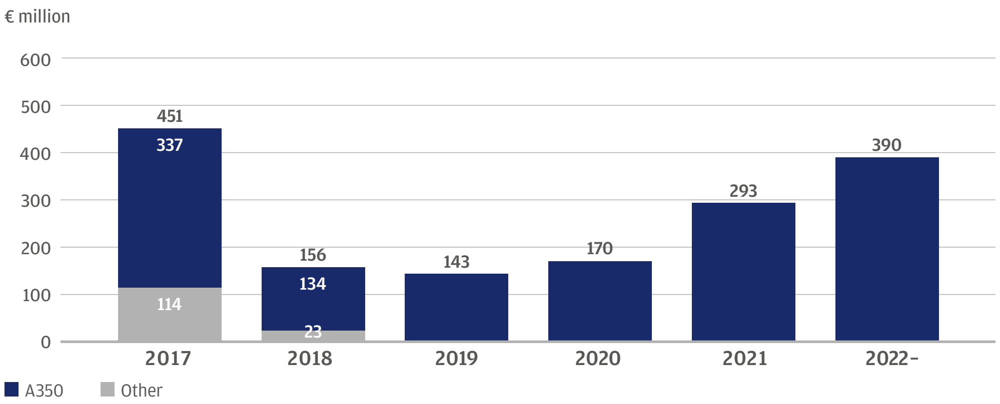
Impairment test

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

Investment commitments

At the end of financial year investment commitments totalled 1,601 million euros (1,818) including mainly firm aircraft orders and orders related to the building project of new cargo terminal. The total commitment fluctuates between the order and the delivery of the aircraft mainly due to exchange rate EUR/USD and the escalation clauses included in the airline purchase agreements. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery.

Investment commitments



2.2 Leasing arrangements

A The Group as lessee

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

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

The Group as lessor

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

Sale and leaseback transactions

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

! Critical accounting estimates and sources of uncertainty

The classification of lease arrangements to finance and operating leases requires management discretion in interpretation and application of the accounting standards. Where the management has made a judgement that risks and rewards of ownership belong to Group, the lease is treated as a finance lease, otherwise as operating lease. !

Finance lease arrangements

EUR mill.	Buildings	Aircraft	Other equipment	Total
Acquisition cost		197.2	8.5	205.7
Additions		50.6	0.5	51.2
Disposals			-4.5	-4.5
Accumulated depreciation		-79.5	-2.1	-81.6
Book value 31 Dec 2016		**168.4**	**2.3**	**170.7**
Acquisition cost	4.2	197.2	8.4	209.8
Additions			0.7	0.7
Disposals	-3.6		-0.6	-4.2
Accumulated depreciation	-0.5	-68.0	-4.7	-73.3
Book value 31 Dec 2015	**0.0**	**129.2**	**3.8**	**133.0**

Addition in the value of finance lease arrangements is caused by lease extentions of two A320 and two A321 aircraft during 2016, which led to their reclassification to finance lease arrangements.

Finance lease liabilities

	Minimum lease payments		Future financial expenses		Present value of minimum lease payments	
EUR mill.	2016	2015	2016	2015	2016	2015
less than one year	26.6	17.5	2.6	1.3	24.0	16.2
1-5 years	97.2	68.8	6.3	3.1	90.9	65.7
more than 5 years	25.9	24.1	1.1	0.2	24.8	23.8
Total	**149.7**	**110.3**	**10.1**	**4.6**	**139.6**	**105.7**

Finance lease liabilities mainly include two Airbus A320, two Airbus A321 and three Airbus A330 aircraft, whose minimum lease payments are 147.3 million euros (106.2), future financial expenses 10.0 million euros (4.5) and present value of minimum lease payments 137.3 (101.7). In addition, liability includes finance lease agreements of ground transportation equipment.

Other lease arrangements

Minimum lease payments for irrevocable lease agreements, Group as lessee

	Aircraft		Premises and land		Other equipment	
EUR mill.	2016	2015	2016	2015	2016	2015
less than one year	125.6	128.6	22.4	24.5	5.7	5.5
1-5 years	465.3	426.5	83.4	80.3	9.6	11.1
more than 5 years	478.9	485.2	168.9	183.7		
Total	**1,069.9**	**1,040.3**	**274.7**	**288.6**	**15.3**	**16.6**

The Group has leased premises as well as aircraft and other fixed assets with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. The Group has leased 29 aircraft on leases of different tenors.

Minimum lease payments for irrevocable lease agreements, Group as lessor

	Aircraft		Premises	
EUR mill.	2016	2015	2016	2015
less than one year	43.1	38.9	5.2	5.2
1-5 years	166.5	33.9	20.3	20.9
more than 5 years	28.6		35.3	37.1
Total	**238.2**	**72.8**	**60.8**	**63.2**

The Group has leased premises as well as aircraft with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions. The Group has leased 24 aircraft on leases of different tenors. Lease agreements of E170 were terminated in 2015 and the increase of 2016 is due to the renewal of these agreements at the beginning of 2016.

A = Accounting principles
! = Critical accounting estimates

2.3 Non-current assets and liabilities held for sale

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

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

Non-current assets held for sale include mainly aircraft. Aircraft classified as held for sale include four A340 aircraft, of which three were classified as held for sale during 2015 and one during 2016. These wide-body aircraft are going to be replaced by new A350 aircraft. The aircraft are expected to be sold to Airbus during 2017. The sale of the first three aircraft have been postponed due to delays in redelivery process of A340s and deliveries of A350s. In addition, assets held for sale include one ATR-72 aircraft, expected to be sold in the first half of 2017.

At the end of 2015, assets held for sale also included two Embraer E170, which were sold in the beginning of 2016.

The book value of the assets held for sale

EUR mill.	2016	2015
Tangible assets	139,3	123,0
Inventories	0,0	1,6
Total	**139,3**	**124,5**

2.4 Intangible assets

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

Intangible assets on Finnair´s balance sheet at the end of 2016 amounted to 12.4 million euros (9.5) and the depreciation and impairments recognised in 2016 amounted to 3.8 million euros (4.6). Intangible assets mainly include computer software amounting to 9.4 million euros (6.2), and they are depreciated over a useful life of 3-8 years. Other intangible assets mainly include connection fees, which are not depreciated. The goodwill included in intangible assets amounted to 1.2 million euros (1.2) and based on impairment testing there was no indication of impairment at the end of 2016.

3 Capital structure and financing costs

3.1 Financial income and expenses

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

A Interest income and expenses

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

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

EUR mill.	2016	2015
Interest income from financial assets classified as held for trading	1.0	1.2
Other financial income	0.0	0.0
Financial income total	**1.0**	**1.3**
Interest expenses for financial liabilities measured at amortised cost	-4.8	-1.3
Interest on finance leases	-1.6	-2.0
Foreign exchange gains and losses	-2.0	-4.2
Other financial expenses	-3.1	-2.3
Interest rate swaps, fair value hedges	3.6	5.2
Fair value adjustment to bond book value attributable to interest rate risk	-3.6	-5.2
Financial expenses total	**-11.5**	**-9.7**
Financial expenses, net	**-10.5**	**-8.4**

In the effectiveness testing of the Group's hedge accounting, both cash flow and fair value hedging were found to be effective. Thus, as in the comparison year 2015, no inefficiency is included in the financial items for 2016. Financial income and expenses include an identical amount of profit and loss for fair value hedging instruments and for hedged items resulting from the hedged risk.

In 2016, foreign exchange gains and losses recognised in financial expenses consist of net realised exchange losses of 3.1 million euro and unrealised net exchange gains of 1.1 million euro. During the year 2016, 7.5 million euros of interest expenses (7.1) were capitalised related to the A350 investment program. More information about the capitalised borrowing costs can be found in the note 2.1 Tangible assets.

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

A = Accounting principles
i = Critical accounting estimates

3.2 Financial assets

A Financial assets

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

The financial asset category recognised at fair value through profit and loss includes assets held for trading purposes and assets measured at fair value through profit and loss on initial recognition. Financial assets at fair value through profit and loss have mainly been acquired to obtain a gain from short-term changes in market prices. All those derivatives that do not fulfil the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued at fair value in each financial statement. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise. Financial assets recognised at fair value through profit and loss, as well as those maturing within 12 months, are included in current assets.

In Finnair Group, unquoted shares are valued at their acquisition price in the absence of a reliable fair value.

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

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

Impairment of financial assets

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

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount. The recoverable amount is the estimated future cash flow discounted at the original effective interest rate of the instrument. From then on, the reversal of the discount effect is booked as interest income. The loss is recognised in profit and loss. Interest income on impaired loans is recognised using the original effective interest rate.

Cash and cash equivalents

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

3.2.1 Other current financial assets

EUR mill.	2016	2015
Commercial paper, certificates and bonds	261.2	382.6
Money market funds	466.6	35.7
Deposits, maturing in more than 3 months	0.0	9.4
Total	**727.9**	**427.7**
Ratings of counterparties		
Better than A	22.6	12.4
A	79.9	170.9
BBB	83.5	129.5
BB	2.0	5.0
Unrated	539.9	109.9
Total	**727.9**	**427.7**

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

3.2.2 Cash and cash equivalents

EUR mill.	2016	2015
Cash and bank deposits	60.0	270.5
Deposits, maturing in less than 3 months	9.4	10.1
Total	**69.4**	**280.5**

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

3.3 Financial liabilities

A Financial liabilities

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

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

Non-current liabilities

EUR mill.	2016	2015
Bank loans	0.0	26.3
JOLCO loans	346.0	0.0
Bonds	153.4	155.2
Finance lease liabilities	117.6	89.6
Interest-bearing liabilities total	**617.3**	**271.0**
Non-interest-bearing liabilities	4.9	15.8
Total	**622.2**	**286.8**

Current interest-bearing liabilities

EUR mill.	2016	2015
Bank loans	0.0	51.9
JOLCO loans	70.8	0.0
Finance lease liabilities	22.0	16.2
Other loans	7.7	7.1
Total	**100.4**	**75.2**

JOLCO loans include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft, as well as the interest-bearing loans for the E190 aircraft, whose call options have been exercised. The transactions are treated as loans and owned aircraft in Finnair's accounting. During the year 2016 Finnair prepaid all of its bank loans.

Maturity dates of interest-bearing financial liabilities 31 Dec 2016 EUR mill.	2017	2018	2019	2020	2021	Later	Total
JOLCO loans, fixed interest	29.7	0.0	0.0	0.0	0.0	44.5	74.2
JOLCO loans, variable interest	41.1	26.2	27.0	27.9	28.9	191.8	342.9
Bonds	0.0	150.0	0.0	0.0	0.0	0.0	150.0
Finance lease liabilities	22.0	23.4	22.4	23.0	23.9	24.9	139.6
Other loans	7.7	0.0	0.0	0.0	0.0	0.0	7.7
Interest-bearing financial liabilities total	**100.4**	**199.6**	**49.4**	**51.0**	**52.7**	**261.2**	**714.3**
Payments from currency derivatives	867.5	285.7	0.0	0.0	0.0	0.0	1,153.2
Income from currency derivatives	-966.2	-295.9	0.0	0.0	0.0	0.0	-1,262.2
Commodity derivatives	-16.7	-11.6	-0.1	0.0	0.0	0.0	-28.4
Interest rate derivatives	0.0	-3.6	-3.4	0.0	-12.8	0.0	-19.8
Equity derivatives	0.0	0.0	-1.6	0.0	0.0	0.0	-1.6
Trade payables and other liabilities	773.5	0.0	0.0	0.0	0.0	0.0	773.5
Interest payments	17.6	16.0	9.2	7.6	6.6	25.9	82.8
Total	**776.1**	**190.1**	**53.5**	**58.5**	**46.6**	**287.0**	**1,411.9**

Maturity dates of interest-bearing financial liabilities 31 Dec 2015 EUR mill.	2016	2017	2018	2019	2020	Later	Total
Bank loans, fixed interest	23.8	0.0	0.0	0.0	0.0	0.0	23.8
Bank loans, variable interest	28.2	17.2	1.2	8.3	0.0	0.0	54.9
Bonds, fixed interest	0.0	0.0	150.0	0.0	0.0	0.0	150.0
Finance lease liabilities	16.2	16.1	16.1	16.6	17.0	23.8	105.7
Other loans	7.1	0.0	0.0	0.0	0.0	0.0	7.1
Interest-bearing financial liabilities total	**75.2**	**33.3**	**167.3**	**24.9**	**17.0**	**23.8**	**341.5**
Payments from currency derivatives	1,022.0	431.3	0.0	0.0	0.0	0.0	1,453.3
Income from currency derivatives	-1,098.5	-501.5	0.0	0.0	0.0	0.0	-1,600.0
Commodity derivatives	147.6	23.4	0.1	0.0	0.0	0.0	171.1
Interest rate derivatives	0.0	0.2	-5.2	0.0	0.0	0.0	-5.0
Equity derivatives	0.0	0.0	0.0	-4.1	0.0	0.0	-4.1
Trade payables and other liabilities	872.8	0.0	0.0	0.0	0.0	0.0	872.8
Interest payments	6.2	5.7	5.6	0.1	0.0	0.0	17.5
Total	**1,025.2**	**-7.6**	**167.8**	**20.8**	**17.0**	**23.8**	**1,247.0**

The interest rate re-fixing period for variable interest loans is three months. The fixed interest rate bond maturing in 2018 does not include the 3.6 million euro fair value of the interest rate swap. Additionally, the bond does not include the amortised cost of 0.4 million euro paid in 2013. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the fair value of the interest rate swap and the amortised cost. The minimum lease payments, discount values and present values of finance lease liabilities are presented in note 2.2 Leasing arrangements.

A = Accounting principles

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

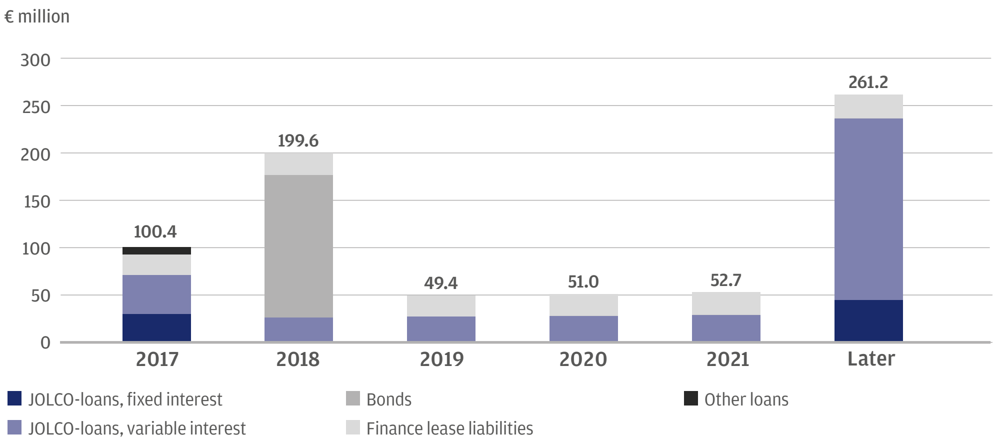
EUR mill.	2016	2015
EUR	249.5	316.3
USD	383.7	18.1
JPY	84.5	0.0
SEK	0.0	7.1
Total	**717.7**	**341.5**

The weighted average effective interest rate on interest-bearing long-term liabilities was 2.7% (3.4).

Interest rate re-fixing period of interest-bearing liabilities

	2016	2015
Up to 6 months	93.7%	93.1%
6-12 months	2.2%	0.0%
1-5 years	0.0%	6.9%
More than 5 years	4.1%	0.0%
Total	**100.0%**	**100.0%**

Maturity dates of interest-bearing financial liabilities



3.4 Contingent liabilities

EUR mill.	2016	2015
Other pledges given on own behalf		160.1
Guarantees on behalf of group companies	69.0	67.0
Guarantees on behalf of others	0.0	0.1
Total	**69.0**	**227.2**

During the year 2016, Finnair has repaid all of its bank loans where aircraft had been pledged as collateral. Therefore, no pledges are given as of 31.12.2016.

3.5 Management of financial risks

Principles of financial risk management

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

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

In the management of foreign exchange, interest rate, jet fuel and electricity price risk, the company uses different derivative instruments, such as forward contracts, swaps and options. At inception, derivatives are designated as hedges of future cash flows (cash flow hedges), hedges of firm orders (hedges of the fair value of firm commitments) or as financial derivatives not qualifying for hedge accounting (economic hedges). Finnair Group implements cash flow hedging through foreign exchange hedging of lease payments, as well as through hedging of electricity price risk and jet fuel price including its foreign exchange risk, in accordance with the hedge accounting principles of IAS 39. Hedge accounting compliant fair value hedges of Finnair Group consist of interest rate hedges of the issued bond and fair value hedges of firm aircraft purchase commitments.

Fuel price risk in flight operations

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

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

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

In terms of accounting, Finnair recognises jet fuel hedges in two different ways. The hedges of approximately 40 per cent of consumption per period are treated as cash-flow hedges in accounting, in accordance with the hedge accounting principles of IAS 39. Changes in the fair value of derivatives defined as cash-flow hedges, in accordance with IAS 39, are posted directly in the fair value reserve in equity. The change in fair value recognised in the hedging reserve in equity is reversed into the income statement at the same time as the hedged transaction is realised. Changes in the fair value of hedges excluded from hedge accounting – which do not fulfil the hedge accounting criteria of IAS 39 – are recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls over the tenor time of the derivative.

At the end of the financial year, Finnair had hedged 76 per cent of its fuel purchases for the first six months of 2017 and 61 per cent of the purchases for the second half of the year. In the financial year 2016, fuel used in flight operations accounted for approximately one fifth compared to the Group's revenue. At the end of the financial year, the forecast for 2017 is approximately one fifth compared to the Group's revenue. On the closing date, a 10 per cent rise in the market price of jet fuel – excluding hedging activity – increases annual fuel costs by an estimated 50 million euro. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers comparable operating result by around 23 million euro. The situation as of 31 December 2016 is a good illustration of conditions throughout the year given the current market environment.

Foreign exchange risk

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

Finnair Group's foreign exchange risk mainly arises from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. Somewhat less than 60 per cent of the Group's revenue is denominated in euros. The most important foreign revenue currencies are Japanese yen (9 per cent, percentage of revenue), Chinese yuan (7 per cent), Swedish krona (5 per cent) and US dollar (4 per cent). Approximately half of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for almost 40 per cent of all operating costs. Significant dollar-denominated expenses are fuel costs and aircraft lease payments. The largest investments – aircraft and their spare parts – are also mainly made in US dollars.

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

The cash flow exposure mainly consists of revenue streams denominated in a number of different currencies and dollar-denominated expenses. The purpose of currency risk hedging – for cash flow exposure – is to reduce the volatility of cash flows and comparable operating result due to fluctuating currency prices. This is done using a layered hedging strategy for the two biggest sources of currency risk and utilising diversification benefits of the portfolio of various currencies. The hedging limits are set only for the main contributors to currency risk: the Japanese yen and the US dollar basket consisting of the US dollar, the Chinese yuan and the Hong Kong dollar. For both of these, the hedging horizon is two years, which is divided into four six-month periods. In order to achieve time diversification, the minimum hedge ratio for the closest six-month period is 60 per cent with a decreasing slope ending at zero per cent for the fourth six-month period. Even though the policy does not require hedging of smaller currency flows, it is allowed, in which case the layered hedging strategy is partially applied, although no minimum hedging ratio is specified. Since hedges of cash flows denominated in foreign currencies do not qualify for hedge accounting, the fair value changes are recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls.

The investment position includes foreign currency denominated aircraft investments for which a binding purchase agreement has been signed as well as commitments for sale and leaseback transactions in the next four years. According to its risk management policy, Finnair Group hedges 50-100% of its aircraft investment exposure. New hedges of investments in aircraft are made as an IAS 39 fair value hedge of a firm commitment.

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

At the end of the financial year, Finnair had a hedge ratio for net forecasted operating cash flows of 72 per cent in the USD-basket and 69 per cent in JPY for the coming 12 months, and hedge ratios of 31 per cent and 25 per cent for 2018, respectively. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 24-month result of around 156 million euro and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on the 24-month result of around 31 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 79 million euro and a 10 per cent weakening of the Japanese yen weakens the result by around 25 million euro. In the above numbers, the USD-basket risk also includes the Chinese yuan and the Hong Kong dollar, whose historical correlation with the dollar is high. The situation as of 31 December 2016 is a good illustration of conditions throughout the year given the current market environment.

Foreign exchange P&L exposure

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

	JPY	USD
Net balance sheet items	-80.9	-359.4
Net hedges of balance sheet items	83.9	193.4
Foreign exchange exposure from balance sheet items after hedging	**3.0**	**-166.0**

Foreign exchange investment exposure

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

Foreign exchange P&L exposure

EUR mill.	JPY	USD-basket
31 December 2015		
Net forecasted operating cash flows, next 24M	369.6	-1,469.7
Net operating cash flow hedges, next 24M	-171.3	653.0
Foreign exchange exposure from operating cash flows after hedging, next 24M	**198.3**	**-816.6**

	JPY	USD
Net balance sheet items	4.0	-57.7
Net hedges of balance sheet items	0.0	11.5
Foreign exchange exposure from balance sheet items after hedging	**4.0**	**-46.2**

Foreign exchange investment exposure

EUR mill.	USD
31 December 2015	
Net investment position	-644.8
Net hedges of investment position	635.3
Foreign exchange exposure from investment position after hedging	**-9.5**

Interest rate risk

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

In Finnair Group, the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the risk management policy, the mandate for the investment portfolio's interest rate re-fixing period is 0-12 months and for interest-bearing liabilities 0-24 months. On the closing date, the investment portfolio's interest rate re-fixing period was approximately 2 months and approximately 7 months for interest-bearing liabilities. On the closing date, a one percentage point rise in interest rates increases the annual interest income of the investment portfolio by approximately 8.3 million euros and the interest expenses of the loan portfolio by approximately 6.9 million euros. The situation as of December 31 2016 is a good illustration of conditions throughout the year given the current market environment.

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

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

Credit risk

The Group is exposed to counterparty risk when investing its cash reserves and when using derivative instruments. The credit risk is managed by only making contracts with financially sound domestic and foreign banks, financial institutions and brokers, within the framework of risk management policy for counterparty risk limits. Liquid assets are also invested in money market funds, bonds and commercial papers issued by conservatively selected companies, according to company-specific limits. This way, risk exposure to any single counterparty is not significant. Change in the fair value of Group loans rise from changes in FX and interest rates, not from credit risk. The Group's credit risk exposure arises from other current financial assets presented in note 3.2.1, cash and cash equivalents presented in note 3.2.2, trade receivables presented in Note 1.2.4 and derivatives presented in note 3.8.

Liquidity risk

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

The Group's liquid assets were 797.3 million euro at the end of financial year 2016. Finnair Plc has a domestic commercial paper program of 200 million euro, which was not in use on the closing date. In addition, Finnair has an unused 175 million euro committed revolving credit facility. The credit facility includes a finance covenant based on adjusted gearing. The covenant level of adjusted gearing is 175 per cent, while at the closing date the figure was 78.3 per cent. The maximum level set by the Board of Directors is 175 per cent.

Capital management

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

The development of the Group's capital structure is continuously monitored using the adjusted gearing. When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders' equity. The Group's adjusted gearing at the end of 2016 was 78.3 per cent (45.8).

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the fair value reserve would have been 33.9 million euro (21.2) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 33.9 million euro (21.2). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 47.9 million euro (50.3) and a 10 per cent stronger dollar would have had a positive impact of 47.9 million euro (50.3). Electricity price hedging was effective at the end of the year 2016, however the effect of a change in electricity price would be immaterial (0.0). The effect of change in interests to the fair value reserve in own equity is not essential. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets).

3.6 Classification of financial assets and liabilities

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

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

Derivatives are valued at fair value, with further details in the fair value hierarchy. Financial assets valued at fair value are money market funds (fair value hierarchy level 1) and bonds, or commercial papers (fair value hierarchy level 2). Loans and receivables are mainly current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portion of loans valued at amortised cost is 100 million euro, and the book value is equivalent to the fair value, because the discount effect is not significant. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

EUR mill.	Hedge accounting items	Financial assets at fair value through profit and loss	Available for sale financial assets	Loans and receivables	Valued at amortised cost	Book value
31 Dec 2015						
Financial assets						
Receivables			0.4	8.3		8.7
Other financial assets		418.3		9.4		427.7
Trade receivables and other receivables				208.5		208.5
Derivatives	134.2	21.5				155.7
Cash and cash equivalents				280.5		280.5
Fair value total	**134.2**	**439.8**	**0.4**	**506.7**		**1,081.1**
Book value total	**134.2**	**439.8**	**0.4**	**506.7**		**1,081.1**
Financial liabilities						
Interest bearing liabilities					240.5	240.5
Finance lease liabilities					105.7	105.7
Derivatives	143.4	37.2				180.6
Trade payables and other liabilities				15.8	682.0	697.8
Fair value total	**143.4**	**37.2**		**15.8**	**1,028.3**	**1,224.6**
Book value total	**143.4**	**37.2**		**15.8**	**1,028.3**	**1,224.7**

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

Fair values at the end of the reporting period

EUR mill.	31 Dec 2016	Level 1	Level 2
Assets			
Financial assets at fair value through profit and loss			
Securities held for trading	727.9	466.6	261.2
Derivatives held for trading			
Interest rate swaps	19.8		19.8
- of which in fair value hedge accounting	3.7		3.7
Currency derivatives	114.0		114.0
- of which in fair value hedge accounting	74.6		74.6
- of which in cash flow hedge accounting	26.2		26.2
Commodity derivatives	41.0		41.0
- of which in cash flow hedge accounting	26.9		26.9
Equity derivatives	1.8		1.8
- of which in fair value hedge accounting	1.8		1.8
Total	**904.4**	**466.6**	**437.8**
Liabilities			
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	12.4		12.4
- of which in cash flow hedge accounting	0.1		0.1
Commodity derivatives	12.6		12.6
- of which in cash flow hedge accounting	8.0		8.0
Equity derivatives	0.2		0.2
- of which in fair value hedge accounting	0.2		0.2
Total	**25.2**		**25.2**

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

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

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

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 particular item. The significance of the input data has been assessed in its entirety in relation to the particular item valued at fair value.

3.7 Offsetting financial assets and liabilities

EUR mill.	2016	2015
Derivative assets gross amounts	176.6	155.8
Gross amounts of recognised financial liabilities set off in the balance sheet	0.0	0.0
Net amounts of financial assets presented in the balance sheet	**176.6**	**155.8**
Enforceable master netting agreement	-95.5	-61.6
Derivative assets net amount	**81.1**	**94.2**
Derivative liabilities gross amounts	-25.2	180.7
Gross amounts of recognised financial assets set off in the balance sheet	0.0	0.0
Net amounts of financial liabilities presented in the balance sheet	**-25.2**	**180.7**
Enforceable master netting agreement	95.5	-61.6
Derivative liabilites net amount	**70.3**	**119.1**

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

3.8 Derivatives

A Derivative contracts and hedge accounting

According to its risk management policy, Finnair Group uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Group's balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finnair Group uses electricity derivative contracts in the hedging of electricity price risk. The electricity price risk hedges are recognised as cash flow hedges. Changes in the fair value of the derivatives, defined as cash-flow hedges in accordance with IFRS, are recognised in the fair value reserve of other comprehensive income. The recognised change in fair value is reversed into the income statement in the same period as the hedged transaction. Changes in the fair value of hedges excluded from hedge accounting (which do not fulfil the IFRS hedge accounting criteria) are recognised in the fair value changes in derivatives over the tenor time of the derivative, and realised gain or loss is presented in Other expenses at maturity.

The change in the fair value of hedges of operating cash flows not qualifying for hedge accounting is recognised in Fair value changes in derivatives and changes in exchange rates of fleet overhauls in the income statement. Realised profit or loss on derivatives hedging JPY, CNY and SEK-denominated operating cash flows is presented in revenue, while profit or loss on derivatives hedging cash flows denominated in other currencies is presented in Other expenses. Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in the income statement's financial income and expenses.

Changes in the fair value as well as realised gain or loss on forward contracts used to hedge foreign currency denominated balance sheet items of Finnair Group are recognised in financial expenses. Changes in the fair value and realised result of hedges of assets held for sale are recognised in Items affecting comparability. A

A = Accounting principles

	2016				2015			
EUR mill.	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Jet fuel currency hedging	307.3	16.6	-0.1	16.5	331.6	23.8	-0.7	23.1
Fair value hedging of aircraft acquisitions	377.1	74.6	0.0	74.6	782.4	81.3	-0.4	81.0
Hedging of lease payments	172.4	9.7	-0.1	9.6	171.2	18.2	-0.1	18.1
Hedge accounting items total	**856.8**	**100.8**	**-0.1**	**100.7**	**1,285.3**	**123.4**	**-1.2**	**122.2**
Operational cash-flow hedging (forward contracts)	157.4	5.3	-2.1	3.3	307.5	16.8	-2.0	14.8
Operational cash-flow hedging, bought options	173.2	5.9	0.0	5.9	180.4	3.7	0.0	3.7
Operational cash-flow hedging, sold options	245.4	0.0	-2.4	-2.4	318.5	0.0	-4.1	-4.1
Hedging of assets held for sale	123.7	0.0	-7.3	-7.3	0.0	0.0	0.0	0.0
Balance sheet hedging (forward contracts)	118.3	1.9	-0.4	1.5	11.5	0.4	0.0	0.4
Items outside hedge accounting total	**818.0**	**13.1**	**-12.2**	**0.9**	**817.8**	**20.9**	**-6.1**	**14.7**
Currency derivatives total	**1,674.8**	**114.0**	**-12.4**	**101.6**	**2,103.1**	**144.2**	**-7.3**	**136.9**
Commodity derivatives								
Jet fuel forward contracts, tonnes	650,000	26.9	-8.0	18.9	559,000	0.0	-140.7	-140.7
Electricity derivatives, MWh	13,140	0.0	0.0	0.0	13,140	0.0	0.0	0.0
Hedge accounting items total		**26.9**	**-8.0**	**18.9**		**0.0**	**-140.8**	**-140.8**
Jet fuel forward contracts, tonnes	24,000	0.7	-0.2	0.6	26,000	0.0	-4.2	-4.2
Bought options, jet fuel, tonnes	236,000	13.3	0.0	13.3	178,000	0.6	0.0	0.6
Sold options, jet fuel, tonnes	472,000	0.0	-4.4	-4.4	329,000	0.0	-26.2	-26.2
Electricity derivatives, MWh	0	0.0	0.0	0.0	26,352	0.0	-0.3	-0.3
Items outside hedge accounting total		**14.0**	**-4.6**	**9.4**		**0.6**	**-30.8**	**-30.2**
Commodity derivatives total		**41.0**	**-12.6**	**28.4**		**0.6**	**-171.6**	**-170.9**
Interest rate derivatives								
Interest rate swaps	150.0	3.7	0.0	3.6	150.0	5.2	-0.1	5.2
Hedge accounting items total	**150.0**	**3.7**	**0.0**	**3.6**	**150.0**	**5.2**	**-0.1**	**5.2**
Cross currency interest rate swaps	291.8	16.1	0.0	16.1	7.1	0.0	-0.2	-0.2
Items outside hedge accounting total	**291.8**	**16.1**	**0.0**	**16.1**	**7.1**	**0.0**	**-0.2**	**-0.2**
Interest rate derivatives total	**441.8**	**19.8**	**0.0**	**19.8**	**157.1**	**5.2**	**-0.3**	**5.0**
Equity derivatives								
Bought options, millions	3.0	1.8	0.0	1.8	3.0	5.6	0.0	5.6
Sold options, millions	3.0	0.0	-0.2	-0.2	3.0	0.0	-1.4	-1.4
Hedge accounting items total	**6.0**	**1.8**	**-0.2**	**1.6**	**6.0**	**5.6**	**-1.4**	**4.1**
Equity derivatives total	**6.0**	**1.8**	**-0.2**	**1.6**	**6.0**	**5.6**	**-1.4**	**4.1**
Derivatives total *		**176.6**	**-25.2**	**151.4**		**155.7**	**-180.6**	**-24.9**

* The positive/negative fair value of derivatives 31 December 2016 are shown as balance sheet receivables and liabilities.

Ratings of derivative counterparties

EUR mill.	2016	2015
Better than A	105.3	31.9
A	42.0	-47.3
BBB	4.1	-9.5
Total	**151.4**	**-24.9**

Realised derivatives

EUR mill.		2016	2015
Jet fuel hedging	Fuel costs	-90.4	-77.6
Hedging of lease payments	Lease payments for aircraft	14.7	15.7
Electricity derivatives	Other expenses	-0.2	0.0
Interest rate swaps	Financial expenses	2.1	1.6
Expenses of hedge accounting items total		**-73.8**	**-60.3**
Jet fuel hedging	Fuel costs	-24.8	-59.4
Operational cash flow hedging	Other expenses	14.0	33.4
Operational cash flow hedging	Revenue	-12.3	0.0
Electricity derivatives	Other expenses	0.0	-0.7
Hedging of aircraft sales transactions	Items affecting comparability	-2.0	0.0
Balance sheet hedging	Financial expenses	0.5	2.1
Cross-currency interest rate swaps	Financial expenses	1.9	-0.2
Expenses of items outside hedge accounting total		**-22.8**	**-24.8**
Total		**-96.5**	**-85.0**

3.9 Equity-related information

A Shareholders' equity

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

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

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

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

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

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

A = Accounting principles

Number of shares	2016	2015
Number of outstanding shares in the beginning of the financial year	127,810,910	127,824,023
Purchase of own shares	-800,000	
Shares granted from the LTI share plan 2013-2015	55,105	
Shares returned from the share-bonus scheme 2010-2012		-14,893
Shares granted from FlyShare employee share savings plans	281,136	1,780
Number of outstanding shares at the end of the financial year	**127,347,151**	**127,810,910**
Own shares held by the parent company	788,964	325,205
Total number of shares at the end of the financial year	**128,136,115**	**128,136,115**

Finnair Plc's share capital, paid in its entirety and registered in the trade register, was 75,442,904.30 euros at the end of 2015 and 2016. The shares have no nominal value. During the year 2016, Finnair transferred a total of 281,136 shares to FlyShare participants and a total of 55,105 shares to participants in Finnair's share-based incentive scheme 2013–2015.

The Group's hedging reserve and other OCI items

EUR mill.	2016	2015
Jet fuel price hedging	18.9	-140.7
Jet fuel currency hedging	16.5	23.1
Hedging of lease payments	9.6	18.1
Hedging of interest related to future lease payments	-7.7	-8.4
The actuarial gains and losses of defined benefit plan	4.1	22.2
Translation differences	0.7	0.7
Tax effect	-8.3	17.2
Total	**33.8**	**-67.9**

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2017	2018	2019	2020	2021	Later	Total
Jet fuel price hedging	7.4	11.4	0.1				18.9
Jet fuel currency hedging	10.7	5.8					16.5
Hedging of lease payments	7.9	1.7					9.6
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-4.4	-7.7
The actuarial gains and losses of defined benefit plan	4.1						4.1
Translation differences						0.7	0.7
Tax effect	-5.9	-3.6	0.1	0.1	0.1	0.9	-8.3
Total	**23.6**	**14.6**	**-0.5**	**-0.5**	**-0.5**	**-2.8**	**33.8**

Hybrid bond

Shareholders' equity (after equity belonging to the owners) includes a 200 million euro hybrid bond issued in 2015. The hybrid bond coupon is fixed at 7.875 per cent per year for the first five years, and thereafter floating, at least 12.875 per cent per year. Finnair can postpone interest payment if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it in five years and on every interest payment date thereafter. The overall hybrid bond net position recognised in equity is 198.2 million euro, due to issuing expenses. The hybrid bonds are unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights. During the year 2016, Finnair redeemed the remaining 38.3 million euro of the 120 million euro hybrid bond issued in 2012.

Earnings per share

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

EUR mill.	2016	2015
Result for the financial year, EUR mill.	85.1	89.4
Hybrid bond interest, EUR mill.	-18.8	-12.5
Premium paid related to redemption of the hybrid bond issued in 2012		-5.5
Transaction costs of the hybrid bond issued in 2015		-2.3
Tax effect	3.8	4.0
Adjusted result for the financial year	**70.1**	**73.2**
Weighted average number of shares, mill. Pcs	127.3	127.8
Basic and diluted earnings per share, EUR	**0.55**	**0.57**
Effect of own shares	0.0	0.0

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.10 euros per share be distributed for 2016. The annual general meeting on 17 March 2016 decided that no dividend was paid for 2015.

Finnair Plc's distributable equity

EUR mill.	31 Dec 2016
Retained earnings at the end of financial year	20.5
Unrestricted equity funds	252.2
Result for the financial year	109.2
Distributable equity total	**381.8**

4 Consolidation

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

4.1 General consolidation principles

Consolidation

Consolidation, consolidation method and classification of ownership interests depends on whether group has power to control or jointly control the entity or have significant influence or other interests in the entity. When group has power to control the entity, it is consolidated as subsidiary in the group according to principles described in the note 4.2 Subsidiaries. When group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using equity method according to principles set in note 4.4 Investments in associates and joint ventures. If group does not have power to control nor significant influence in the entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 3.2 Financial assets.

Translation of foreign currency items

Items included in each subsidiary's financial statements are measured in the currency that is the main currency of operating environment of each subsidiary ("functional currency"). The consolidated financial statements have been presented in euro, which is the parent company's functional and presentation currency. Transactions denominated in foreign currencies in group companies are translated into functional currency by using the exchange rate at the date of the transaction. Receivables and liabilities that are denominated in foreign currencies and are outstanding on the closing date are translated using the exchange rate of the closing date. Exchange rate differences are recognised in the income statement. The income statements of foreign subsidiaries whose functional currency is not euro are translated into euro by using average rate for the financial year. Balance sheets are translated by using the closing rate for the financial period. Translation differences arising from the elimination of acquisition costs of foreign subsidiaries are recognised in other comprehensive income. When foreign subsidiary is sold, the differences are recognised as part of the sales gain or loss.

4.2 Subsidiaries

A Consolidation principles of subsidiaries

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

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

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

Non-controlling interest and transactions with non-controlling interest

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

Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
Finnair Cargo Oy, Finland	100.0	A/S Aero Airlines, Estonia	100.0
Finnair Aircraft Finance Oy, Finland	100.0	Balticport Oü, Estonia	100.0
Finnair ATR Finance Oy, Finland	100.0	LSG Sky Chefs Finland Oy, Finland *	100.0
Finnair Technical Services Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Engine Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.0
Finnair Travel Retail Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Finnair Flight Academy Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Kiinteistö Oy Lentokonehuolto, Finland	100.0	OOO Aurinko, Russia	100.0
Northport Oy, Finland	100.0	FTS Financial Services Oy, Finland	100.0
Kiinteistö Oy LEKO 8, Finland	100.0	Back Office Services Estonia Oü, Estonia	100.0
Kiinteistö Oy Air Cargo Center 1, Finland	100.0		

* LSG Sky Chefs Finland Oy is Finnair's 100-percent owned subsidiary but fully under LSG Group's control. LSG had a call option to purchase the shares, but in November 2016 LSG Group decided that it will not exercise its purchase option of LSG Sky Chefs Finland Oy. As a result, Finnair and LSG started negotiations about new forms of cooperation. In case control of LSG Sky Chefs Finland Oy would change to Finnair based on-going negotiations, the company would be consolidated to Finnair Group from change on control date onwards. Potential change of control requires approval from competition authorities. See also note 4.3 Acquisitions and disposals.

4.3 Acquisitions and disposals

At the first half of 2016 the Group acquired ATR maintenance business from Nordic Regional Airlines Oy and divested its ownership in associated company Amadeus Eesti AS. During the latter part of the financial year Finnair sold its subsidiary SMT Oy to American Express Global Business Travel (GBT). In addition, Finnair and the LSG Group started negotiations about new forms of cooperation as the LSG Group does not exercise its purchase option of LSG Sky Chefs Finland Oy and the partnership agreed in 2012 in its current form will stop in 2017. Finnair owns all shares in LSG Sky Chefs Finland Oy, however, in accordance with co-operation agreement agreed in 2012 Finnair does not have control for the operative activities of the company. The LSG Group, now in control of the operative activities, had an option to purchase all shares of LSG Sky Chefs Finland until the end-October 2016. The LSG Group decided that they will not exercise its purchase option of LSG Sky Chefs Finland Oy. In case control of LSG Sky Chefs Finland Oy would change to Finnair based on-going negotiations, the company would be consolidated to Finnair Group from change on control date onwards. Potential change of control requires approval from competition authorities. The transactions in 2016 did not have material effect to Finnair's financial statements.

In the beginning of the financial year 2015 the joint venture of Finnair and Flybe Group plc (Flybe UK) was transferred temporarily to Finnair's ownership as Finnair acquired Flybe UK's 60% share of Flybe Nordic with one euro on an interim basis. Later on Flybe Nordic was renamed as Nordic Regional Airlines (Norra). Norra was classified as assets held for sale until Finnair further sold the 60 % share to StaffPoint Oy and Kilco Oy. Due to the sale Norra became a joint venture of Finnair and the new owners. More information on Norra can be found in the note 4.4 Associated companies and joint ventures. In addition, at the end of 2015 Finnair sold its ownership in Estonian subsidiary Estravel AS, including Estravel's Lithuanian subsidiary Estravel Vilnius UAB. The transactions did not have signigicant effect to Finnair's financial statements.

i = Content of the section
A = Accounting principles

4.4 Investments in associates and joint ventures

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

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

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

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

EUR mill.	2016	2015
At the beginning of the financial year	2.6	4.9
Share of results	0,0	0.1
Disposals	-0.2	-2.2
At the end of the financial year	**2.5**	**2.6**

The disposals in 2016 include associated company Amadeus Estonia.

More information on transactions with associated companies and joint ventures can be found in the note 4.5 Related party transactions.

Information on the Group's associates and joint ventures 2016

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB*	Sweden	34.4	33.7	107.9	-0.1	40.00
Suomen Ilmailuopisto Oy*	Finland	19.3	1.7	8.8	0.2	49.50
Total		**53.7**	**35.4**	**116.7**	**0.1**	

*The presented figures are preliminary and unaudited.

Information on the Group's associates and joint ventures 2015

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Amadeus Estonia	Estonia	0.8	0.3	1.1	0.3	33.25
Nordic Global Airlines Oy*	Finland	1.8	5.8	12.1	-4.2	40.00
Nordic Regional Airlines AB**	Sweden	40.5	39.7	100.7	35.8	40.00
Suomen Ilmailuopisto Oy	Finland	18.7	1.3	1.4	0.8	49.50
Total		**61.8**	**47.1**	**115.2**	**32.8**	

*Nordic Global Airlines Oy business operations were discontinued in 2015 and the company was liquidated during 2016.

** Based on financial statement of Nordic Regional Airlines AB (Norra) as of 31 Dec 2015. The Group was formerly known as Flybe Nordic. Norra's results include profit from nine months period since Norra changed the end date of the financial year from 31 of March to 31 of December during 2015.

All the associated companies and joint ventures owned by Finnair are unlisted companies, and none of them are considered as material compared to Finnair's operations. Finnair's share of associated companies and joint ventures continuous results for 2016 was 0.1 (0.0) million euro, of which Finnair's share was 0.0 (0.0) million euro.

Nordic Regional Airlines (Norra, formerly known as Flybe Nordic)

Flybe Regional Airlines AB (Norra), formerly known as Flybe Nordic AB, is a regional airline company operating in the Nordic countries and in Baltics. Norra has during 2016 operated mainly purchase traffic for Finnair. Since the end of 2015, Norra is a joint venture of Finnair, StaffPoint Oy and Kilco Oy where owners have a joint control over the entity. Originally Norra was a joint venture of Finnair and Flybe UK, but as Flybe UK decided to sell it's 60% share of ownership in the beginning of 2015, the company was transferred temporarily to Finnair's ownership and treated as assets held for sale, until further sold to new partners at the end of 2015. The ownership transactions did not have any financial effects to Finnair.

As part of the restructuring of Norra's operations, at the end of 2015 Finnair transferred the operational receivables of 11.3 million euros, and loan and interest receivables transferred from Flybe UK of 19.4 million euros, to Norra to strengthen the equity and financial position of Norra Group. Since the receivables had already been written down in previous periods, the transactions did not have an effect in Finnair Group's results nor financial position in 2015, but had a positive effect in Norra Group's profits in 2015. Finnair has accounted for Norra Group's net assets according to its accounting principles and no share of profits from Norra has been recognised for 2015 nor 2016.

Other associated companies

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

Amadeus Finland's associated company Amadeus Estonia was sold to Amadeus IT Group S.A. in 2016. The sale did not have any material effects to Finnair results. Nordic Global Airlines Oy was a freight airline co-owned by Finnair Cargo Oy, Ilmarinen and Neff Capital Management which business was closed during 2015 as unprofitable. The company was liquidated during 2016, and the liquidation did not cause any material financial effects to Finnair financial statement.

4.5 Related party transactions

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

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

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

EUR mill.	2016	2015
Sales of goods and services		
Associates	0.0	0.2
Joint ventures	42.9	49.3
Pension fund	0.1	0.0
Purchases of goods and services		
Associates		2.5
Joint ventures	106.8	126.7
Pension fund	3.2	4.5
Receivables		
Short-term receivables from associates		0.5
Short-term receivables joint ventures	9.3	12.1
Liabilities		
Non-current liabilities to pension fund	29.7	2.6
Current liabilities to associates		0.9
Current liabilities to joint ventures	0.2	0.1

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

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

Finnair pension fund

The Finnair pension fund in Finland is a stand-alone legal entity which mainly provides additional pension coverage to Finnair's personnel in the form of defined benefit plan, and manages related pension assets. The assets include Finnair's shares representing 0.1% (0.1%) of the company's outstanding shares. Real estate and premises owned by the pension fund have been mainly leased to Finnair. In 2016 and 2015 Finnair did not pay any contributions to the fund. Pension obligation was 29.7 million euros (2.6) at the end of the financial year.

4.6 Application of new and amended IFRS standards and IFRIC interpretations

The changes in the IFRS standards effective from periods beginning 1st of January 2016 mainly included amendments and improvements to current standards and did not have an effect to Finnair financial statements.

Regarding the changes in the standards effecting future periods, Finnair will early adopt the IFRS 9: Financial Instruments (2014), endorsed by the EU on 22.11.2016, with a date of initial application of 1 January 2017. IFRS 15 Revenue recognition will be, in case endorsed by EU, effective from 2018 onwards. IFRS 16 Leasing will be effective from 2019 onwards. Finnair has described the estimated effects of these new standards below in more detail. Other standards issued and effecting future financial periods are not expected to have any significant impact to Finnair's financial statement.

IFRS 9

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 will align 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 will decrease volatility in Finnair's operating result, because unrealised fair value changes of derivatives are recognised in other comprehensive income instead of operating result when cash flow hedge accounting is applied. Changes related to the classification and impairment of financial instruments will not have any significant effects on Finnair. The key changes impacting Finnair's financial statements are described in more detail below.

Hedge accounting

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. Finnair expects that the hedge ineffectiveness will also be minor for hedge relationships that become eligible for hedge accounting under IFRS 9.

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

Finnair Group will apply IFRS 9 hedge accounting on a prospective basis. Accordingly, there will be no transitional adjustment to the Group results.

Impairment model

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 change results in earlier recognition of credit losses on trade receivables. The credit loss allowance is adjusted at the beginning of 2017 accordingly, but the impact recognised in retained earnings is minor (1.2 MEUR). 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.

Classification

Based on Finnair's analysis, the application of IFRS 9 will 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.

IFRS 15 Revenue Recognition

Finnair will adopt the new standard on revenue recognition in the beginning of 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard will supersede all current revenue recognition requirements under IFRS. The standard allows entities to use either full retrospective or cumulative catch-up method in the transition.

Finnair has been evaluating the effects of the new standard for different revenue streams (products). Finnair has also worked with other airlines through the IATA (International Air Transport Association) Industry Accounting Working Group (IAWG) in co-ordination with the Airlines Revenue Recognition Task Force of the AICPA (American Institute of Certified Public Accountants) to agree harmonised accounting treatment for issues requiring clarity under the new standard.

There are still many open interpretation items within airline industry, which is why Finnair cannot conclude on all the effects, but overall, Finnair estimates that IFRS 15 will not have a significant impact on Finnair financial statements.

According to current understanding, Finnair estimates that IFRS 15 will change the timing of revenue recognition mainly in passenger revenue (ticket sales) and ancillary revenue. The changes in recognition are described below and impact is estimated to be minor.

In passenger revenue, customers usually pay their tickets upfront but do not always exercise their rights and tickets remain unused (breakage). According to IFRS 15, if the airline expects to be entitled to breakage, the airline should recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger. Currently ticket revenue is recognised when the tickets are used or when the rights expire. In practice the recognition of breakage means that revenue is recognised earlier but the impact is estimated to be insignificant.

In ancillary sales, the revenue related to change fees will be recognised later than currently, since it is considered as a contract modification instead of separate revenue transaction. The impact is expected to be minor.

Finnair Plus loyalty program point valuation is not expected to change. Within airline industry the discussions concerning measurement of tier status member points is still on-going. Based on the discussions so far, Finnair does not expect the current measurement to change.

IFRS 16 Leases

New leasing standard published in January 2016 will be effective from 2019 onwards, in case endorsed by EU. The standard will replace the previous standard IAS 17 Leases.

Finnair expects the new standard to have a significant impact to its financial statements. The present value of the future operating lease payments for aircraft and other lease agreements will be recognised as right-of-use -assets and interest-bearing liabilities in the balance sheet. Currently, future lease payments are presented in the notes as operating lease commitments at their nominal value. The currently reported lease commitments at the end of 2016 amounted to 1,359 million euro (see note 2.2 Leasing arrangements for more detail).

The leasing standard will also have a significant impact to Finnair's income statement. In the future, lease cost is divided into depreciation of the right-of-use –asset (operating result) and interest cost for the liability (finance net). The interest cost for the liability is at its highest in the beginning of the lease term and decreases towards the end of the term while the lease liability is amortised. Currently, the leasing expenses are accrued over the lease term mainly on a straight line basis and recognised in the operating result as lease payments for aircraft and other rents, according to the lease contract terms.

The new lease standard has also a significant impact on the key ratios. In addition to impact on operating result and EBITDA, also cash flow from operating activities will increase as the amortisation of lease liabilities are transferred to cash flow from financing activities. Interest-bearing net debt and gearing ratio are expected to significantly increase and equity ratio decrease due to the changed treatment of operating leases. On the other hand, Finnair currently discloses a key ratio called "Adjusted gearing", which takes future operating lease payments into account in the following way: aircraft lease costs for the last twelve months are multiplied by 7 and added to the interest-bearing net debt (see Balance sheet "Additional information to Balance sheet: Interest-bearing net debt and adjusted gearing").

Finnair has been evaluating the effects of the new standard for aircraft and other lease agreements. The most significant impact identified is that the company will recognise new assets and liabilities for its operating leased aircraft. Regarding other facilities, such as real estate, airport and terminals and sales offices, Finnair is currently assessing whether these agreements will meet the definition of a lease in the scope of the new standard, and whether the lease terms exceed the 12 months limit set in the IFRS 16 for lease arrangements accounted according to the standard. Finnair has also worked with other airlines through the IATA (International Air Transport Association) Industry Accounting Working Group (IAWG) to agree harmonised accounting treatment for issues requiring sector specific judgments under the new standard. Major topics still under discussion relate to assessment of lease term, implicit rate in the lease contract, treatment of maintenance obligations of the aircraft lease contracts and whether contracts related to airport hubs and non-hubs, and if so, to which extent, are considered as lease arrangements.

5 Other notes

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

5.1 Income taxes

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

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

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

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

Income taxes

EUR mill.	2016	2015
Taxes for the financial year		
Current tax	-0.5	-0.2
Adjustments recognised for current tax of prior periods	0.1	-0.3
Deferred taxes	-20.2	-23.1
Total	**-20.6**	**-23.6**

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

EUR mill.	2016	2015
Result before taxes	105.8	113.2
Taxes calculated using the Finnish tax rate	-21.2	-22.6
Different tax rates of foreign subsidiaries	0.1	0.2
Tax-exempt income	1.5	0.6
Non-deductible expenses	-1.2	-1.4
Adjustments recognised for taxes of prior periods	0.1	-0.3
Income taxes, total	**-20.6**	**-23.6**
Effective tax rate	19.5%	20.8%

Effective tax rate was 19.5% (20.8%). Current tax relates to tax cost accrued in sold subsidiary (SMT Oy).

Deferred tax assets and liabilities

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

Changes in deferred taxes during 2016:

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

The estimated amount of confirmed tax losses after the 2016 taxable result is approximately 147 million euros. Confirmed tax losses expire earliest within 5–10 years.

Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.3 million euros (0.2).

Changes in deferred taxes during 2015:

EUR mill.	2014	Recognised in the income statement	Recognised in shareholders' equity	2015
Deferred tax assets and liabilities				
Confirmed losses	62.3	-10.7		51.7
Employee benefits	5.1	3.0	-7.5	0.5
Property, plant and equipment	-51.8	-7.4		-59.2
Finance leasing	-2.2	-1.3		-3.4
Other temporary differences	1.6	-3.7		-2.1
Valuation of derivatives at fair value	18.7		2.8	21.6
Total	**33.8**	**-20.0**	**-4.7**	**9.1**
Deferred tax assets that can be used after more than 12 months	0.6			0.5
Deferred tax liabilities that are expected to realise after 12 months or more	-52.8			-60.2

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

5.2 Disputes and litigation

Finnair reports only cases of which the interest is 400,000 euros or more and that are not insured. On 31 December 2016 there were no such disputes pending.

5.3 Events after the closing date

There have not been remarkable events after closing date.

5.4 Restatement of operating income and key ratios

Finnair has revised the calculation of revenue. From the beginning of 2016 onwards revenue from non-core businesses, mainly including aircraft leasing income, are reclassified from revenue to other operating income.

As of 2016, Finnair has adjusted calculation methods of unit revenue (RASK, unit revenue per available seat kilometre), unit cost (CASK, unit cost per available seat kilometre), unit revenue per revenue passenger kilometre (yield) and cargo unit revenue (Cargo traffic unit revenue per revenue cargo tonne kilometre). The previous calculation formulas included internal items which could not be derived straight from the Group's income statement. The purpose of this change is to improve transparency and the usability of these key figures for investors.

Revenue, other operating income, RASK and CASK of comparative periods have been restated to correspond to the changed calculation methods, the restated 2015 key ratios are presented in the tables below. The adjusted formulas for RASK and CASK are described in note Calculation of key ratios.

Consolidated Income Statement

	Restated 2015	Reported 2015
Revenue	**2,254.5**	**2,324.0**
Other operating income	85.2	15.7

Cumulative key figures

	Restated 2015	Reported 2015
Revenue and result		
Comparable operating result, % of revenue	1.1	1.0
Traffic data		
Unit revenue per available seat kilometre, (RASK), cents/ASK	7.08	6.35
Unit cost per available seat kilometre (CASK), cents/ASK	7.01	6.52
CASK excluding fuel, cents/ASK	5.14	4.67
Cargo traffic unit revenue per revenue cargo tonne kilometre, cents/cargo RTK	23.34	21.64
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.90	6.85

Revenue by product

	Restated 2015	Reported 2015
Passenger revenue	1,766.0	1,749.7
Ancillary and retail revenue	103.2	104.6
Cargo	183.7	183.7
Other revenue		79.1
Travel Services segment		206.9
Travel services	177.8	
Travel agencies	23.8	
Total	**2,254.5**	**2,324.0**

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2016	2015
Revenue	6.2	**2,102.8**	**2,025.5**
Other operating income	6.3	88.0	103.6
Operating income		**2,190.8**	**2,129.1**
Materials and services	6.4	1,055.5	1,114.4
Staff expenses	6.5	287.1	268.2
Depreciation and reduction in value	6.6	12.0	11.4
Other operating expenses	6.7	834.3	794.0
Operating expenses total		**2,188.9**	**2,188.0**
Operating profit/loss		**2.0**	**-58.9**
Financial income and expenses	6.8	1.2	-18.1
Profit/loss before appropriations and taxes		**3.2**	**-77.0**
Appropriations	6.9	128.4	128.0
Income taxes	6.10	-22.4	-10.1
Profit/loss for the financial year		**109.2**	**40.9**

Finnair Plc balance sheet

EUR mill.	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	6.11	18.2	12.1
Tangible assets	6.12	56.1	36.0
Investments			
Holdings in group undertakings		448.6	452.6
Participating interests		2.5	2.5
Other shares and similar rights of ownership		0.4	0.4
Loan and other receivables	6.14	223.6	34.1
Total investments	6.13	675.0	489.5
Deferred tax assets	6.15	12.3	65.3
Total non-current assets		**761.6**	**602.9**
Current assets			
Current receivables	6.16	443.1	678.7
Marketable securities	6.17	727.9	427.7
Cash and bank equivalents	6.18	66.5	277.1
Total current assets		**1,237.5**	**1,383.5**
TOTAL ASSETS		**1,999.1**	**1,986.4**
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		252.2	250.4
Legal reserve		147.7	147.7
Hedging reserve		28.3	-94.1
Retained earnings		20.5	-16.1
Profit/loss for the financial year		109.2	40.9
Total equity	**6.19**	**658.0**	**428.9**
Accumulated appropriations	6.20	20.4	20.0
Provisions	6.21	83.5	89.8
Liabilities			
Non-current liabilities	6.22	357.2	396.7
Current liabilities	6.23	880.1	1,051.0
Total liabilities		**1,237.3**	**1,447.7**
EQUITY AND LIABILITIES TOTAL		**1,999.1**	**1,986.4**

Finnair Plc cash flow statement

EUR mill.	2016	2015
Cash flow from operating activities		
Result before appropriations	3.2	-77.0
Depreciation	12.0	11.4
Other non-cash transactions	-37.9	-14.8
Financial income and expenses	-1.2	18.1
Changes in working capital	59.2	76.7
Interest and other financial expenses paid	-27.8	-30.1
Received interest and other financial income	9.9	7.8
Cash flow from operating activities	**17.5**	**-8.0**
Cash flow from investing activities		
Investments in intangible and tangible assets	-38.7	-14.8
Proceeds from sales of tangible assets	3.6	28.4
Change in long-term receivables	67.3	38.6
Investments in subsidiaries	0.0	-17.0
Proceeds from sales of subsidiaries	8.0	0.0
Proceeds from sales of associates and joint ventures	0.0	8.4
Received dividends	17.1	0.0
Cash flow from investing activities	**57.3**	**43.7**
Cash flow from financing activities		
Purchase of own shares	-4.3	0.0
Proceeds from loans	0.0	45.5
Loan repayments and changes	-81.7	-52.1
Proceeds from hybrid bond	0.0	200.0
Hybrid bond repayments	-38.3	-81.7
Received and given group contributions	139.2	136.0
Cash flow from financing activities	**14.8**	**247.6**
Change in cash flows	**89.6**	**283.4**
Change in liquid funds		
Liquid funds, at beginning	704.8	421.5
Change in cash flows	89.6	283.4
Liquid funds, at end	**794.4**	**704.8**

Notes to Finnair Plc financial statements

6.1 Accounting principles

Restatement of operating income

Finnair has revised the calculation of revenue. From the beginning of 2016 onwards revenue from non-core businesses, mainly including aircraft leasing income, are reclassified from revenue to other operating income.

Revenue, other operating income and distribution of revenue by market areas of comparative periods have been restated to correspond to the changed calculation methods. The restated 2015 figures are presented in the tables below in notes 6.2 and 6.3.

Foreign currency items

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

Derivative contracts

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

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

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

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

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

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

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

Financial assets and liabilities

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss (assets held for trading), held-to-maturity investments, loans and other receivables. The classification is made on the basis of the purpose of the acquisition of the financial assets in connection with the original acquisition. All purchases and sales of financial assets are recognised on the trade date. Liabilities are recognised at acquisition cost. Financial assets at fair value through profit and loss as well as assets and liabilities maturing within 12 months are included in current liabilities.

Finnair assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. If there is objective evidence that an impairment loss has arisen for loans and other receivables entered at amortised acquisition cost on the balance sheet or for held-to-maturity investments, the size of the loss is determined as the difference of the book value of the asset item and the present value of expected future cash flows of the said financial asset item discounted at the original effective interest rate. The loss is recognised through profit and loss.

Other financial assets and liabilities are recognised at fair value. Other financial assets include trade receivables, accrued income and prepaid expenses as well as other non-current receivables like loan receivables and other investments as well as the securities for aircraft leases. Other financial liabilities include trade payables, accruals and deferred income.

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

Fixed assets and depreciation

The balance sheet values for fixed assets are based on original acquisition costs less planned depreciation. Land areas are not depreciated. Planned depreciation is based on the expected economic lifetimes:

- IT software: 3-8 years
- Other intangible assets: 3-10 years
- Buildings: over 50 years from time of acquisition to a residual value of 10 % or 3-7 % of the diminishing balances
- Other tangible assets 23 % of the diminishing balances

Research and development costs

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

Leasing

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

Appropriations

The difference between total and planned depreciation as well as the reinvestment provision made in 2015 is shown as accumulated appropriations in the balance sheet and their change during the financial year in the income statement. Appropriations contain also given and received group contributions.

Income taxes

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

Pension schemes

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

Provisions

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

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

6.2 Revenue by business area

EUR mill.	2016	2015
Revenue by division		
	2,102.8	2,025.5
Passenger revenue	1,891.4	1,850.2
Ancillary services	103.2	70.2
Other	108.2	105.1
Distribution of revenue by market areas based on flight routes, % of revenue		
Finland	17%	19%
Europe	40%	39%
Other countries	43%	42%
Total	**100%**	**100%**

Prior period adjustment to revenue and other operating income EUR mill.	Restated 2015	Reported 2015
Revenue	2,025.5	2,066.4
Other operating income	103.6	62.6
Operating income	**2,129.1**	**2,129.1**

Prior period adjustment to revenue by business area EUR mill.	Restated 2015	Reported 2015
Revenue by division		
	2,025.5	**2,066.4**
Passenger revenue	1,850.2	1,837.4
Ancillary services	70.2	39.4
Aircraft lease income	0.0	142.8
Other	105.1	46.8
Distribution of revenue by market areas based on flight routes, % of revenue		
Finland	19%	17%
Europe	39%	40%
Other countries	42%	43%
Total	**100%**	**100%**

6.3 Other operating income

EUR mill.	2016	2015
Aircraft lease income	28.0	28.1
Other rental income	31.9	31.6
Capital gains on sales of tangible assets	0.2	13.3
Other income	27.8	30.6
Total	**88.0**	**103.6**

Prior period adjustment to other operating income EUR mill.	Restated 2015	Reported 2015
Aircraft lease income	28.1	0.0
Other rental income	31.6	31.6
Capital gains on sales of tangible assets	13.3	13.3
Other income	30.6	17.7
Total	**103.6**	**62.6**

6.4 Materials and services

EUR mill.	2016	2015
Materials and services		
Ground handling and catering expenses	203.5	194.7
Fuel costs	491.5	596.8
Aircraft materials and overhaul	231.1	216.0
IT expenses	68.0	54.7
Other items	61.4	52.3
Total	**1,055.5**	**1,114.4**

6.5 Staff costs

EUR mill.	2016	2015
Wages and salaries	227.2	219.7
Pension expenses	42.1	34.5
Other social expenses	17.7	13.9
Total	**287.1**	**268.2**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer	1.3	1.2
Board of Directors	0.4	0.4
Personnel on average	3,569	3,475

6.6 Planned depreciation and amortisation

EUR mill.	2016	2015
On other long-term expenditure	4.5	4.7
On buildings	6.6	5.6
On other equipment	0.9	1.1
Total	**12.0**	**11.4**

6.7 Other operating expenses

EUR mill.	2016	2015
Lease payments for aircraft	249.6	217.3
Other rents for aircraft capacity	123.3	116.3
Office and other rents	34.0	31.0
Traffic charges	262.8	258.8
Sales and marketing expenses	67.1	64.0
Other expenses	97.5	106.6
Total	**834.3**	**794.0**

6.8 Financial income and expenses

EUR mill.	2016	2015
Dividend income		
From group companies	17.1	0.0
Total	**17.1**	**0.0**
Interest income		
From group companies	5.9	7.6
From other companies	0.8	1.1
Total	**6.7**	**8.6**
Gains on disposal of shares	4.1	6.2
Interest expenses		
To group companies	-0.2	-1.3
To other companies	-25.6	-19.3
Total	**-25.9**	**-20.6**
Other financial expenses		
To group companies	-1.6	-9.9
To other companies	-0.3	0.0
Total	**-1.9**	**-9.9**
Exchange gains and losses	1.1	-2.5
Financial income and expenses total	**1.2**	**-18.1**

6.9 Appropriations

EUR mill.	2016	2015
Change in depreciation difference	-0.3	8.9
Change in reinvestment provision	0.0	-20.0
Received group contribution	128.7	139.2
Total	**128.4**	**128.0**

6.10 Income taxes

EUR mill.	2016	2015
Change in deferred taxes	-22.4	-10.1
Total	**-22.4**	**-10.1**

6.11 Intangible assets

EUR mill.	2016	2015
Other long-term expenditure		
Acquisition cost 1 January	37.5	46.5
Additions	11.1	4.2
Disposals	-6.8	-13.2
Acquisition cost 31 December	**41.8**	**37.5**
Accumulated depreciation 1 January	-25.4	-33.9
Disposals	6.3	12.5
Depreciation and reduction in value	-4.5	-4.0
Accumulated depreciation 31 December	**-23.6**	**-25.4**
Book value 31 December	**18.2**	**12.1**

6.12 Tangible assets

Tangible assets 2016

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

Tangible assets 2015

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 Jan 2015	0.7	51.0	8.3	6.5	66.5
Additions	0.0	0.0	1.0	19.1	20.1
Disposals	0.0	-26.5	-2.1	-6.5	-35.1
Acquisition cost 31 Dec 2015	**0.7**	**24.5**	**7.2**	**19.1**	**51.5**
Accumulated depreciation 1 Jan2015	0.0	-20.2	-5.2	0.0	-25.3
Disposals	0.0	11.2	1.9	0.0	13.1
Depreciation for the financial year	0.0	-2.4	-0.9	0.0	-3.3
Accumulated depreciation 31 Dec 2015	**0.0**	**-11.4**	**-4.2**	**0.0**	**-15.5**
Book value 31 Dec 2015	**0.7**	**13.1**	**3.0**	**19.1**	**36.0**
The share of machines and equipment in the book value of tangible assets 31 Dec 2015			4.9%		

6.13 Investments

EUR mill.	2016	2015
Group companies		
Acquisition cost 1 January	452.6	449.1
Additions	0.0	3.5
Disposals	-4.0	0.0
Book value 31 December	**448.6**	**452.6**
Associates and joint ventures		
Acquisition cost 1 January	2.5	4.7
Additions	0.0	-2.2
Book value 31 December	**2.5**	**2.5**
Shares in other companies		
Acquisition cost 1 January	0.4	0.4
Book value 31 December	**0.4**	**0.4**

Associates and joint ventures	Share of parent company %
Suomen Ilmailuopisto Oy, Finland	49.50
Nordic Regional Airlines AB (previously Flybe Nordic), Sweden	40.00

Group companies	Share of parent company %		Share of parent company %
Finnair Cargo Oy, Finland	100.00	Kiinteistö Oy LEKO 8, Finland	100.00
Finnair Aircraft Finance Oy, Finland	100.00	A/S Aero Airlines, Estonia	100.00
Northport Oy, Finland	100.00	Amadeus Finland Oy, Finland	95.00
Finnair Technical Services Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.00
Finnair Engine Services Oy, Finland	100.00	FTS Financial Services Oy, Finland	100.00
Finnair Flight Academy Oy, Finland	100.00	Backoffice Services Estonia Oü, Estonia	100.00
Finnair Travel Retail Oy, Finland	100.00		
LSG Sky Chefs Finland Oy, Finland*	100.00		
Kiinteistö Oy Air Cargo Center 1, Finland	100.00		
Kiinteistö Oy Lentokonehuolto, Finland	100.00		

* LSG Sky Chefs Finland Oy is Finnair's 100-percent owned subsidiary but fully under LSG Group's control. LSG had a call option to purchase the shares, but in November 2016 LSG Group decided that it will not exercise its purchase option of LSG Sky Chefs Finland Oy. As a result, Finnair and LSG started negotiations about new forms of cooperation. In case control of LSG Sky Chefs Finland Oy would change to Finnair based on-going negotiations, the company would be consolidated to Finnair Group from change on control date onwards. Potential change of control requires approval from competition authorities.
SMT Oy was sold on 31 October 2016 to GBT.

6.14 Non-current loan and other receivables

EUR mill.	2016	2015
From group companies	222.1	32.5
From other companies	1.5	1.5
Total	**223.6**	**34.1**

6.15 Deferred tax assets

EUR mill.	2016	2015
Deferred tax assets 1 January	65.3	73.2
From result for the financial year	-22.1	-2.8
From temporary differences	-0.2	-7.3
Taxes from previous periods	-0.1	0.0
From valuation of derivates at fair value	-30.6	2.2
Deferred tax assets 31 December	**12.3**	**65.3**

6.16 Current receivables

EUR mill.	2016	2015
Short-term receivables from group companies		
Trade receivables	26.6	21.0
Received group contribution	128.7	139.2
Accrued income and prepaid expenses	4.4	3.2
Other receivables	25.6	282.4
Total	**185.2**	**445.8**
Short-term receivables from associates and joint ventures		
Trade receivables	8.7	11.2
Total	**8.7**	**11.2**
Short-term receivables from others		
Trade receivables	85.6	101.5
Prepaid expenses	54.3	31.3
Derivative receivables	74.3	55.8
Other receivables	34.9	33.1
Total	**249.1**	**221.7**
Short-term receivables total	**443.1**	**678.7**

6.17 Investments

EUR mill.	2016	2015
Short-term investments at fair value	727.9	427.7

6.18 Cash and bank equivalents

EUR mill.	2016	2015
Funds in group bank accounts and deposits maturing in three months	66.5	277.1

6.19 Equity

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

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Unre-stricted equity funds	Retained earnings	Equity total
Equity 1 Jan 2015	**75.4**	**24.7**	**147.7**	**-85.2**	**250.5**	**-16.1**	**397.1**
Change in fair value of hedging instruments				-9.0			
Result for the financial year						40.9	
Equity 31 Dec 2015	**75.4**	**24.7**	**147.7**	**-94.1**	**250.4**	**24.8**	**428.9**

Distributable equity

EUR mill.	2016	2015
Hedging reserve	0.0	-94.1
Unrestricted equity funds	252.2	250.4
Retained earnings	20.5	-16.1
Profit/loss for the financial year	109.2	40.9
Total	**381.8**	**181.1**

6.20 Accumulated appropriations

EUR mill.	2016	2015
Accumulated depreciation difference 1 January	0.0	8.9
Change in depreciation difference	0.3	-8.9
Accumulated depreciation difference 31 December	**0.3**	**0.0**

EUR mill.	2016	2015
Accumulated reinvestment provision 1 January	20.0	0.0
Change in reinvestment provision	0.0	20.0
Accumulated reinvestment provision 31 December	**20.0**	**20.0**
Accumulated appropriations total	**20.4**	**20.0**

Reinvestment provision is recorded relating to acquisition of new cargo terminal.

6.21 Provisions

EUR mill.	2016	2015
Provisions 1 January	89.8	87.2
Provision for the period	42.6	31.5
Provision used	-50.8	-39.1
Exhange rate differences	2.0	10.1
Provisions 31 December	**83.5**	**89.8**
Of which long-term	62.0	52.6
Of which short-term	21.5	37.2
Total	**83.5**	**89.8**

Long-term aircraft maintenance provisions are expected to be used by 2028.

6.22 Non-current liabilities

EUR mill.	2016	2015
Loans from group companies	1.0	1.0
Bonds	153.6	155.2
Hybrid loan	200.0	238.3
Other liabilities	2.5	2.2
Total	**357.2**	**396.7**
Maturity of interest-bearing liabilities		
1-5 years	150.0	
after 5 years	200.0	
Total	**350.0**	

6.23 Current liabilities

EUR mill.	2016	2015
Current liabilities to group companies		
Trade payables	37.9	32.9
Accruals and deferred income	4.5	13.3
Group bank account liabilities	119.8	178.6
Total	**162.2**	**224.8**
Current liabilities to others		
Loans from financial institutions	0.0	23.8
Advance payments received	0.1	0.1
Trade payables	82.8	70.4
Accruals and deferred income	616.4	714.7
Other liabilities	18.6	17.3
Total	**717.9**	**826.3**
Current liabilities total	**880.1**	**1,051.0**
Accruals and deferred income		
Unflown air transport revenues	348.3	301.7
Jet fuels and traffic charges	67.8	67.2
Holiday payment liability	52.8	51.7
Loyalty program Finnair Plus	33.6	31.9
Derivatives	17.4	180.0
Other items	101.1	95.5
Total	**620.9**	**728.0**

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2016	2015
Guarantees and contingent liabilities		
On behalf of group companies	69.0	227.1
On behalf of other companies	0.0	0.1
Total	**69.0**	**227.2**
Aircraft lease payments		
Within one year	297.7	252.2
After one year and not later than 5 years	1,399.1	1,301.9
Later than 5 years	355.6	330.2
Total	**2,052.4**	**1,884.4**

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

EUR mill.	2016	2015
Other lease payments		
Within one year	27.7	26.6
After one year and not later than 5 years	92.5	82.1
Later than 5 years	168.9	184.0
Total	**289.1**	**292.7**
Pension obligations		
Total obligation of pension fund	331.0	331.7
Non-mandatory benefit covered	-331.0	-331.7
Total	**0.0**	**0.0**

6.25 Derivatives

	2016		2015	
EUR mill.	Nominal value	Fair value	Nominal value	Fair value
Currency derivatives				
Hedge accounting items (forward contracts):				
Jet fuel currency hedging	307.3	16.5	331.6	23.1
Hedge accounting items total	**307.3**	**16.5**	**331.6**	**23.1**
Items outside hedge accounting:				
Operational cash flow hedging (forward contracts)	157.4	3.3	307.5	14.8
Operational cash flow hedging (options)				
Call options	173.2	5.9	180.4	3.7
Put options	245.4	-2.4	318.5	-4.1
Items outside hedge accounting total	**576.0**	**6.7**	**806.3**	**14.3**
Currency derivatives total	**883.3**	**23.2**	**1,137.9**	**37.4**
Commodity derivatives				
Hedge accounting items:				
Jet fuel forward contracts, tonnes	650,000	18.9	559,000	-140.7
Electricity derivatives, MWh	13,140	0.0	13,140	0.0
Hedge accounting items total		**18.9**		**-140.8**
Items outside hedge accounting:				
Jet fuel forward contracts, tonnes	24,000	0.6	26,000	-4.2
Options				
Call options, jet fuel, tonnes	236,000	13.3	178,000	0.6
Put options, jet fuel, tonnes	472,000	-4.4	-329,000	-26.2
Electricity derivatives, MWh	0	0.0	26,352	-0.3
Items outside hedge accounting total		**9.4**		**-30.2**
Commodity derivatives total		**28.4**		**-170.9**
Interest rate derivatives				
Hedge accounting items:				
Interest rate swaps	150.0	3.6	150.0	5.2
Hedge accounting items total	**150.0**	**3.6**	**150.0**	**5.2**
Interest rate derivatives total	**150.0**	**3.6**	**150.0**	**5.2**
Equity derivatives				
Hedge accounting items:				
Stock options				
Call options	3.0	1.8	3.0	5.6
Put options	3.0	-0.2	3.0	-1.4
Hedge accounting items total	**6.0**	**1.6**	**6.0**	**4.1**
Equity derivatives total	**6.0**	**1.6**	**6.0**	**4.1**
Derivatives total		**56.9**		**-124.2**

Fair value changes of derivatives

	2016		2015	
EUR mill.	through profit and loss	through fair value reserve	through profit and loss	through fair value reserve
Currency derivatives	-7.6	-6.6	-19.3	-12.7
Commodity derivatives	39.6	159.7	17.9	1.6
Interest rate derivatives	-1.5	0.0	-0.6	0.0
Equity derivatives	-2.5	0.0	3.5	0.0
Fair value changes of derivatives total	**28.0**	**153.1**	**1.5**	**-11.2**

Changes in fair value reserve

EUR mill.	2016	2015
Currency derivatives	-6.6	-12.7
Commodity derivatives	159.7	1.6
Deferred tax	-30.6	2.2
Changes in fair value reserve total	**122.5**	**-9.0**

Realised derivatives

EUR mill.		2016	2015
Jet fuel hedging	Fuel costs	-90.4	-77.6
Electricity derivatives	Other expenses	-0.2	0.0
Interest-rate swaps	Financial expenses	2.1	1.6
Expenses of hedge accounting items total		**-88.5**	**-76.0**
Jet fuel hedging	Fuel costs	-24.8	-59.4
Operational cash flow hedging	Other expenses	14.0	33.4
Operational cash flow hedging	Revenue	-12.3	0.0
Electricity derivatives	Other expenses	0.0	-0.7
Expenses of items outside hedge accounting total		**-23.1**	**-26.7**
Total		**-111.6**	**-102.7**

6.26 Financial assets and liabilities measured at fair value

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

Milj. euroa	31.12.2016	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	727.9	466.6	261.2
Derivatives held for trading			
Currency and interest rate swaps and options	3.7		3.7
- of which in fair value hedge accounting	3.7		3.7
Currency derivatives	27.8		27.8
- of which in cash flow hedge accounting	16.6		16.6
Commodity derivatives	41.0		41.0
- of which in cash flow hedge accounting	26.9		26.9
Equity derivatives	1.8		1.8
- of which in fair value hedge accounting	1.8		1.8
Total	**802.1**	**466.6**	**335.5**
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	4.6		4.6
- of which in cash flow hedge accounting	0.1		0.1
Commodity derivatives	12.6		12.6
- of which in cash flow hedge accounting	8.0		8.0
Equity derivatives	0.2		0.2
- of which in fair value hedge accounting	0.2		0.2
Total	**17.4**	**0.0**	**17.4**

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.

Calculation of key ratios

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

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

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

EBITDA:
Operating result + depreciation

Shareholders' equity:
Equity attributable to owners of the parent

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

Liquid funds:
Cash and cash equivalents + other financial assets

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

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

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

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

Earnings per share:

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

Equity/share:

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

Dividend/earnings, %:

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

Dividend yield, %:

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

Cash flow from operating activities/share:

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

Price/earnings ratio (P/E):

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

Equity ratio, %:

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

Gearing, %:

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

Adjusted gearing, %:

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

Return on equity (ROE), %:

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

Return on capital employed (ROCE), %:

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

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

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

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

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

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

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

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

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

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

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

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

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

Board of Directors' proposal on the dividend

Finnair Plc's distributable equity on 31 December 2016 amounts to 381,792,655.73 euros, of which the net result for the financial year 2016 is 109,168,603.59 euros. There have been no material changes in the company's financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.10 euros per share be paid based on the balance sheet to be adopted for the financial year, which ended 31 December 2016, and the remaining portion of the result be retained in the equity. Based on the number of outstanding shares as of 14 February 2017 the total amount of dividend proposed to be paid is 12,734,715.10 euros.

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

Helsinki, 14 February 2017
The Board of Directors of Finnair Plc

Klaus Heinemann

Jouko Karvinen

Maija-Liisa Friman

Jussi Itävuori

Gunvor Kronman

Jaana Tuominen

Nigel Turner

Pekka Vauramo
President and CEO of Finnair Plc

AUDITOR'S REPORT (TRANSLATION FROM THE FINNISH ORIGINAL)

To the Annual General Meeting of Finnair Oyj

Report on the audit of the financial statements

Opinion

In our opinion,

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

What we have audited

We have audited the financial statements of Finnair Oyj (Business ID: 0108023-3) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

Basis for opinion

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

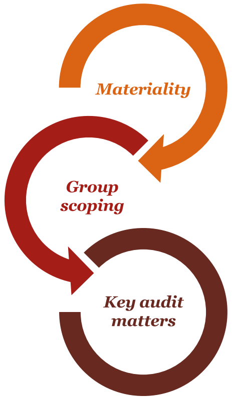
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Finland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



Materiality

- Overall group materiality: € 12 000 000 which represents 0,5 % of Group's revenues

Group scoping

- Audit scope: We have audited parent company and four the most significant subsidiaries. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.

Key audit matters

- Deferred revenue on ticket sales
- Valuation of Finnair Plus Debt
- Aircraft maintenance provision
- Defined employee benefit plans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 12 000 000 € (previous year € 12 000 000)
How we determined it	0,5 % of revenues
Rationale for the materiality benchmark applied	The group's profitability has been volatile over the last few years and has been significantly impacted by items affecting comparability. Therefore, we chose revenues as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans, and which we believe is also the benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark. We chose 0.5 % which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Group operates domestically through several legal entities. In addition, Group has few small legal entities outside Finland. Group's sales is mainly generated by parent company and we have audited the parent company as part of our audit of consolidated financial statements. In addition, we have audited four the most significant subsidiaries. We have considered that the remaining subsidiaries don't present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to targeted audit procedures over significant balances and to analytical procedures performed at Group level.

By performing the procedures above at legal entities, combined with additional procedures at the Group level, we have obtained sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Deferred revenue on ticket sales	
Airline tickets are typically sold in advance when payments received are recognised as deferred revenue. The deferred revenue related to unflown tickets amounted €348,5 million at the end of 2016. Airline ticket sales are recognised as revenue when the flight is flown or when ticket has expired. Revenue recognition related to expired tickets is done manually. This manual adjustment is based on the expiry of the tickets when Finnair has no obligation to return the related payment to customer. Due to magnitude of the balance and related manual adjustment we consider this as a key audit matter in the audit of the Group.	We evaluated the design and tested the operating effectiveness of certain controls over revenue recognition. We have tested a sample of tickets recognised as revenues. We have tested a sample of unused tickets in the deferred revenue. We have performed computer assisted audit procedures to deferred revenue related to unflown tickets.
Valuation of Finnair Plus Debt	
Finnair loyalty customers can earn Finnair Plus Points from tickets or services purchased, and use the earned points to buy services and products offered by Finnair or its partners in cooperation. The points earned are fair valued and recognised as a decrease of revenue and debt at the time when the points-earning event (for example, flight is flown) is recognised as revenue. The debt is derecognised and recognised as revenue when the points are used to buy a service or a good or when the points expire. Valuation and revenue recognition related to Finnair Plus debt requires judgement of management especially related to fair valuation of points and timing of revenue recognition related to points expected to expire. As the customers can decide how to use the earned points the fair value of the point is defined by allocating the point to award selection based on historical behaviour of customers, after which fair value of each award is defined. The liability is calculated by taking the total amount of points earned by customers, less the expected expiring of the points. These points are then fair valued as described above, and the result is recognised as liability in the balance sheet. Finnair Plus debt amounted €33,4 million at the end of 2016. We focused on this area because of an inherent level of management judgement required in fair valuation and timing of revenue recognition relating to expiring points.	We evaluated the Plus debt calculation model and tested the calculations therein. We have tested the inputs for Finnair Plus points included in the calculation. We have tested a sample of point valuations against supporting evidence such as historical usage of Finnair Plus points to purchase Finnair's flights based on the company's valuation policy. We have evaluated the expiration rate of points and the likelihood of points being used in the light of actual utilisation of points in the year.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Aircraft maintenance provision	
The Group operates aircrafts which are owned or held under finance or operating lease arrangements. The Group is obligated to return leased aircraft at the required redelivery condition agreed with the lessor. To fulfil these maintenance obligations the Group has recognised airframe heavy maintenance, engine performance maintenance and engine life limited part provisions which amounted € 81,6 million as of December 31, 2016. Liabilities for maintenance costs are incurred during the term of the lease in respect of aircraft leased under operating leases. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor. At each balance sheet date, the maintenance provision is calculated using a model that incorporates a number of variable factors and assumptions including: likely utilisation of the aircraft; the expected cost of the heavy maintenance check at the time it is expected to occur; and the expected occurrence of the heavy maintenance check. We focused on this area because of an inherent level of management judgement required in calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.	We evaluated the maintenance provision model and tested the calculations therein. This included assessing the process by which the variable factors within the provision were estimated, evaluating the reasonableness of the assumptions, testing the input data and testing mathematical accuracy of the calculations. In particular, we challenged the key assumptions that were based on the Group's internal data, such as expected timing and cost of maintenance checks and maintenance contract terms. We also evaluated the provision and the key assumptions in the light of actual utilisation in the year.
Defined employee benefit plans	
The group has defined employee benefit plans where amount of pension benefit that an employee will receive on retirement is defined and that is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit liability amounted to €31,9 million as of December 31, 2016. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Calculation of the defined benefit obligation requires use of actuarial assumptions such as life expectancy, inflation and future salary increases. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The plan assets are valued at fair value as of December 31, 2016 and valuation involve use of judgment in particular relating to unlisted investments. We considered valuation of the defined benefit obligation and plan assets as a key audit matter in the audit of the Group due to materiality of the related balances and judgments involved in these estimates.	We have used auditors expert to review the actuarial statement prepared by independent actuaries. This has included assessment of the appropriateness of the actuarial assumptions used in calculating the defined benefit obligation. We have tested valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at the year end. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price or prior year audited valuation and publicly available information on similar investments and compared that to the management valuation.
We have no key audit matters to report with respect to our audit of the parent company financial statements.	

Responsibilities of the Board of Directors and the Managing Director for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Other statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors of the parent company should be discharged from liability for the financial period audited by us.

Helsinki February 14th 2017
PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant

TAX FOOTPRINT

Finnair's principle is to pay the indirect and direct taxes it is subject to in each country according to local regulations. The aim of tax planning is to support business decisions and to ensure their appropriate implementation, also from the perspective of taxation. Finnair Group does not have any structures in place in order to transfer taxable income from Finland to jurisdictions with lower tax rates.

Finnair's international business operations are mainly related to the sales of flight tickets and cargo through Finnair Plc's foreign sales units, as well as local sales promotion activities. Sales units are not separate legal entities. The sales units' income is taxed pursuant to the regulations and double tax treaties pertaining to the international airline business as part of the parent company's taxable income in Finland. The operations of Finnair's foreign subsidiaries in 2016 and 2015 have been primarily related to travel and back office services, and they are very minor in scale relative to the Group's business operations as a whole. Finnair has also minor holdings (less than 20%) in some insurance captives located Guernsey islands for business reasons, the results of which are subject to taxation in Finland.

Finnair's taxable operations in individual countries outside of Finland are minor in scale. Hence, the table below present Finland separately and all other countries together. Country level information for subsidiaries is found in the second table on this page. Country level specification for taxes paid and collected outside Finland is found on the next page.

Finnair's operations in Finland and in other countries	2016 Finland*	2016 Other countries	2016 Total	2015 Finland	2015 Other countries*	2015 Total
Revenue, EUR million	2,307.9	8.8	2,316.8	2,239.8	14.7	2,254.5
Result before taxes, EUR million	105.1	0.6	105.8	111.8	1.6	113.3
Number of personnel	4,545	500	5,045	4,276	630	4,906

* Figures include also sold subsidiaries when they were part of Finnair group. Internal turnover has been eliminated.

Finland 2016 figures include also SMT Oy for the time the company was part of the Group. Finnair Group's operative subsidiaries are located in Estonia, where income tax is due in connection with distribution of dividends. The Group has also dormant subsidiaries in Russia. In 2015 Group's revenue outside of Finland includes also revenue of subsidiaries sold (Estravel AS, Estravel Vinius UAB, Latvia Branch). Specification for revenue, result before taxes, income tax payable and number of personnel is presented in the below table.

Finnair's operations in other countries	2016 Estonia	2016 Russia	2015 Estonia*	2015 Lithuania*	2015 Latvia*	2015 Russia
Revenue, EUR million	8.8	0.0	13.2	1.1	0.5	0.0
Result before taxes, EUR million	0.6	0.0	1.6	0.0	0.0	0.0
Income tax payable	0.0	0.0	0.2	0.0	0.0	0.0
Number of personnel	188	0	303	29	15	0

* Figures include also sold subsidiaries when they were part of Finnair group.

Profits of sales units are taxed in accordance with regulations and double tax treaties pertaining to the international airline business and hence, revenue, result before taxes, income tax payable and number of personnel in other countries are not separately adopted in financial statements. Specification of taxes paid and collected in other countries is presented overleaf.

Direct taxes payable, EUR million	2016 Finland*	2016 Other countries	2016 Total	2015 Finland*	2015 Other countries**	2015 Total
Employer contributions	5.7	1.8	7.5	5.9	3.0	8.9
Property taxes	0.6	0.0	0.6	0.5	0.0	0.5
Other taxes	1.7	0.0	1.7	1.6	0.0	1.6
Public subsidies received	-2.1	0.0	-2.1	-1.6	0.0	-1.6
Taxes included in direct operating expenses and subsidies in total	**5.9**	**1.8**	**7.7**	**6.4**	**3.0**	**9.4**
Income taxes payable*	22.6	0.0	22.6	10.1	0.2	10.3
Total direct taxes payable	**28.4**	**1.8**	**30.3**	**16.5**	**3.2**	**19.7**

* Income taxes payable are tax expenses recorded based on the taxable result, which has been utilised against confirmed tax losses. Figures include also taxes of SMT Oy during the time the company was part of Finnair group
** Figures relating to other countries include also taxes paid by sold foreign subsidiaries when they were part of Finnair group.

Other taxes primarily include environmental and electricity taxes. Due to the nature of the international airline business, jet fuel is tax-free. Public subsidies consist of subsidies received for training and they are primarily related to the aviation training services provided by Finnair. The reported public subsidies do not include subsidies paid to the airline business by the authorities in various countries, as they are considered business secrets. No such subsidies have been received from Finnish authorities.

Finnair has confirmed losses in taxation from previous tax periods amounting to approximately 259 million euros. The estimated amount of confirmed tax losses after 2016 taxable result is approximately 147 million euros. The confirmed tax losses can be utilised against positive taxable income over the next five to ten years. Income tax (cash tax) becomes due for payment only when previous losses have been utilised in full.

More detailed specification of employer contributions paid in other countries is found on the next page.

More information on direct taxes, such as the taxes pursuant to the consolidated income statement, deferred tax assets and liabilities, and the adjustment of the effective tax rate, is presented in Note 5.1 in Finnair's consolidated financial statements.

Indirect taxes collected for the financial year, EUR million	Finland*	Other countries	Total	Finland	Other countries*	Total
Value added taxes, sales	77.0	0.8	77.8	83.4	1.9	85.3
Value added taxes, purchases	103.6	4.9	108.5	99.5	5.6	105.1
Value added taxes, net	**-26.6**	**-4.1**	**-30.7**	**-16.1**	**-3.7**	**-19.8**
Withholding taxes on wages and salaries and other indirect taxes	87.0	2.8	89.7	84.4	3.1	87.5
Excise taxes	0.4	0.0	0.4	0.3	0.0	0.4
Total	**60.7**	**-1.2**	**59.5**	**68.6**	**-0.5**	**68.1**

* Figures include also sold subsidiaries when they were part of Finnair group.

The most significant indirect taxes collected during the financial year are withholding tax liabilities, value added tax and excise taxes. Finnair was subject to tax audit in 2016 which resulted in Finnish withholding tax payable relating to Finnair own foreign crew. Reassessed taxes have been paid. The amount is included in withholding taxes on wages and salaries in 2016.

The passenger tariffs collected from flight passengers are not considered as tax-like payments remitted to the authorities subject to reporting as part of the tax footprint, as these payments are usually remitted to the private or public party responsible for airport operations. More detailed specification of taxes collected in other countries is found overleaf.

Country specific information for 2016 is presented below only regarding countries where the amount of taxes paid, collected or deducted is at least 0.05 million euros. Countries where this threshold is not met are presented as two areas below. The figures below include taxes paid and collected by subsidiaries and sales units.

2016

Country specification, EUR million	Employer contributions	Value added taxes, sales	Value added taxes, purchases	Value added taxes, net	Withholding taxes on wages and salaries	Total
Countries						
Estonia	0.7	0.0	0.1	-0.1	0.4	1.0
China	0.2	0.0	0.0	0.0	0.5	0.7
USA	0.0	0.0	0.0	0.0	0.1	0.1
Italy	0.0	0.1	0.1	0.0	0.1	0.1
Greece	0.0	0.1	0.0	0.1	0.0	0.1
Australia	0.0	0.0	0.1	-0.1	0.2	0.1
Russia	0.0	0.0	0.0	0.0	0.1	0.1
Belgium	0.1	0.0	0.0	0.0	0.0	0.1
Spain	0.1	0.0	0.1	-0.1	0.1	0.0
Switzerland	0.0	0.0	0.0	0.0	0.1	0.0
Sweden	0.1	0.1	0.5	-0.4	0.2	0.0
France	0.0	0.1	0.1	-0.1	0.0	0.0
Denmark	0.0	0.0	0.1	-0.1	0.1	0.0
Singapore	0.0	0.0	0.1	-0.1	0.0	0.0
South-Korea	0.0	0.0	0.2	-0.2	0.0	-0.1
Germany	0.0	0.1	0.4	-0.3	0.1	-0.2
Norway	0.0	0.0	0.5	-0.5	0.2	-0.2
Japan	0.3	0.1	1.3	-1.2	0.6	-0.3
Thailand	0.0	0.0	0.4	-0.4	0.0	-0.4
The UK	0.0	0.0	0.7	-0.7	0.0	-0.6
Areas						
Other Europe countries*	0.1	0.2	0.1	0.0	0.0	0.1
Rest of the world**	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.8**	**0.8**	**4.9**	**-4.1**	**2.8**	**0.6**

* Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Hungary, Ireland, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Slovakia and Slovenia

** Canada and India

Employer contributions paid relate to mandatory employer payments regarding employees located outside of Finland. Withholding taxes on salary are collected based on local legislation. Value added tax on sales and purchases relate mainly to passenger sales and cargo services.

Total amount of excise taxes outside Finland in 2016 and 2015 has been less than 0.1 million euros and hence this information is not presented on a country-by-country basis.

Country specific information for 2015 is presented below only regarding countries where the amount of taxes paid, collected or deducted is at least 0.05 million euros. Countries where this threshold is not met are presented as two areas below. The figures below include taxes paid and collected by subsidiaries, sales units as well as sold subsidiaries when the companies were part of the Group.

2015

Country specification, EUR million	Employer contributions	Value added taxes, sales	Value added taxes, purchases	Value added taxes, net	Withholding taxes on wages and salaries	Total
Countries						
Estonia	1.5	0.9	0.6	0.4	0.8	2.7
China	0.2	0.0	0.0	0.0	0.5	0.8
Lithuania	0.2	0.1	0.1	0.1	0.2	0.5
Russia	0.0	0.0	0.0	0.0	0.1	0.1
Latvia	0.1	0.0	0.0	0.0	0.1	0.2
Italy	0.0	0.1	0.1	0.0	0.1	0.1
Switzerland	0.0	0.0	0.0	0.0	0.1	0.1
Greece	0.0	0.1	0.0	0.1	0.0	0.1
Spain	0.1	0.1	0.1	-0.1	0.1	0.1
Belgium	0.1	0.0	0.0	0.0	0.0	0.1
Australia	0.0	0.0	0.1	-0.1	0.1	0.0
Sweden	0.1	0.1	0.4	-0.4	0.2	0.0
France	0.0	0.1	0.1	-0.1	0.0	0.0
Denmark	0.0	0.0	0.1	-0.1	0.1	0.0
Singapore	0.0	0.0	0.1	-0.1	0.0	-0.1
USA	0.0	0.1	0.2	-0.2	0.0	-0.1
South-Korea	0.0	0.0	0.2	-0.2	0.0	-0.1
Norway	0.0	0.0	0.5	-0.5	0.2	-0.2
Japan	0.3	0.0	1.0	-0.9	0.4	-0.2
Germany	0.0	0.0	0.4	-0.4	0.2	-0.3
Thailand	0.0	0.0	0.4	-0.4	0.1	-0.3
The UK	0.0	0.0	0.9	-0.8	0.0	-0.8
Areas						
Other EU-countries*	0.1	0.2	0.2	0.0	0.1	0.1
Rest of the world**	0.0	0.0	0.0	0.0	0.0	0.0
Total	**3.0**	**1.9**	**5.6**	**-3.7**	**3.1**	**2.5**

* Austria, Bulgaria, Croatia, Czech Republic, Cyprus, Hungary, Malta, the Netherlands, Poland, Portugal and Slovenia

** Canada and India

Governance

MANAGEMENT PRINCIPLES

General management principles

Finnair's management system is aimed at achieving strategic goals, creating added value for the company's owners and other stakeholders, managing operational risks and improving the company's performance.

The Company's operations are guided by principles, policies and guidelines defined by the company, including the following:

- Code of Conduct
- Supplier Code of Conduct
- Corporate responsibility policy
- Environmental and energy policy
- Risk management policy and related, more detailed guidelines for different areas
- Safety and security policies
- Data security policy and guidelines
- Disclosure policy
- Insider guidelines
- Equality and non-discrimination guidelines
- Remuneration policy
- Procurement policy and guidelines on supplier relationship management
- Sponsorship guidelines
- Anti-competition policy and guidelines
- The Group's anti-bribery guidelines
- The Group's guidelines on conflicts of interest
- Board of Directors' diversity targets

In financial reporting, Finnair applies the rules relating to listed companies as well as international financial reporting standards. Most of Finnair's operational activities are based on official regulations and are subject to official supervision. Within the group, the legality and acceptability of operations is monitored as part of Finnair's general control and audit processes. The responsibility for regulatory compliance in flight operations lies with the persons defined and approved by the authorities. Finnair is also subject to supervision relating to finances and, safety and security.

Internal control and audit roles and responsibilities are compliant with the Finnish Companies Act, the Finnish Corporate Governance Code for Listed Companies and the regulations governing the aviation industry.

Finnair's governance model, control environment and activities, internal audit and the roles and responsibilities related to these are described in detail in Finnair's Corporate Governance Statement on pages 95–106.

Corporate Responsibility at Finnair concerns everyone and our aim is to incorporate the corporate responsibility aspects equally in all our processes and product design. The Corporate Responsibility function is headed by the Senior Vice President for Communications and Corporate Responsibility, who is also a Member of the Finnair Executive Board. Reports and all key principles and policies will be discussed by the Finnair Board of Directors, with a designated member for corporate responsibility issues, tasked with reviewing Finnair's operations and guidelines also from the perspective of corporate responsibility. The development, coordination and reporting is managed by the corporate responsibility function with the support of the steering groups for other key functions.

Responsible Finnair

Finnair's corporate responsibility is reflected in its strategy, vision and values of commitment to care, simplicity and courage. Responsibility is integral to all Finnair operations. The purpose of the responsibility strategy is to reduce the environmental impact and increase the financial and social return for society.

Finnair's corporate responsibility strategy and commitments were updated in 2016. The key areas of corporate responsibility and sustainability strategy fall under the following themes: cleaner, caring and collaborative. For a more detailed description of these theme and the pertinent indicators, please refer to the GRI section.

Finnair is committed to complying with international and national legislation in its operations, as well as the ethical operating principles laid out in the Code of Conduct. The previous Code from 2012 was updated in 2016. Related training will ensue in spring 2017.

In 2014, the Group Executive Board approved additional group-wide guidelines to supplement the Code of Conduct with regard to the prevention of bribery and topics including hospitality, conflicts of interest and compliance with anti-competition regulations. Compliance with the guidelines has been promoted by communicating their content and organising training events. Furthermore, an internal whistleblowing channel was launched in 2015.

The corporate responsibility aspects defined material for Finnair are provided in the Materiality Assessment and the GRI content index. Finnair's operations and services involve a number of financial, social and environmental considerations. These have been described in more detail in the following sections.

Public affairs and lobbying
Aviation is a strictly regulated industry. Therefore it is important for Finnair to participate in discussions and decision-making regarding its operating conditions. It is part of the company's growth strategy to aim towards securing adequate traffic rights.

Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and expertise. The company does not pressurise or support political decision-makers in any way in pursuing its interests. The legality and ethicality of lobbying activities is controlled as part of the company's general supervision and audit processes.

The aim of Finnair's lobbying activities is to maintain relationships concerning relevant policy and to participate in relevant negotiations and the operations of advocacy organisations. When lobbying on various civil aviation and industry regulation issues, Finnair typically cooperates with various organisations and chambers of commerce. Finnair is an active member of various aviation industry organisations, such as AEA and IATA, but also in the Confederation of Finnish Industries (EK), and its sub-associations and in several chambers of commerce.

Communications
Finnair aims at open, honest and timely communications. In line with these principles, Finnair's communications are also in compliance with regulations governing listed companies and limited liability companies, as well as the obligations of the Finnish Act on Cooperation within Undertakings and the communications guidelines of the State Ownership Steering Department.

Finnair takes different perspectives into consideration and respects all stakeholders' views of our operations. Finnair's internal communications are based on reciprocity. Every employee has the duty to communicate matters related to their area of responsibility to the relevant target groups. Those in supervisory roles have a further duty to communicate goals, operations and results to their own work community and create a work environment that enables genuine constructive discussion. The company systematically develops its communication channels to enable more efficient communications and to facilitate constructive discussion.

Economic responsibility
Finnair as a whole has substantial direct and indirect financial implications on Finland's both national and local economies.

Aviation is a significant industry for Finnish society and the national economy. The accessibility created by airline traffic is a necessity for Finland's global competitiveness and its economic impact is considerable; aviation is estimated to account for 3–5 per cent of GDP, employment and tax revenue. Finnair's effective Asian strategy is a key element of the GDP contribution of aviation and its impact is estimated at 1–2 billion euros.

Finnair's objective is to create sustainable economic added value by producing flight services profitably, cost-competitively and in harmony with the needs of the environment and society. Responsible operations are the cornerstone of profitable business activity, and Finnair takes into account the effects of its operations on society. These effects are identified and assessed by the company's corporate social responsibility and risk management organisations, which work under the delegated authority of the CEO.

Finnair's Board of Directors has set the company's financial targets, which are provided in information material for investors. As a public limited company, Finnair is committed to earning a profit for its shareholders. The company's profit distribution principles are expressed in Finnair's dividend policy. Finnair's financial reporting aims to transparently provide information about Finnair's financial position and development.

Purchasing practices
As provided in Finnair's Code of Conduct, its procurement operations are entirely based on the fair treatment of suppliers. The persons who make procurement decisions at Finnair must always be independent of the business partners concerned. A Finnair employee must declare himself/herself disqualified due to bias whenever they are required to make a decision pertaining to a contract or business relationship involving family relationships, ownership in the company concerned (with the exception of a reasonable share of ownership in a listed company) or any other business or debt relationship external to Finnair. Finnair does not accept corruption in any form and requires that its personnel and partners comply with the principles of the UN's Universal Declaration of Human Rights.

The procurement steering group operating under Finnair's management is responsible for the steering of the Group's procurement activity. The management of the Procurement unit has the duty to ensure that the personnel carrying out purchasing has access to valid purchasing guidelines and that the guidelines are observed.

Audits are performed in certain product and service groups. Auditing focuses on quality and safety factors. Many of the company's procurement categories are subject to regulation, requiring that the suppliers are approved by the authorities. This includes all procurement relating to flight safety. The sustainability of the supply chain is of major importance for airlines. which are using partners and service providers to an increasing degree. Conforming with the UN's Universal Declaration of Human Rights and all applicable laws and statutes is a minimum requirement. Finnair requires that its suppliers comply with essentially similar ethical standards as the company in its own operations. Finnair's Supplier Code of Conduct provides clear principles to ensure ethical purchasing.

Responsibility aspects are considered in cooperation with the corporate responsibility unit. Finnair launched human rights assessments in autumn 2015, which were extended to the supply chain in spring 2016. Finnair has a process and guidelines for continuous improvement in supply chain responsibility and for handling non-compliances. Finnair aspires to continuously develop practices that ensure that negative impact, including human rights violations, can be mitigated and that responsible sourcing is favored when possible. Finnair held the first ever Supplier Day for its most important suppliers in autumn 2016. The key notes of the event were the development of responsible sourcing practices, cooperation and supplier relationships. For more information, see G4-HR9-11.

Environmental responsibility

The biggest environmental impact of an airline is its engine emissions. Modern aircraft are always more efficient than previous-generation aircraft, and hence Finnair's most significant environmental action is to invest in a modern fleet.

Aircraft noise also has an impact on the areas surrounding airports and under takeoff and approach flight paths. Advances in aerodynamics and engine technology help mitigate aircraft noise. The noise level of the Finnair fleet has been significantly reduced thanks to the on-going fleet modernisation and noise attenuation systems installed in older-generation aircraft.

In addition, other normal operations, including running business and office premises and the fuel of ground vehicles, produce their share of emissions and environmental impact. These are all managed under Finnair's IEnvA environmental system.

Finnair's goal is to be a leading airline in the field of environmental responsibility. The company is committed to the common goal of the aviation industry to achieve carbon neutrality by 2020 and to cut the emissions of our flight operations by half by 2050 from the 2005 level. We comply with current environmental legislation, but our environmental work aims at exceeding statutory requirements and being a pioneer in evaluating, reporting and reducing environmental impacts.

Finnair participates actively in civil aviation environmental committees as well as in industry workgroups in Finland and the Nordic countries, promoting the reduction of the aviation sector's environmental load. An open dialogue with different stakeholders and continuous development of operations according to the latest available information are prerequisites for environmental responsibility. We report on our environmental impacts regularly in annual reports and as a part of the Carbon Disclosure Project (CDP). In addition, we communicate directly with various parties about our operations and gladly answer any questions from our stakeholders or private customers.

Environmental responsibility is managed as part of Finnair's environmental policy and environmental management system. Finnair Environment and Energy Policy described the goals of the company's environmental management. In 2014, Finnair became the first European airline to receive IATA Environmental Assessment (IEnvA) Stage 2 certification for its environmental management systems. IEnvA is an environmental management system developed by IATA for airlines, which we apply to make use of the best practices in the industry. Our environmental management system has been assessed by third-party auditors authorised by IATA who are qualified to perform audits of environmental management systems. To improve its performance, Finnair has identified the most significant environmental factors relevant to its operations and defined targets for them.

Finnair takes into account environmental considerations in all its flight and ground operations. Besides energy solutions that reduce the environmental load, Finnair's environmental strategy also includes the preservation and promotion of natural diversity, known as biodiversity thinking. In addition, among other things, Finnair has actively supported the rain forest reforestation project in Madagascar in collaboration with the Finnish Association for Nature Conservation for several years.

In June 2015, Finnair prohibited the transportation of hunting trophies or memorabilia originating from endangered species or their parts in its cargo network.

Social responsibility

Finnair is a company in a complex, highly technical business. The company has operations and supply chain partners in dozens of different countries, each with varying laws and practices. The most important social responsibility areas concern safety, personnel, the supply chain and customers.

Human rights

Finnair's own operations involve no significant human rights risks or impacts. However, indirect risks and implications may exist in relation to the supply chains and outsourced operations.

In order to improve the monitoring of its own operations and those of its entire supply chain, Finnair continued to develop assessment of the realisation of social responsibility and human rights in 2016. In order to improve supply chain risk management, traceability and the assessment of social impact, Finnair implemented the SEDEX system together with **one**world alliance. In 2015 and 2016, Finnair has participated in the joint project of travel industry operators and UNICEF to examine the status of children's rights within travel service production chains. The pilot phase of the project was carried out in Vietnam, and the findings of the project will be utilised in other destinations in the future.

Finnair's human rights management is described in the Finnair Code of Conduct, Supplier Code of Conduct and the company's personnel management principles. Finnair respects the UN Universal Declaration on Human Rights and the core conventions of the International Labour Organisation (ILO).

Finnair signed in 2013 the United Nation's Global Compact initiative and undertook to comply with the Global Compact's ten principles of corporate responsibility. As required by the Global Compact principles endorsed by Finnair, the company aims to prevent any violations of human rights and the use of forced labour both within its own operations and its supply chain.

Personnel

A major aspect of social responsibility is to do with personnel and their working conditions at Finnair, a major employer. Personnel management policies cover all aspects of social responsibility that have been identified as material. The impacts affecting the personnel and the working conditions are managed as based on the HR guidelines and Finnair HR policy.

Management, development and training and employee wellbeing

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

Finnair does not condone harassment in the work community. Reporting infractions is every employee's right and the company is determined to take steps to intervene in all cases brought to its knowledge. It is the duty of every group employee to act so that no one is accorded unequal status.

Finnair offers equal opportunities to everyone with regard to recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act and gives both men and women equal opportunities for balancing work and family life. In 2011, Finnair signed the United Nations Women's Empowerment Principles, which give guidance on the empowerment of women in the workplace, marketplace and community.

Finnair complies with procedures jointly agreed by the employer and employees for the prevention of harassment and inappropriate conduct. The procedure is based on the Finnish Act on Occupational Safety and Health and complies with the model recommended by the Finnish Ministry of Social Affairs and Health.

Leadership and competencies are developed on individual, team, unit and organisation level. Learning and development solutions are typically either adopted by the entire personnel or tailored for specific development needs within a unit. They may also be aimed at developing professional skills, based on official requirements or in support of personal development. Leadership development was one of Finnair's key focus areas for 2016, and the efforts will continue in 2017. Development needs in teams and the organisation are identified and the wellbeing and commitment of the personnel are regularly monitored through a personnel survey.

Occupational health and wellbeing at work

The target group for the wellbeing at work programme, which Finnair launched in 2011, is aimed at the entire personnel. The aim of the programme is to promote the effectiveness and functionality of the work community through various annually launched projects and to ensure the wellbeing of personnel through all career stages. The programme also contributes to employee productivity, the company's competitiveness and attractiveness as an employer as well as the implementation of the social component of corporate responsibility. A strategic development project for wellbeing at work will be launched in 2016. The aim of the project is to improve the overall wellbeing of the personnel and to reorganise the development of wellbeing at work in the company.

At Finnair, the Finnair Health Services unit is responsible for occupational health care services. Finnair Health Services focus on preventive care. The model of early caring and the occupational ability risk management system are examples of the guidelines governing preventing health care.

Finnair Health Services, Finnair Aeromedical Centre FAeMC, coordinates and is responsible for the implementation of occupational health care in the entire Finnair group. The operational and service quality of Finnair Health Services is based on the European Foundation for Quality Management's EFQM Excellence Model. The quality system is used to ensure that Finnair Health Services meets the requirements for good occupational health care practice in both aviation health care and aviation medicine services. The occupational health care and aviation medical services are described in a quality manual.

Freedom of association and collective negotiation

Freedom of association and the collective right to negotiate on occupational issues are recognised as fundamental rights in Finland. There is a long tradition of trade union activity in the company. Labour market culture in the company has been constructed in such a way that the organisation of workers and collective negotiations between the company and employee groups are part of normal practice. All Finnair employees have the right and opportunity to agree on terms of employment collectively. The terms of employment of management employees are agreed on locally. Personnel and management remuneration principles are described on pages 112–117.

Management of customer experience

The aviation industry consists of a strictly regulated value chain comprised of multiple suppliers of products and services. As an airline and service company at the top of this value chain, Finnair creates added value for its customers by providing them with a comprehensive and high-quality service product in collaboration with its partners. Finnair is responsible for transporting customers and their baggage to their destinations safely, smoothly and punctually. The most significant product responsibility aspects in the Finnair Group's operations are flight safety, food safety, responsibility for individual customers, and responsibility for the cargo carried.

At Finnair, situations that deviate from the norm are prepared for in advance. The group has developed processes for various unexpected situations and these are continually updated and maintained. Customers must be able to trust in the fact that they will be cared for throughout the entire service chain. Finnair has responsibility towards its customers for the overall quality of their experience, regardless of the fact that some services are produced by Finnair's partners rather than the company itself. Therefore, Finnair pays increased attention to the selection of its partners and the partners are required to comply with Finnair's quality assurance policies and ethical guidelines.

Flight safety

Safety is at the core of all Finnair's operations. Flight safety and giving priority to it are part of all decision-making at every stage. Finnair maintains and develops the principles of ongoing development by adhering to its Safety Management System (SMS). It covers all aspects of flight safety: safety policy, flight safety risk management, safety training and communications for the entire personnel and subcontractor chain, continual auditing of operations and the assessment of the potential impact of new factors in the operating environment. Official regulations and standards set the minimum standards for Finnair's safety management, which the company aims to exceed in all areas.

One of the central elements in Finnair's safety system is the safety reporting concerning the entire staff. The company encourages its personnel and subcontractors to actively report any processes or elements they come across that could potentially compromise safety. Each report is analysed and assessed for risk, followed by necessary corrective actions based on this, and the person submitting the report will be notified of the outcome of the investigation. Alongside subjective observations, Finnair extensively monitors and analyses objective indicators, such as flight data. Ongoing monitoring and analysis enable a transparent risk level in all areas, which in turn enables prompt action on any indication of altered safety level.

Events that seriously jeopardise safety are extremely rare and almost without exception an impartial safety investigation is launched on each event. Safety investigations are coordinated by public officials (Safety Investigation Authority) or, if the authorities elect not to investigate the event, Finnair will conduct its own internal safety investigation. The safety investigators always carry out the investigation independently and the company's management has no opportunity to influence the investigation.

A strong safety culture, objective monitoring of the company's own operations, ongoing development and carrying out corrective measures as well as open dialogue with the authorities governing Finnair's operations guarantee safe and high-quality airline operations.

Customer care

For exceptional situations, Finnair has its own separate unit. All flight traffic irregularities are handled centrally from Helsinki, thereby gathering the necessary information into one place. In this way, a more detailed overall picture of the multiplier effects and costs of the irregularities is obtained, and efforts are made to minimise inconvenience to the customer.

Monitoring and supervision of customer service activity is based on regular auditing, customer feedback and customer satisfaction surveys, as well as various mystery customer experiences and external measurements. Our partners' operations are also continually evaluated. Monitoring is systematic and is used to set targets and check that they are being met. Staff expertise is ensured through training.

Customer data

Finnair respects the privacy of its customers and is committed to ensuring that personal details and other customer information are processed appropriately. We do our best to guarantee the confidentiality, security and accuracy of customer data under all circumstances. The company processes personal details at all stages of travel in compliance with the legislation on personal data and regulations issued by the authorities in the countries in which we operate.

Cargo and ground handling

In cargo transport, Finnair and its subsidiary Finnair Cargo are responsible for transporting customers' cargo in the condition in which it has been entrusted to us, and in compliance with Finnair Cargo's General Conditions of Carriage (http://www.finnaircargo.com/en/cargo/generaltransportation- terms.html) as well as international and national regulations. The aim is to offer cargo customers efficient logistics services. This means, among other things, that cargo entrusted to Finnair Cargo for transport is delivered to its destination exactly as agreed with the customer.

Finnair's Ground Operations unit is responsible for the acquisition, quality criteria and quality control of ground handling services required at airports. The unit's task is to ensure that the ground services used by Finnair fulfil the requirements set for them, both in terms of quality and in respect of safety and official regulations.

To deliver on their service promises, both Finnair Cargo and the Ground Operations unit apply a systematic evaluation process when selecting subcontractors and partners. Partners are required, for example, to ensure and maintain the expertise of their personnel, and also to ensure that vehicles, equipment and premises are appropriate. In addition to quality audits at airports, Finnair also regularly performs quality inspections that continually monitor both its own and subcontractors' work. Finnair Cargo and Ground Operations are responsible for maintaining and updating their own quality systems and ensuring that operations comply with requirements.

Ground Operations also has an area manager, responsible for airport operations, who has a significant role in monitoring the compliance of operations with regulations. If some activity does not to some extent comply with the operations manual or prevailing legislation, the deviation is documented and corrective measures effected immediately.

More information about IATA safety and quality audits: http://www.iata.org.

CORPORATE GOVERNANCE STATEMENT 2016

Contents

Regulatory framework

This Corporate Governance Statement is prepared in accordance with the Finnish Corporate Governance Code 2015 for listed companies. It sets out the governing bodies and the principles of governance of Finnair Plc. Finnair complies with the recommendations of the Code without exceptions.

The principal legislative authorities on corporate governance of Finnish listed companies are the Companies Act, the Securities Market Act, the Market Abuse Regulation (MAR), the regulations and guidelines issued by the Financial Supervision, the rules and instructions for listed companies issued by Nasdaq Helsinki and the Finnish Corporate Governance Code, all of which are complied with by Finnair. Company specific authorities on the governance of Finnair are the Articles of Association and the procedures specified Finnair's Board of Directors and Executive Board.

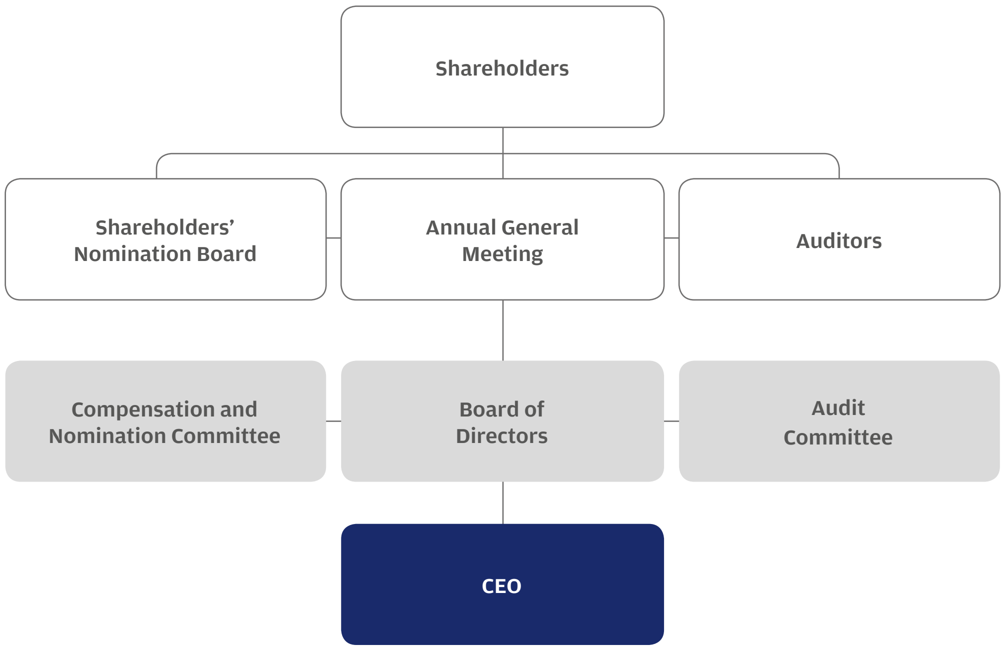
The Articles of Association, the published procedures and other additional information on Finnair's corporate governance can be found at Finnair's internet site at https://investors.finnair.com/en/governance. The Corporate Governance Code is publicly available on the website of the Securities Market Association's website at www.cgfinland.fi.

This statement has been reviewed by Finnair's Audit Committee and Board of Directors, and it has been prepared as a separate report from the Board of Directors' Report. Finnair's audit firm, Pricewaterhouse-Coopers, has verified that the description contained herein and in the financial statements of the main features of internal control and risk management related to the financial reporting process are consistent.

Governing bodies

The governing bodies of Finnair pursuant to the Companies Act and the Articles of Association are the General Meeting of Shareholders, the Board of Directors (the "Board") and the Chief Executive Officer (the "CEO"). The roles of the governing bodies are described below.

Governing bodies of Finnair



General Meetings

The ultimate authority in Finnair is vested in the General Meeting of Shareholders. An Annual General Meeting (the "AGM") must be held each year by the end of May.

The competence of the General Meeting of Shareholders is set out in the Companies Act and in Finnair's Articles of Association. The AGM shall annually decide on the following matters:

- adoption of the financial statements and the consolidated financial statements
- the use of the profit shown on the balance sheet
- the discharging of the Members of the Board and the CEO from liability
- the appointment of the Members of the Board and their remunerations
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

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

Each shareholder who is registered on the record date as a shareholder in the company's public register of shareholders, maintained by Euroclear Finland Oy, has the right to participate in the General Meeting of Shareholders. If a holder of nominee-registered shares wishes to participate in the meeting, he or she has to register temporarily in the register of shareholders. Furthermore, in order to attend the meeting, a shareholder must register for the meeting in the manner defined in the notice convening the meeting.

A shareholder has the right to have a matter falling within the competence of the General Meeting of Shareholders addressed by the meeting, if the shareholder so demands in writing from the Board by the date announced on Finnair's internet site.

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair's internet site within two weeks of the meeting.

2016 Annual General Meeting

Finnair's AGM 2016 was held in Helsinki on 17 March. A total of 320 shareholders, representing 66 per cent of the shares and voting rights of the company, participated either in person or by proxy representatives. All Board members, candidates for Board membership and the auditors of the company were present in the meeting.

Auditor

The company's auditor in 2016 was PricewaterhouseCoopers, and Mikko Nieminen was the auditor with principal responsibility appointed by it. The audit fees paid in 2016 amounted to 0.2 million euros, and the fees for other services rendered amounted to 0.3 million euros.

Shareholders' Nomination Board

The AGM 2013 decided to establish a permanent Shareholders' Nomination Board. The term of the Nomination Board continues until further notice. The previous practice since 2008 was that a Shareholders' Nomination Committee was established annually by the AGMs.

The purpose and task of the Nomination Board is to prepare and present to the AGM, and, if necessary, to an Extraordinary General Meeting, proposals on the remuneration of the members of the Board, on the number of members of the Board and on the members of the Board. In addition, the task of the Nomination Board is to seek potential future candidates for Board members. The Nomination Board shall forward its proposals to the company's Board by 31 January each year.

The Nomination Board consists of four members nominated annually. The company's three largest shareholders appoint three of the members, and the Chairman of the Board serves as the fourth member. The committee appoints its chairman from among its members. The company's largest shareholders entitled to appoint members to the Nomination Board are determined on the basis of the registered holdings in the company's shareholder register held by Euroclear Finland Ltd as of the first working day in September each year. In the event that a shareholder does not wish to exercise its right to appoint a representative, such right passes to the next largest shareholder.

The members of the Nomination Board are not remunerated by Finnair for their membership in the Nomination Board. The members' expenses are reimbursable in accordance with the company's expense policy. In addition, the Nomination Board's costs of using external experts shall be borne by the company.

The Charter of the Nomination Board is available at the company website.

2015 Nomination Board

The Nomination Board established in 2015 consisted of the representatives of three largest shareholders as at the first working day September 2015 i.e. the State of Finland, Keva and Ilmarinen, and of the Chairman of the Board. The composition of the 2015 Nomination Board was the following:

- Mr. Eero Heliövaara, see above, (Chairman), b. 1956, M. Sc. (Econ.), M. Sc. (Eng.), Director General in the Ownership Steering in the Prime Minister's Office (Chairman)
- Mr. Robin Backman, b. 1971, M. Sc. (Econ.), Portfolio Manager in Keva;

- Mr. Timo Ritakallio, b. 1962, Master of Laws, MBA, President and CEO of Ilmarinen Mutual Pension Insurance Company
- Mr. Klaus Heinemann, see details on page 116.

The Nomination Board convened 3 times and the participation rate was 100%. On 29 January 2016, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 17 March 2017. The proposals are available at Finnair's website.

2016 Nomination Board

The Nomination Board established in 2016 consisted of the representatives of three largest shareholders as at the first working day September 2016 i.e. the State of Finland, Keva and Varma, and of the Chairman of the Board. The composition of the 2014 Nomination Board was the following:

- Mr. Eero Heliövaara, see above, (Chairman);
- Mr. Robin Backman, see above;
- Mr. Reima Rytsölä, b. 1969, M.Soc.Sc, EVP Investments, Varma Mutual Pension Insurance Company;
- Mr. Klaus Heinemann, see details on page 116.

The Nomination Board convened 3 times and the participation rate was 100%. On 25 January, 2017, the Shareholders' Nomination Board submitted to the Board its proposal for the AGM to be held on 16 March 2017. The proposals are available at Finnair's website.

Board of Directors

The Chairman and the Members of the Board are elected by the AGM. According to the Articles of Association, the Board consists of the Chairman and a minimum of four and a maximum of seven other members. The Board elects a Deputy Chairman from among its members. The term of office of the members of the Board ends at the close of the first AGM following their election.

According to the Companies Act, the Board represents all shareholders of Finnair and has the general duty to act diligently in the interests of the company. Under law, the Board is accountable to the shareholders for the appropriate governance of the company and for ensuring that the operations of the company are run adequately.

The accountability for the company's governance pertains specifically to the assurance of the effectiveness of the Company's system of internal controls. The main features of the company's system of internal controls and risk management are described later in this report. Finnair has a number of procedures issued by the Board of Directors or the Executive Board, designed to enhance the internal controls. The procedures are assessed at least on an annual basis updated where necessary.

In addition to the Board's statutory tasks, certain significant matters are reserved for the Board's decision, as set out in the Board's charter. The Board prepares and adopts its Charter as well as those of for Committees and Internal Audit. The Board sets the company's strategic aims and monitors the implementation. The Board approves other significant strategic matters, business plans, significant partnerships and other decisions exceeding the CEO's decision-making authority. the Board decides on guarantees and other commitments for external liabilities. The monetary limit for the CEO's decision-making authority is 10 million euros.

The Board appoints and removes the CEO and other members of the executive management, evaluates their performance and determines their levels of remuneration. The Board also attends to the succession planning of the management. The Board establishes and regularly evaluates the group's personnel policies, including the compensation structures. The Board evaluates its work on an annual basis. The Board's charter is available on Finnair's website in its entirety.

The Board has determined the diversity principles applying to its composition, which are available to the Shareholders' Nomination Board when it is searching successors to retiring Board members and preparing its proposal on the composition of the Board to the Annual General Meeting. The diversity principles are neither binding on the Nomination Board nor the AGM.

The diversity principles applying to the composition of the Board of Directors are as follows:

- The Board as a whole must have suffient expertise and experience to conduct its duties carefully and effectively, taking into account the quality, scope and international nature of the company's operations, the company's strategic targets and changes in the business environment and society.
- The members of the Board must be capable of cooperating with the other members and the management.
- The members of the Board should have training and experience that complements each other and experience from industries that are important for the company.
- The members should have experience of Board work and conducting managerial duties in business or other areas of society.
- The Board shall have at least 40 per cent both men and women. The composition should show diversity also in terms of the age distribution, length of service and cultural background.
- Sufficient continuity should be ensured in reforming the composition of the Board, but the continuous term of any member may not exceed 10 years.

The principles applying to the composition of the Board were fulfilled well in the Board elected in 2016, except for the age distribution. The members represent diverse experience from managerial or Board duties in Finland and abroad. The members come from three countries and speak four different languages as their native tongue. Women represent 43 per cent of the Board members, which meets both the diversity target set by the Council of State in its resolution of 17 February 2015 and the target set by the Board of Directors.

At the end of 2016, the term of all members had lasted less than five years. The median year of birth of the Board was 1958, and the age differential between the youngest and eldest member was 12 years. On 25

January 2017, the Shareholders' Nomination Board gave its prosal on the composition of the Board of Directors for the AGM to be held on 16 March 2017. If the AGM approves the proposal, the median year of birth of the Board members will be 1957 and the age differential between the youngest and eldest member will be 34 years.

Members of the Board and their independence

The 2016 AGM held on 17 March elected Mr. Klaus Heinemann as Chairman of the Board and Ms. Maija-Liisa Friman, Mr. Jussi Itävuori, Mr. Jouko Karvinen, Ms. Gunvor Kronman, Ms. Jaana Tuominen and Mr. Nigel Turner as other members of the Board. The Board elected Mr. Jouko Karvinen as its Vice Chairman.

The Board assessed the independence of its members and concluded that all members are independent of the Company and its major shareholders.

The ownership of the Directors and companies controlled by them in Finnair

At the end of 2015 and 2016, neither the members of the Board of Directors nor companies under their control held any shares or any rights relating to shares in any company within Finnair Group.

Members of the Board in 2015 and their attendance in Board and Committee meetings

In 2016, the Board met 8 times. In addition, the Board made per capsulam decisions 6 times during the year. See the table below for information on the Board members' participation in the meetings.

The Board's work in 2016

In 2016, the Board met 8 times in person and made decisions 6 times without convening.

In addition to its duties, under its charter and the law, the Board focused in its work on monitoring the company's financial result and status, monitored the implementation of the company's strategy, and evaluated changes in the operating environment as well as their impacts on the company's strategy and confirmed the focus areas of strategy implementation in 2016-2018. The Board made investment decisions required by accelerated growth, product improvements and digital business. The Board reviewed the status of flight and occupational safety as well as corporate security and operational quality, and related management systems. It also paid attention to the development of risk management and internal controls. The Board approved the Group's updated Code of Conduct.

Name	Personal Information	Participation in Board meetings in 2016	Participation in Committee meetings in 2016	
			Audit	Compensation and Nomination
Klaus W. Heinemann	Chairman of the Board since 27 March 2013 Member of the Board since 28 March 2012 B. 1951, B.Sc. (Econ.) Main occupation: Board professional Committee membership: Audit Committee until 27 March 2014	8/8		
Harri Kerminen	Member of the Board since 24 March 2011 until 17 March 2016 Vice Chairman of the Board since 28 March 2012 B. 1951, M. Sc. Tech, MBA Main occupation: Board professional Committee memberships: Audit and Compensation and Nomination Committee	2/2	1/1	2/2
Jouko Karvinen	Vice Chairman of the Board since 17 March 2016 B. 1957, M. Sc. Tech Main occupation: Board professional Committee memberships: Audit Committee	6/6	5/5	
Maija-Liisa Friman	Member of the Board since 28 March 2012 B. 1952, M.Sc. (Eng.) Main occupation: Board professional Committee memberships: Audit Committee (Chairman)	8/8	5/6	
Jussi Itävuori	Member of the Board since 28 March 2012 B. 1955, M. Sc. (Econ.) Main occupation: Board professional Committee memberships: Compensation and Nomination Committee (Chairman)	8/8		5/5
Gunvor Kronman	Member of the Board since 28 March 2012 B. 1963, Master of Arts Main occupation: CEO of Swedish-Finnish Cultural Centre Committee membership: Compensation and Nomination Committee	8/8		5/5
Jaana Tuominen	Member of the Board since 27 March 2014 B. 1960, M. Sc. (Eng.) Main occupation: CEO of Paulig Group Committee membership: Compensation and Nomination	8/8		5/5
Nigel Turner	Member of the Board since 27 March 2014 B. 1958, BA (Hon.) Main occupation: - Committee membership: Audit Committee	8/8	4/6	

More information on the Members of the Board is available on page 116 and on Finnair's website.

The Committees of the Board

The Board delegates certain of its functions to the Audit Committee and to the Compensation and Nomination Committee. The Board appoints the Committee members and their Chairs from among the members of the Board. The minimum number of members is three in both Committees.

Each Committee meets regularly under their respective charters. The Committees' tasks and the work carried out by them during the year are described in their respective sections below. The Committees report on their work regularly to the Board but they do not have decision-making powers independent from the Board, except where expressly authorised by the Board. Copies of the Committees' charters are available on Finnair's website.

Audit Committee

The Audit Committee assists the Board in its task to ensure the proper governance of the company, in particular, by considering the accounting and financial reporting, the Company's internal control systems and the work of the external auditors. The Audit Committee addresses concerns pertaining to control matters as may be detected by the management or the internal audit or external auditors of the company. These are reported to the Board by the Audit Committee. The Audit Committee ensures that appropriate action is taken by the management to rectify identified shortcomings.

The members of the Audit Committee are independent of the company and its significant shareholders. The members have complementary expertise and business management experience as well as industry experience. The Audit Committee as a whole has sufficient expertise and experience of the matters in its remit.

The main duties of the Audit Committee

The Audit Committee shall:

- monitor the financial status of the company
- monitor the reporting process of financial statements and interim reports and assess the draft financial statements and interim reports
- monitor the efficiency of the company's internal controls, internal auditing and risk management system
- monitor the statutory audit and review all material reports from the auditor
- assess the independence of the auditors, in particular with regard to their ancillary services and establishes the procedures and limits applying to the procurement of such services
- prepare for the Board proposals to the Annual General Meeting regarding the election of the auditor(s) and their remunerations
- review the auditors' and internal auditors' audit plans and reports
- review the company's corporate governance statement
- prepare for the Board the group's risk management policies
- prepare for the Board decisions on significant changes in the accounting principles or in the valuations of the group's assets;
- assess the group's compliance with laws and regulations; and
- maintain contact with the auditors.

After 2016 AGM, the Audit Committee members are Ms. Maija-Liisa Friman (Chairperson), Mr. Nigel Turner and Mr. Jouko Karvinen.

In accordance with its annual plan, the Audit Committee met 6 times in 2016. The CEO, the CFO, the Head of Internal Audit and Risk Management as well as the external auditor also participated in the Committee's meetings. Finnair's General Counsel acted as the secretary of the Audit Committee. The Committee held closed sessions as well as sessions where the External or Internal Auditors participated without the presence of the members of the management. The Committee also performed its annual self-evaluation.

The Audit Committee's activities in 2016

In addition to its customary tasks, in 2016 the Audit Committee attended selected focus areas, comprising financial reporting segments, financial risk hedging policy, investment, financing and cash management plans as well as IFRS standard revisions and the implementation of new standards, which continue in 2017. Another special theme in 2017 is the development of financial management processes and controls.

The Audit Committee also:

- Reviewed and approved a risk-based action plan and assessed the sufficiency of the resources in the internal control functions;
- Discussed with the auditors and the management the company's significant accounting policies and the estimates and judgements applied in preparing the reports;
- Performed an annual self-evaluation and set the Committee's annual plan for 2017.

Compensation and Nomination Committee

The Compensation and Nomination Committee assists the Board in matters pertaining to the compensation and benefits of the CEO and other senior management, their performance evaluation, appointment and successor planning. The Committee assists the Board also in establishing and evaluating the group's compensation structures and other personnel policies. By virtue of a Board authorisation, the Committee ascertains the achievement of targets for short-term incentives and approves the payment of incentives to the CEO and other top management.

The main duties of the Compensation and Nomination Committee
The Committee prepares the following matters for the Board:

- compensations, pensions, benefits and other material terms of the contract of the CEO
- compensations, pensions and benefits of the top executives of the group, and other material terms of their contracts to the extent that the same deviate from the customary practice
- nominations of the CEO and other top executives
- top executives' succession planning
- composition of the Executive Board
- equity-based incentive plans
- the principal compensation policies and practices regarding the personnel
- management's participation in the boards' of directors of the group and of external companies
- major organisational changes
- proposals of awarding the members of the management honorary decorations and titles.

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

After the 2016 AGM, the members of the Compensation and Nomination Committee elected are Mr. Jussi Itävuori (Chairman), Ms Gunvor Kronman, Ms Jaana Tuominen and Mr. Harri Kerminen. All Committee members are independent of the Company and of its significant shareholders.

The members of the Compensation and Nomination Committee met 5 times in 2016 with an aggregate attendance rate of 100 per cent. The CEO and the SVP, People and Culture were invited to the meetings to assist the Committee. Finnair's General Counsel acted as the Committee's secretary.

The Compensation and Nomination Committee's work in 2016
The Committee, among other things:

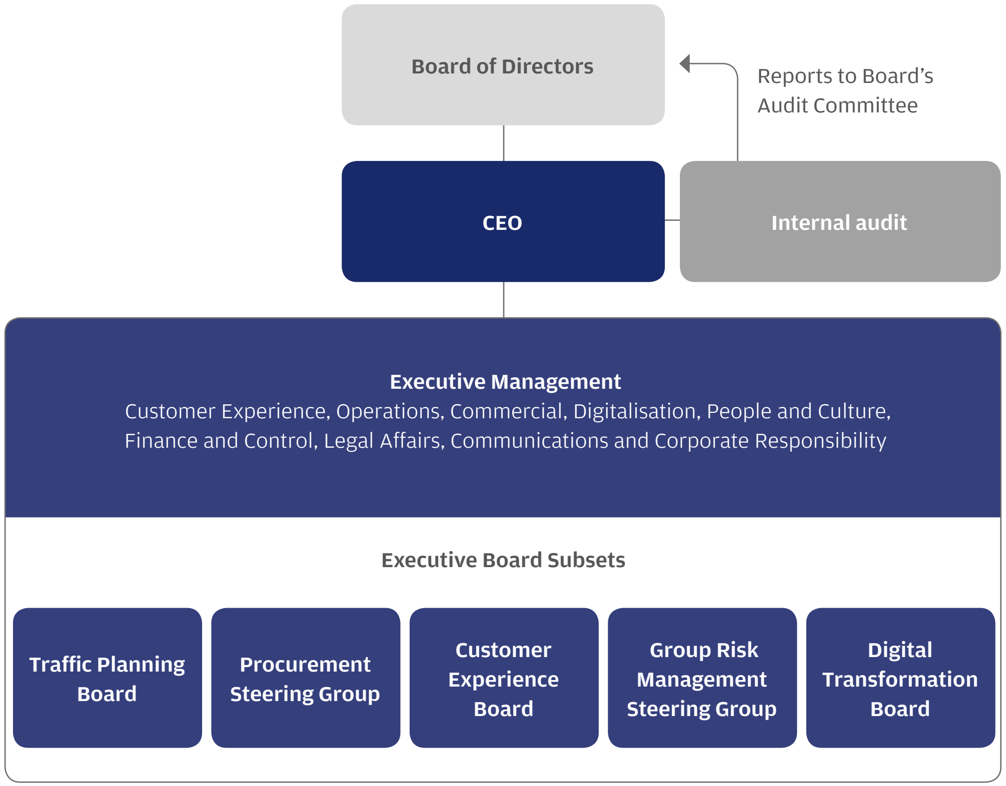
- Prepared for the Board approval the conditions and targets of the employee share saving plan (FlyShare) for the earnings period beginning in 2016;
- Reviewed the senior management's compensation levels compared to the market level, assessed the performance of the management relative to the long and short term incentive targets, and approved the payment of short-term management incentives;
- Assisted the Board in determining the personnel fund's bonus criteria for 2016 and the semi-annual targets and conditions for top management;
- Assisted the Board in determining the participants, targets and conditions for the next earnings period of the share bonus plan for key personnel;
- Assessed the methodology and results of the company's successor and talent mapping;
- Assessed its meeting practices and tasks.

Company management

Finnair's corporate structure

Finnair's two previous business areas: Airline Business and Travel Services (tour operators and travel agencies) were combined as of the beginning of 2016. The shared functions in Finnair's Group Administration are Finance and Control, People and Culture. Communications and Corporate Responsibility, Legal Affairs and Internal Audit

Company Management



The CEO

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

The Board determines the CEO's compensation and sets his short and long term incentive targets. The main contents of the CEO's contract, including his compensation and benefits, are described in the Remuneration Statement and on Finnair's internet pages.

The CEO of Finnair is Mr. Pekka Vauramo, b. 1957, M.Sc. (Tech). At the end of the year, he owned 91,102 Finnair shares. Neither he nor any company under his control held shares in other Finnair Group companies. Neither he nor any company under his control had share-based rights in any Finnair Group company at the end of 2016. The CEO belongs to Finnair's long-term incentive programmes as well as the FlyShare programme, described in more detail in Note 1.3.7 to the financial statements and in the Remuneration Statement.

Executive Board

The Executive Board of the Company is led by the CEO and it comprises the senior management responsible for Finnair's operations and commercial activities, customer experience, digitalisation, finance and control, people and culture, communications and corporate responsibility and legal affairs. The members' respective roles and their direct and indirect shareholdings in Finnair as at 31 December 2016 are shown below.

Hakakari, Eija, b. 1961, M.Sc. (Ed), SVP Human Resources	4,138
Harra-Salonen, Katri, b. 1969, M.Sc. (Tech), eMBA, Chief Digital Officer	0
(Umbrella Strategic Advisory Oy)	0
Järvinen, Juha, b. 1976, MBA, Chief Commercial Officer	2,916
Karhu, Piia, b. 1976, Doctor, Business Administration, SVP Customer Experience	0
(TJA Consulting Ky)	0
Sarelius, Sami, b. 1971, LLM, SVP and General Counsel	41,823
Schildt, Jaakko, b. 1970, MBA, B.Sc. Engineering, SVP Operations	952
Suominen, Arja, b. 1958, MA, eMBA, SVP Communications and Corporate Responsibility	68,760
Vähähyyppä, Pekka, b. 1960, M.Sc (Econ), eMBA, CFO	40,437

The Executive Board members are appointed by the Board, which also determines their remuneration.

The duties of the Executive Board include group-wide development projects, the definition of principles and procedures that guide the company's activities, and the preparation of matters to be dealt with by the Board. The Executive Board also acts as Finnair's risk management steering group.

In 2016, Finnair's Executive Board met twice a month on average. A major proportion of the Executive Board's time was used in leading key projects relating to Finnair's strategy and further development of the strategy. Investments required by the fleet and traffic growth and related operational challenges required the attention of the Executive Board throughout the year. The Executive Board continued the value and cultural reform initiative, and the comprehensive leadership development programme to support the strategy. The Executive Board prepared for the Board's approval the Group's new Code of Conduct. The Executive Board also focused on the financial position of the company and on the improvevment of operational quality, guidelines annd other internal controls, and on the development of the customer experience, personnel wellbeing and working capacity. In addition, it was occupied with ancillary sales, risk management and digital business strategy. The areas of responsibility of the Board of Directors changed materially during 2016 on two occasions.

Subsets of the Executive Board

The Executive Board delegates certain of its functions to five subsets. These subsets' decision making authority is derived from that of the Chief Executive Officer, set by the Board of Directors.

Network Planning Group is responsible for fleet and network strategy and short and long-term traffic planning of Finnair's scheduled, leisure and cargo traffic, among other things. The Group is headed by the Chief Commercial Officer, and it meets monthly.

Procurement Steering Group is responsible for Finnair's Procurement Guidelines, procurement category structure and related development projects. It also leads supplier relationship management. The Group convenes at least four times a year and it is chaired by the CFO.

Customer Experience Board is responsible decisions related to customer experience. These concern issues such as the brand, customer service identity, airport experience, the flight product, aircraft interior design and lounges. The Board is headed by SPV Customer Experience and it meets bi-monthly.

Digital Transformation Board is responsible for the implementation of the digital strategy and related decisions, including those concerning the customer and employee interface, development and IT projects related to digital planning and implementation as well as technology. In addition, the development of expertise, innovation and technological capabilities in the area of digitalisation fall within the Board's remit. The Board convenes approximately once a month and it is chaired by the Chief Digital Officer.

In addition Executive Board acts as the **Group Risk Management Steering Group**. Risk Management Steering Group is responsible for the Group's strategic risk assessment and the implementation of risk management measures. It assesses the adequacy and timeliness of the Group's risk management policy. In addition, it approves changes in the risk reporting process, Finnair common risk language and risk model. The Steering Group is headed by the CEO and meets bi-monthly.

Management Board

Finnair Management Board is principally a communication and co-operation forum designed for the personnel's participation in the company's governance processes, especially with regard to matters that affect the personnel. The focus of the Management Board work is on enhancing communication and understanding between the personnel groups and the management as to the implementation of the company's strategic objectives and on sharing information and discussing plans and projects that affect Finnair's personnel. The Management Board also discusses the business plans and financial performance of the Group, the operational quality and customer satisfaction as well as significant development projects. The Management Board comprises the Executive Board members, certain senior managers and the representatives of all personnel groups.

In 2016, the Management Board met 6 times.

Corporate Governance in Finnair subsidiaries

For major subsidiaries, the members of the boards of directors are selected from individuals belonging to Finnair's senior management and, in selected subsidiaries, also from representatives proposed by personnel groups. The key tasks of the boards of directors of subsidiaries include strategy preparation, approving operational plans and budgets, and deciding on investments and commitments within the scope of the approval limits issued by Finnair's Board.

The subsidiaries of Finnair are presented in the Financial Statements 2016 under Note 4.2.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Nordic Regional Airlines Oy through Nordic Regional Airlines AB (ownership 40 per cent). Nordic Regional Airlines Oy is a Finnish regional passenger airline operating ATR turboprop and Embraer 190 aircraft. Its route network is designed to provide convenient feeder connections to Finnair's European and long-haul routes. Finnair's influence over the governance of the company is secured by shareholding and various contractual rights.

Finnair procures certain important operational services from strategic partners. LSG Sky Chefs Finland Oy runs the former catering businesses of Finnair at Helsinki Airport. It supplies Finnair's catering services pursuant to a multi-year agreement. In late 2016, LSG stated it would not use its option to purchase LSG SkyChefs Finland Oy, as a result of which Finnair and LSG began negotiations on the restructuring of the cooperation during 2017. Other strategic service agreements have been made for example in the ground handling services, with Swissport Finland Ltd, and in the engine and component services with SR Technics, Lufthansa Technik and Rolls Royce, and in the area of IT and mobile services particularly with IBM and Apple. The cost and quality targets of these agreements have been determined so as to correspond at least to a good general market level.

Finnair participates in joint ventures consisting of certain airlines belonging to the **one**world alliance. These joint ventures seek to improve competitiveness and efficiency in a manner benefitting the passengers. Finnair's influence in the joint ventures is based on contractual arrangements. Decisions by the joint venture are sought to be made unanimously.

All Finnair's service providers are expected to comply with Finnair's policies and Finnair's Supplier Code of Conduct, and Finnair is entitled to audit the Supplier's governance and security practices to ensure this.

Finnair's Code of Conduct and Supplier Code of Conduct are available on Finnair's website.

Main features of the internal control and risk management system pertaining to the financial reporting process

Description of the overall system

The objective of internal control and risk management system pertaining to the financial reporting process is to provide the Board, the Executive Management and other key stakeholders with a reasonable assurance of the reliability and correctness of financial and operational reporting, as well as compliance with associated laws, regulations and internal policies. It is built on the principles of Finnair's overall system of risk management which is aligned with commonly accepted COSO ERM framework and ISO 31000:2009 standard for risk management.

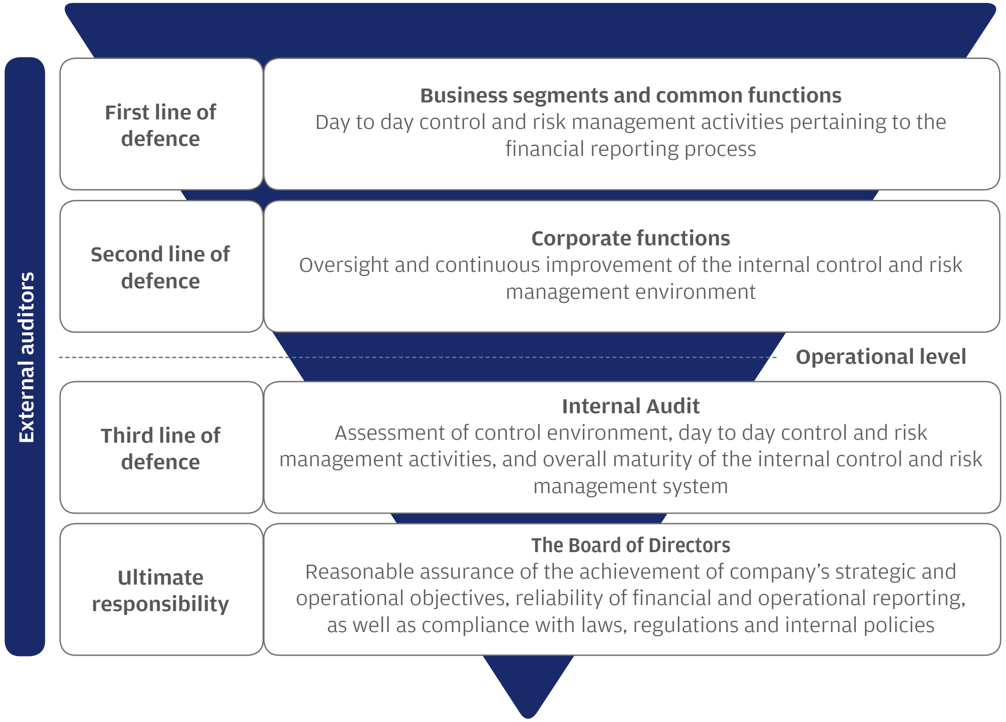
Control environment

Finnair's Code of Conduct and management system form the foundation for its control environment and background for awareness and implementation of control activities across the organisation. Guiding principles of internal control and risk management in Finnair are documented in the Group Risk Management Policy. Other key steering instruments supporting control over reporting include, but are not limited to, Accounting principles, Treasury Policy, Procurement Policy, Credit Policy, Disclosure Policy and Approvals Policy.

Finnair's Board of Directors holds the overall responsibility for the company's internal control and risk management. The Board has delegated the implementation of efficient control environment and measures to ensure the reliability of financial reporting to the CEO. The Group CFO is responsible for governing financial reporting control environment and acting as the risk owner of reporting risks. The line organisations of business units and Group-wide functions have the main responsibility for executing day to day control activities pertaining to the financial reporting process.

Internal Audit assesses the control environment as well as the status and effectiveness of planned control and risk management activities. To ensure the independence of the Internal Audit activity, Internal Audit has a direct functional reporting line to the Audit Committee of Finnair Board and it is positioned to operate

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



administratively under the CEO. The Audit Committee appointed by the Board of Directors oversees the financial reporting process and overall maturity of the internal control and risk management system. The described roles and responsibilities are in accordance with the Finnish Companies Act, and the Finnish Corporate Governance Code. The picture below summarises the roles of the listed stakeholders in the implementation of the internal control and risk management system.

Risk Assessment

The objective of Finnair's financial reporting risk assessment is to identify, evaluate and prioritise the most significant threats to the reliability of internal and external reporting at the Group, reporting area, unit, function and process levels. Processes related to financial reporting are subject to on-going risk assessment by the business unit controllers, financial controllers and other shared service centre staff as part of their activities.

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

Control activities

Financial reporting instructions have been prepared to be followed across the organization. The instructions outlining the content and schedule for the reporting aim to increase the overall controllability of the financial reporting process and ensure that financial statement fulfils the requirements set in the IFRS standards and other applicable principles.

Risks related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for listed companies.

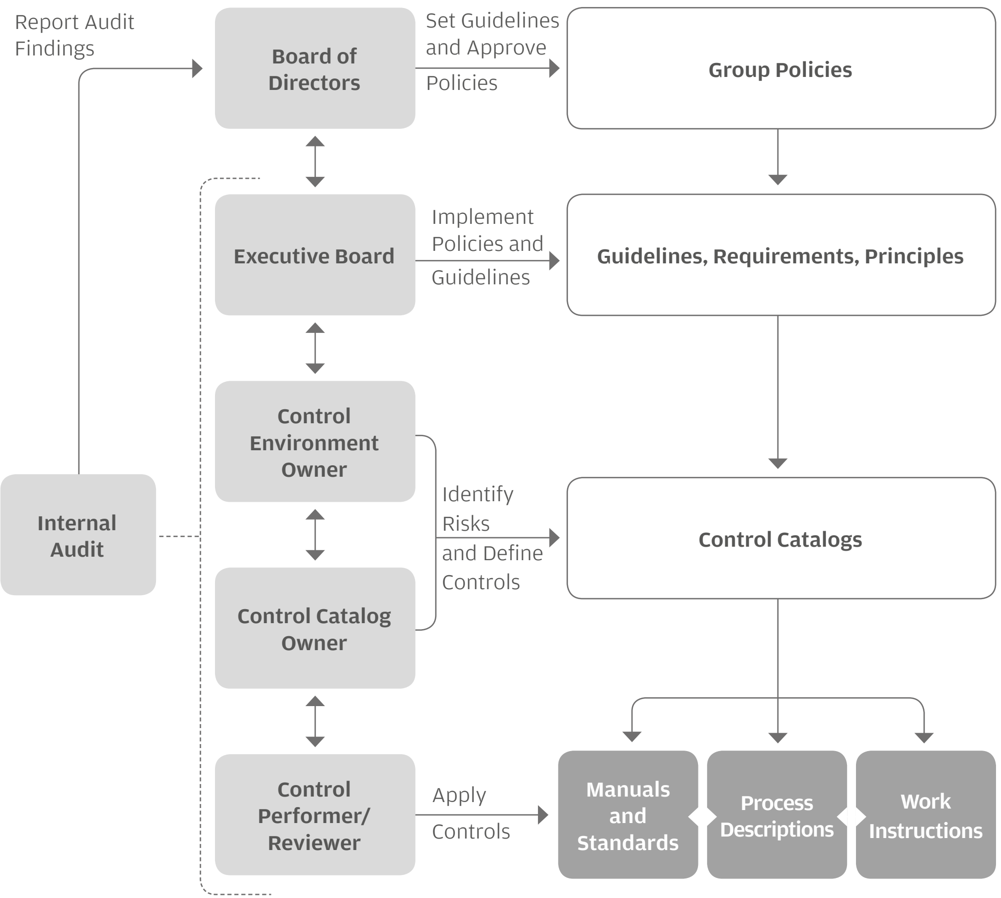
These control activities are:

- preventive, detective and corrective in nature;
- integrated into reporting processes in business units, group-wide functions and subsidiaries;
- operationalized through the implementation of Policies, Guidelines and Principles,
- captured in Control Catalogues;
- supported by Manuals and Standards, Process Descriptions and Work Instructions;
- monitored and continuously improved through a dedicated governance model.

Responsibilities over reporting controls are illustrated in the matrix below:

Role	Description
Control Environment Owner – Group CFO	Responsible for governing financial reporting control environment and acting as the risk owner of reporting risks
Control Catalogue Owner – Process Owners	Owner of the process controls defined in the control catalogue
Control Performer / Reviewer	Responsible for executing / monitoring key control(s) defined in the control catalogue
Internal Audit	Responsible for audit of reporting processes and related controls according to the annual audit plan

The main components and roles associated with control planning, implementation and monitoring are summarized below:



Information and communication

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

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

Monitoring and improvement

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

Focus areas of internal control over financial reporting in 2016 and 2017

Key Activities in 2016

Regular self-assessment of risks and controls was performed as set in the annual calendar of internal control activities. Additionally, the Internal Audit and external auditors performed audits on key controls as defined in the annual audit plan.

The controls were updated on the basis of an internal assessment and audit findings. Special attention was focused on process areas where changes in roles and responsibilities had taken place due to restructuring.

Planned Key Activities for 2017

Further development of the controls will be conducted independently and also using any findings and suggestions received from Internal Audit and external auditors. By the end of the year, audits will have been performed on each key process.

Internal Audit

The Internal Audit is established by the Board of Directors, and its responsibilities are defined by the Audit Committee of the Board of Directors as part of their oversight function.

The mission of Internal Audit in Finnair is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations. Internal Audit helps the organisation to mitigate factors that might undermine its business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit focus areas in 2016 and 2017

Key Activities in 2016

In 2016 Internal Audit set an objective to focus its audit activities to sourcing, third party risk management and vendor management processes as well as airline operations to support management in their corporate strategy. These themes were the overarching objectives throughout the Audit Plan 2016 in all audit engagements. Other special audit themes during the year comprised strategically important partnerships and IT systems.

Planned Key Activities for 2017

Internal Audit focus areas and annual plan for 2017 have been approved by the Audit Committee of the Board of Directors in December 2016. Key focus areas of Internal Audit for 2017 are based on and aligned with corporate strategy, results of risk assessments conducted by company management and recent changes in internal processes. Audit activities will pay special attention to the strategic focus areas (profitable growth, customer experience, people experience and digital transformation).

Compliance

Finnair is committed to complying with international and local laws and ethical policies in accordance with the Code of Conduct updated in 2016. The Company's General Counsel is responsible for Finnair’s compliance function, which supports the business lines and other functions in identifying and complying with the law and corporate governance practices. The key tasks of Finnair’s Compliance function are to ensure compliance with the regulation in all operations, excluding those covered by special legislation within the airline operations and human resources, the maintenance of Finnair's compliance program and the development of ethical business culture. In 2017, the Compliance function will attend especially to the implementation of the new Code of Conduct, preparations for the new data protection legislation and compliance with anti-bribery guidelines.

Transactions with closely associated parties

Finnair has guidelines concerning the avoidance of conficts of interest, which concern, among other things, business transactions between the Finnair group and people in its employ. The guidelines also apply to the members of the Board of Directors. A permission must be obtained for transactions with the company. The permission can be given by the Executive Board, or the permission concerns the CEO or a member of the Board of Directors, by the Board of Directors. The requirement to have a permission also applies to transactions in which the counterparty is a person closely related to a Finnair employee or Board member, or an entity in which these have an ownership of at least 20%. The person concerned may not participate in discussing the matter on the Executive Board or the Board of Directors or participate in preparations, decisions or implementation of the matter on behalf of the company.

In addition, the members of the Executive Board and the Board of Directors are required to file an annual report of transactions conducted by them or their closely related parties with Finnair during the financial period as well as transactions anticipated for the next period.

The permission and notification procedures only apply to negotiated transactions. Hence, they do not apply to service or product purchases available on normal commercial terms or normal employee discounts.

Significant transactions between Finnair and closely associated parties are announced with a stock exchange release in accordance with the rules of Nasdaq Helsinki.

Information on transactions with closely associated parties is also provided in note 4.5 to the financial statements.

Managers' transactions and key insider management procedures

Inside information within the company and transactions on Finnair financial instruments by persons discharging managerial responsibilities in the company or their closely associated persons are managed in accordance with the Market Abuse Regulation (MAR) and the insider guidelines of Nasdaq Helsinki and of the company. The company's insider guideline also applies to employees in the so-called informative core of the company.

The company maintains a list of persons discharging managerial responsibilities in Finnair (managers), including their closely associated persons and entities, who are under the obligation to notify the company and the Financial Supervisory Authority of their transactions on the company's financial instruments within three business days of the execution of the transaction. The company is under the obligation to disclose these transactions in a stock exchange release during the same period. The company's managers refer to the members of Finnair's Board of Directors and of the Executive Board.

The company's managers and employees in the so-called informative core of the company are bound by a closed window on trading, which begings 30 days before the release of interim or annual results and continues until the end of the release date. The company may also impose other trading restrictions and grant exemptions in accordance with its insider guidelines.

The company's managers and employees in the so-called informative core of the company must give an advance notice to the company before the execution of a planned transaction. In addition they can request an advance assessment of the legality of a planned transaction. The advance notice obligation and advance assessment opportunity are intended to reduce the risk of trading during a closed trading window or at a time when the company has undisclosed inside information. Giving an advance notice does not affect the responsibility of the company's managers and employees in its so-called informative core regarding the abuse of inside information.

The disclosure policy of the company requires, in accordance with the Market Abuse Regulation (MAR), that the company disclose as soon as possible any inside information it may have. However, the disclosure may be delayed if the requirements specified in the regulation are met. The identification of inside information and decisions regarding the disclosure or delay of disclosure are made by the company's Disclosure Committee, which includes the CEO, CFO, SVP Communications and General Counsel. The Disclosure Committee assesses information within the company every two weeks or otherwise whenever necessary. If the company delays the disclosure of inside information, it establishes a project-specific insider list and enters the persons with access to the relevant information on the list.

The person responsible for insider issues within the company is the General Counsel.

Finnair's insider guidelines are available at the company's website.

RISK MANAGEMENT AND MAJOR RISKS

Risk Management

Finnair operates in a global and highly competitive environment that is sensitive to economic fluctuations. In executing its strategy, Finnair and its operations are exposed to a broad range of risks and opportunities.

To exploit opportunities to create value, Finnair is prepared to take and manage risks within the limits of its risk appetite (rewarded risks). In relation to flight safety matters, compliance with laws and regulations, and reliability of reporting, Finnair's objective is to minimise risks (unrewarded risks). The purpose of risk management is to provide a systematic approach to the management of rewarded and unrewarded risks in all sections of Finnair's operations.

Policy and framework

In Finnair, risk is considered as the potential for loss caused by an internal or external event or series of events that can adversely affect the implementation of strategy, achievement of business objectives or shareholder value. Both negative events and unrealised positive events are considered as risk.

The Group Risk Management Policy defines the overall framework for risk management at Finnair Group. This framework, while taking into account industry specific requirements, is aligned with the commonly accepted COSO ERM framework and the ISO 31000:2009 standard for risk management.

Dedicated Risk Management Standards have been established to support the implementation of the Group Risk Management Policy in the following contexts: Treasury, New Ventures, Programs and Projects, Supply Chain, Flight Safety, Corporate Security and Information Security. Principles associated with risk management in the context of financial reporting are discussed in Note 3.5 on page 56.

Policy implementation

The Board of Directors holds the ultimate responsibility for the Enterprise Risk Management system in Finnair. It is responsible for approving the Group Risk Management Policy, setting Finnair Group's Risk Appetite and overseeing the effectiveness of Risk Management.

Finnair Group’s CEO holds the responsibility over the appropriateness of the Group’s Risk Management and oversight of Group Risk Management Policy implementation. The CEO, supported by the Risk Management Steering Group consisting of the members of the Executive Board, is also responsible for reviewing Group Risk Management Policy and risk management priorities.

Business units, group functions and subsidiaries of Finnair Group are responsible for implementing Group Risk Management Policy into the management system as well as aligning risk management guidelines and procedures with the Group Risk Management Policy.

Process

Finnair risk management system consists of the following components:

Establish context and set objectives

Finnair Group’s Risk Management System ensures that management has a process in place to assess and manage uncertainties associated with set objectives, and those uncertainties are analysed and managed within the boundaries of Finnair’s risk bearing capacity.

Risk Assessment

Risk assessments are executed according to the Annual Cycle defined in the Group Risk Management Policy. Finnair's risk assessment process takes place as an integral part of strategy process and operational objective-setting across the organisation to enable a holistic view on risks and opportunities.

Risk assessment in Finnair Group includes the following phases:

- Identification of external and internal events affecting the achievement of objectives;
- Distinction between risks and opportunities;
- Analysis of identified risks;
- Integration (aggregation) of risks;
- Evaluation and prioritisation of risks based on their impact and likelihood.

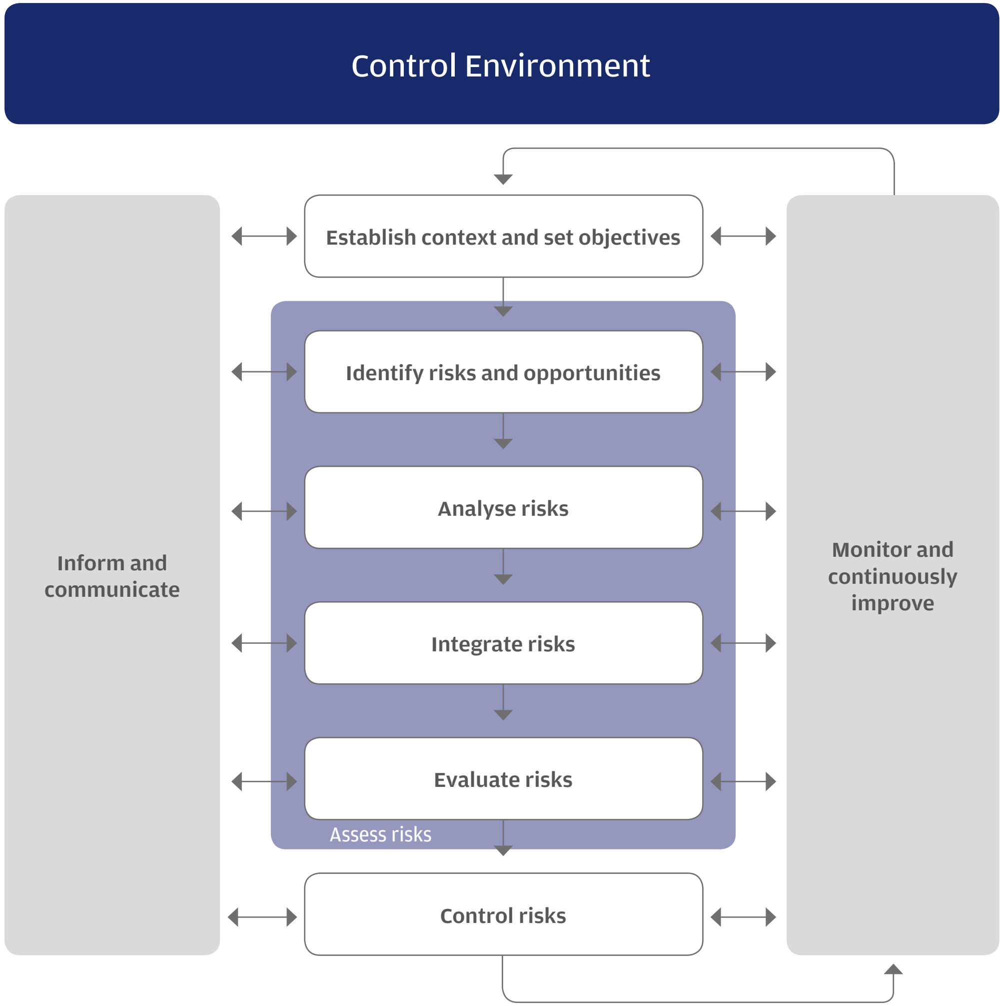
Finnair risk model and criteria for risk evaluation have been established to ensure comprehensive risk identification and systematic risk evaluation. Assumptions behind strategic objectives are analyzed and validated as a part of strategic risk assessment.

A dedicated Risk Coordinator Forum has been established to support coordination of risk assessment activities in units, group functions and subsidiaries, and to ensure these activities conform to the requirements set in the Group Risk Management Policy.

Risk response

Risk response strategies shall be applied to prioritised risks in order to reach reasonable assurance that their outcomes fall within an acceptable level. These risk response strategy options include:

- Acceptance of risk
- Avoidance of risk
- Transfer of risk
- Mitigation of risk



The CEO, supported by the Risk Management Steering Group, is responsible for defining risk response strategies and procedures, and setting risk management priorities.

Control activities

Risk owners are composed of the members of the Risk Management Steering Group. They are responsible for planning and implementing control measures within business units, group functions and subsidiaries to ensure an acceptable level of residual risk, and that the relevant risk interdependencies are appropriately acknowledged.

Information and communication

Risk management information system aims at providing means for Finnair's personnel to capture and communicate information related to execution of risk assessments and control activities across company's operations. Identified risks and their control measures are documented in risk logs for follow-up purposes. Dedicated information systems are in place to identify and analyse operational risk events and support associated operational audit activities.

Risk reporting to the Board of Directors and to the Risk Management Steering Group takes place on quarterly basis under the coordination of Group Internal Audit and Risk Management function. Status of Risk Management development activities and implementation of control measures are reported to the Audit Committee of the Board of Directors six times per year. In addition to the periodical business risk reporting, there are several reporting lines associated with financial and operational risk reporting to both internal and external stakeholders.

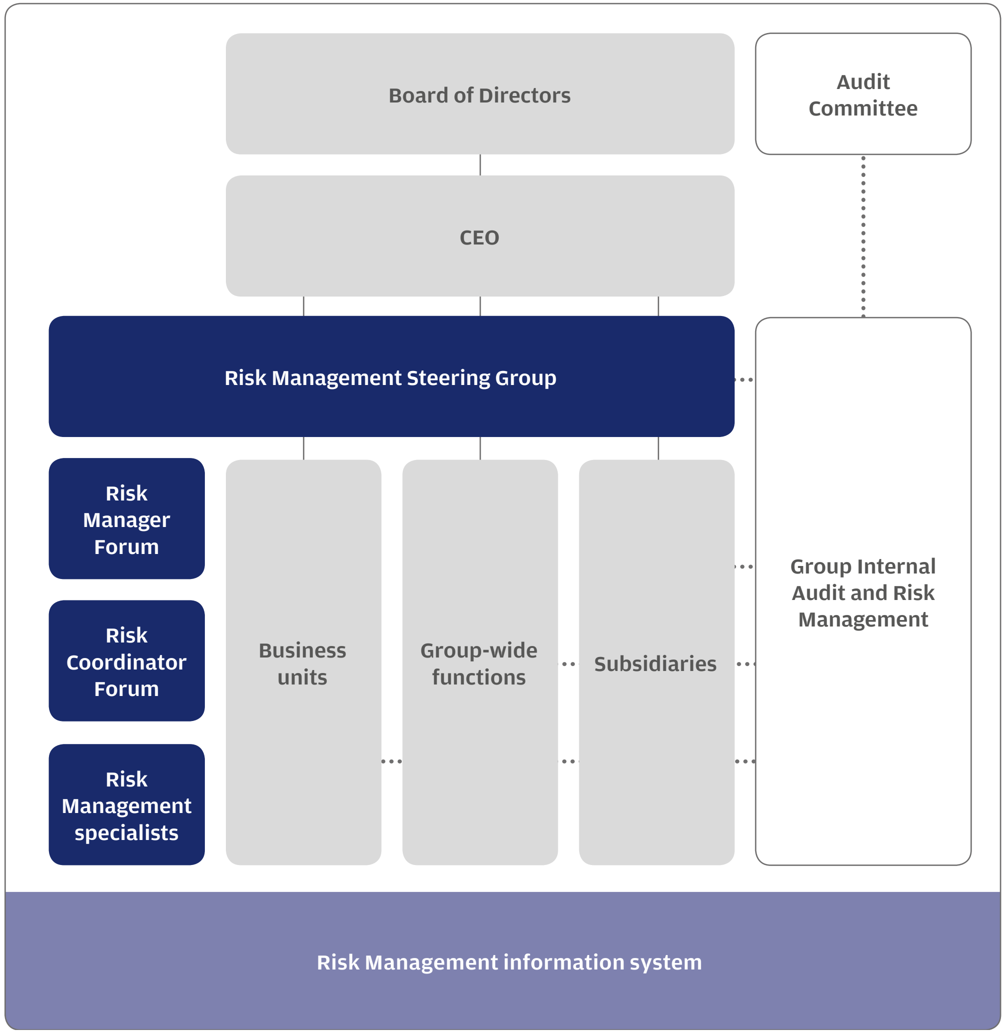
Monitoring and continuous improvement

Finnair's risk management system is subject to both ongoing and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. The implemented risk management system is subject to continuous improvement activities based on PDCA (Plan-Do- Check-Act) cycle consistent with ISO 31000:2009. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of the corporate management, business units and group functions.

The effectiveness of all flight safety related control activities and the general compliance with official regulations are monitored through the safety and quality system. Within the scope of the safety and quality system, the safety-critical elements of the company are audited annually.

The Audit Committee of the Board of Directors is responsible for regularly reviewing and monitoring the implementation of the Group Risk Management Policy and the Enterprise Risk Management process. Group Internal Audit and Risk Management in cooperation with the Risk Manager Forum is responsible for the assessment and development of the maturity of the risk management system. In order to ensure well-coordinated risk management development activities across the organisation and exchange of best practices, a dedicated Risk Manager Forum consisting of risk management specialists has been established.

Governance model and reporting lines



Risk Management focus areas in 2016 and 2017

Regarding risk management development activities in 2016, risk management's focus was on further improving the Group-wide bottom-up approach in risk management, as well as improving the systematic risk management activities in relation to partners and suppliers.

The following activities are the focus areas in 2017: Further integration of risk management into strategic decision making as part of strategy process, implementation of formal risk appetite setting in Risk Management Steering Group as part of continuous risk management, as well as further development of risk management activities in relation to partners and suppliers.

Major risks

Globally the airline industry is one of the sectors most sensitive to external shocks, seasonality and cyclical changes in economic conditions. Finnair carries out a comprehensive risk management process to ensure that risks are identified and mitigated where possible although many remain outside our full control. The risks and uncertainties described below are considered to potentially have significant effect on Finnair's business, financial results and future prospects. This list is not intended to be exhaustive.

Major risks

Risk	Definition	Our risk responses include, but are not limited to:	
BUSINESS ENVIRONMENT			
Competitors	The risk of competitors or new entrants to the market taking actions to establish sustainable competitive advantage over Finnair.	• Continuous monitoring of competitor activities • Scenario analysis • Contingency planning	• Product development program(s) • Cost-competitiveness program(s) • Active joint business and alliance cooperation
Economic volatility	The risk that major economic volatility or other large scale economic disturbances slow down travelling.	• On-going analysis of market trend development • Periodical risk assessments • Contingency planning	• Risk diversification through active vendor portfolio management • Fleet ownership strategy
Traffic charges and flight permissions	The price and availability of overflight rights as well as the price of traffic charges, such as arrival, departure and navigation charges result in a negative impact on Finnair's business operations and profit margin.	• Continuous monitoring of political environment • Lobbying	• Active cooperation with key stakeholders • Enterprise-wide dependency analysis
Country risk	The risk that sudden changes in demand, political upheaval, cultural factors, natural disasters, pandemic or other disturbances in destination countries slow down travelling and/or hinder Finnair's ability to conduct business.	• Continuous monitoring and market intelligence • Group level risk assessments • Foreign unit risk assessments	• Contingency planning • Crisis communication planning • Network diversification
Laws and regulations	The risk that changes in laws, regulations or their interpretations significantly affect Finnair's ability to efficiently conduct business.	• Compliance management programme to identify changes in external requirements and align internal activities to support compliance them • Dedicated internal policies	• Awareness through tailored training programs • Ensuring ability and resources to execute controls
FINANCIAL			
Market risk	The risk of incurring additional costs due to adverse movements of the interest rates, unsuccessful currency position and/or rise of jet fuel price.	• Treasury policy approved by the Board of Directors • Internal controls over Treasury policy implementation	• Continuous monitoring of hedging ratio(s) • Scenario and sensitivity analysis
Liquidity risk	The risk of incurring additional or unnecessary costs due to inability to generate cash flow.	• Maintain robust cash balance • Diversify funding sources	• Pre-committed aircraft financing • Maintain an unutilised credit facility and commercial paper programme
BUSINESS OPERATIONS			
Revenue management	The risk that Finnair is not capable to perform competitive revenue management to optimise its revenues per seat kilometre.	• Global sales strategy and revenue optimisation process • Daily monitoring of booking trends, issued sales, advance booking reports • Monitoring of key variables such as market shares, pricing structure and yields of other relevant airlines as well as route profitability	• Executive level monitoring and performance evaluation • Control measures to ensure timeliness and integrity of revenue management information
Marketing mix	The risk that segmentation and marketing mix decisions on product, price, promotion and distribution do not support creation of sustainable competitive advantage.	• Finnair brand re-positioning • Continuous benchmarking and strategic positioning of Finnair product	• Customer satisfaction and consumer trend surveys • New E-commerce organization to safeguard and develop online presence
Capacity planning	The risk that insufficient capacity threatens Finnair's ability to meet customer demands, or excess capacity threatens Finnair's ability to generate competitive profit margins.	• Network strategy • Demand forecasting • Route performance monitoring	• Deviation analysis • Continuous process improvement
Human capital	The risk that Finnair is not able to execute its strategy due to inadequate quality, commitment or resourcing of human capital.	• Strategic competency management • Continuous improvement of HR processes • Change management program • Employee wellbeing strategy	• Internal communication management • Union relations management • Contingency planning • Active and open communication with key stakeholders
Innovations management	The risk of Finnair not being able to produce product/ service/ distribution and/or process innovations to drive increased customer satisfaction and continued cost reductions.	• Digital vision and strategy • Digitalization roadmaps • Project portfolio management	

Risk	Definition	Our risk responses include, but are not limited to:	
PARTNERSHIPS			
Alliances and Joint Businesses	The risk that other alliances and/or joint businesses gain competitive advantage over **one**world, Finnair's joint businesses and/or lack of performance and missing of targets.	• Active alliance cooperation • Joint business governance model • Dedicated alliance and joint business teams	• Joint continuous process improvement activities • Internal controls over joint business processes
Partners and suppliers	The risk that quality and availability issues and/or unexpected costs associated with partnerships and suppliers have an adverse effect on Finnair's product and profit margin or suppliers gain bargaining power over Finnair.	• Supplier relationship management program • Supplier risk assessments • Contract risk management	• Dedicated procurement specialists per supplier category • Scenario analysis • Contingency planning
SAFETY & SECURITY			
Flight safety	The risk of endangered flight safety due to poor process design, poor process execution or a human error.	• SMS (safety management system) • SQM Governance (Safety and Quality Board, safety action groups, post holder • responsibilities) • Continuous analysis	• Risk assessment • Reporting • Monitoring • Safety and Quality audit program • FRMS (fatigue risk management system)
Information security	The risk of a cyber-attack on aviation systems having an impact on operations and therefore damaging the Finnair brand. The risk that inappropriate parties can access Finnair's sensitive or classified information jeopardising its confidentiality and/or integrity. The risk that a large-scale attack or disruption in information systems affects Finnair's ability to conduct its business as planned.	• Risk assessments • Security audits and evaluations • Risk management actions • Contingency planning	

REMUNERATION STATEMENT 2016

Content

Introduction

This remuneration statement describes Finnair's remuneration policies and the remuneration of the senior management, i.e. the Board of Directors, the CEO and the members of the Executive Board in 2016. Further information is available on the company website at https://investors.finnair.com/en. The remuneration statement has been prepared based on the 2015 Finnish Corporate Governance Code for Listed Companies published by the Finnish Securities Market Association, and it also covers other key components of remuneration that we believe the readers are interested in.

Total Compensation at Finnair

Remuneration and incentive structures take into consideration the effectiveness and costs of different forms of remuneration. Finnair's remuneration policies are compliant with local legislation, regulations and practices. The overall remuneration of Finnair's different personnel groups are compared annually to the local pay levels in similar tasks in every country in which the company operates.

The salary and other incentive structures applicable to the CEO, the members of the Executive Board, senior salaried employees, engineers and personnel based in units abroad are as follows:

I. Fixed pay: base salary
II. Variable pay: short and long-term incentives linked to company and individual performance
III. Employee benefits: perquisites and other personnel benefits

Salaries, addendums and other compensation components of personnel groups other than those mentioned above are, for the most part, defined in their respective Finnish collective agreements. Outside Finland, Finnair follows the pay practices and collective agreements of each country of operation.

Employment benefits for all personnel include a staff ticket benefit in line with company policy, as well as a Sickness Fund for employees based in Finland. Certain personnel groups also have a car benefit and mobile phone benefit in line with company policy.

Finnair aims to make work rewarding and interesting through not only monetary incentives, but also by offering opportunities for development and job rotation within the company. Employees are satisfied at Finnair, as evidenced by a high average duration of employment and a very low employee turnover. The average of service years of all employees was 16.5 at year-end 2016.

Computational monthly earnings of Finnair's Finnish personnel groups in 2016[1)]

	Median[2)]		
Personnel group	**2016**	**2015**	**2014**
Executive Board	24,633	20,412	18,486
Management Positions	11,296	9,848	8,517
Pilots	10,952	10,719	10,216
White Collar Employees	5,651	5,424	5,241
Technical Employees	5,070	5,110	5,116
Technical Service Workers	4,857	4,810	4,777
Cabin Crew	3,837	4,015	4,207
Ground Service Workers	3,796	3,821	3,911
Aviation Employees	3,748	3,593	3,551

[1)] Computational monthly earnings: Taxable gross earnings divided by 12 months.
[2)] The median pay describes the average salary of each group, or the point where half of the employees in the group earn more than the amount, and half earn less.
The calculations only include employees who earned pay for the full year. Temporary layoffs have been eliminated from the calculations. The calculations do not include tax exempt benefits or other untaxed forms of compensation, such as daily allowances. The data does not include pilots in supervisor roles. Long-term incentives are not included. The difference in the salary and remuneration of the Executive Board in 2015 and 2016 is explained by the larger composition of the Executive Board, which better supports the growth and strategy of the company. In addition, it was impacted by the STIs materialising at a higher level than previously due to the company's financial result.

Median earnings describe the average pay level of each personnel group, and are not indicative of the total personnel costs of that group. The median pay of pilots increased in 2016 reflecting among other things compensation for working on vacation days. The median earnings of white collar employees and management increased in 2016 due to higher short-term incentives based on company result. In addition, there were changes in management affecting the median pay: the size of the Executive Board increased to support the company's growth and strategy, and on the other hand, the number of other managerial personnel has decreased by about a third in recent years.

Average years of service in Finnair's different personnel groups on 31 Dec 2016

Personnel group	Average years of service
Executive Board	6,0
Pilots	14,7
Management Positions	15,1
White Collar Employees	16,1
Technical Employees	24,8
Technical Service Workers	19,8
Cabin Crew	18,4
Ground Service Workers	18,9
Aviation Employees	20,5
Tour Operator Employees	14,7
Tour Operator Travel Guides	6,5
Tour Operator Professionals	10,9
Abroad Employees	7,4
Average of personnel groups	**16,5**

Compensation is based on job grading

Finnair uses job grading as the basis for determining the compensation of the CEO, members of the Executive Board, white collar employees and personnel based in units abroad. Job grading is based on the significance of the job and responsibility within the organisation, rather than hierarchical reporting relationships. Job grading is tied to the job, and if a person changes from one job to another, his or her job grade may change. Job grading enables consistency in compensation-related decisions both internally and compared to the market.

Variable pay

The aim of variable pay is to achieve a flexible and incentivising pay structure that is linked to the company's success and the individual's own performance. In addition, long-term incentives are aimed at committing the personnel and management to the company and to bringing their interests in line with the interests of shareholders. Performance targets are set by Finnair's Board of Directors.

Short-term incentives

Short-term incentive scheme

Finnair utilises performance-driven short-term incentives throughout its management. The incentive scheme comprises a process of target setting, performance evaluation and performance review. At the target level, the short-term variable pay ranges from 2.5–30 per cent of base salary, depending on the job grade. If an individual exceeds his or her targets substantially, the variable pay may, at a maximum, reach 5–60 per cent of the annual base salary. The short-term incentive scheme is based on the company's six-month budgeting period and the variable pay is paid semi-annually. The variable pay is calculated based on the individual's base salary for the period in question.

The short-term incentives for the CEO and other members of the Executive Board are determined on the basis of the half-yearly targets set by the Board of Directors. The targets are based on the company's business targets set by the Board of Directors for the period in question and on the targets set for the business area for which the individual in question is responsible. The targets are mainly based on financial measures but also on operative and quality KPIs, such as customer satisfaction.

The short-term incentive for the CEO and the members of the Executive Board corresponds to 30 per cent of the base salary at the target level and 60 per cent of the base salary at the maximum level

According to the government guidelines issued by the Finnish Cabinet Committee on Economic Policy on 13 August 2012, the short-term incentive for an individual may not exceed 60 per cent of the annual base salary in any given year. Respectively, according to guidelines issued on 13 May 2016, total incentives (includes both short-term, and long-term incentives) may not exceed 120 per cent of the annual base salary in any given year.

Personnel fund

Finnair has a Personnel Fund owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined on the basis of targets set by the Board of Directors. The CEO, other members of the Executive Board and the participants of the performance share plan are not members of the Personnel Fund. Based on the comparable operating profit for 2016, 0.5 million euros will be transferred to the personnel fund.

Long-term incentives

Personnel share savings plan Fly Share

On 27 March 2013, Finnair's Board of Directors decided to launch Fly Share, an employee share savings plan. The plan encourages employees to become shareholders in the company, and thereby strengthens the employees' interest in the development of Finnair's shareholder value and rewards them in the long-term.

The plan consists of annually starting savings periods which are followed by a two-year shareholding period. Every new savings period is decided separately by the Finnair Board. The fourth savings period of the plan started on 1 July 2016.

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

After the two-year shareholding period, Finnair will award each participating employee one matching share for each two shares purchased. The awarded additional shares are taxable income for the recipient. In addition, employees participating in the plan for the first time are rewarded with 20 bonus shares after the first three months. Also the bonus shares are taxable income.

In 2016, the participants were awarded matching shares for the first time, as the two-year shareholding period of the first Fly Share plan ended in February, and Finnair delivered a total of 277,596 shares as awarded matching shares to the participants. On 20 December 2016, Finnair's Board of Directors decided on a new savings period to begin on 1 July 2017.

Performance-based long-term incentive plan for key personnel

Finnair's Board of Directors approved on 7 February 2013 a new performance share plan for the key personnel of Finnair Group. The share plan replaced the previous program which expired at the end of 2012. The share plan encourages the management to work to increase long-term shareholder value. It has been designed in accordance with the principles of the statement by the Ministerial Committee on Economic Policy.

The share plan consists of annually commencing individual plans within which the participants have the opportunity to earn Finnair shares as a long-term incentive reward, if the performance targets set by the Board of Directors are achieved. The commencement of each new plan is subject to a separate approval of Finnair Board of Directors.

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

The potential reward will be delivered in Finnair shares. The share delivery is split into two or three share tranches that will be delivered to participants during the three years following the performance period.

If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the CEO or other member of the Executive Board participating in the plan will be 30 per cent of his or her annual base salary. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60 per cent of the participant's annual base salary. For other key personnel, the target level for incentives is 20–25 per cent and maximum 40–50 per cent of the person's average annual base salary according to the job grade.

According to the rules of the share program, the maximum value of shares delivered to an individual participant based on the share program in any given year may not exceed 60 per cent of the person's annual base salary. Shares are taxable income for the recipient.

A person is not entitled to the incentive if he or she resigns or is dismissed before the date of payment. In addition, during the restriction period the Board of Directors is entitled, at its discretion, to reclaim already delivered shares from a person included in the share plan who resigns or whose service in the company is terminated.

The Board of Directors is also entitled, subject to a particularly weighty reason, to change or cancel the incentive or to postpone its payment. The Board of Directors is entitled to remove a participant from the share plan if the person has committed a significant offence or acted in a manner detrimental to the company or contrary to the company's interests.

Performance criteria and realisation of the plans

The performance criteria applied to the plan 2013–2015 were the Group's relative operating EBIT margin growth and decrease in unit costs in European traffic. These two criteria were assigned weights of 60 per cent and 40 per cent, respectively. The achieved payout rate of the plan was 27 per cent of the maximum. The performance criterion for the share plan's bridge element was the operating EBIT margin. The targets of the supplementary plan were not achieved.

The performance criteria applied to the plans 2014–2016,2015–2017 and 2016-2018 are Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). Both of these criteria had a weight of 50 per cent.

The target levels and maximum levels set for the criteria are based on long-term strategic objectives set by the company's Board of Directors. Performance against the criteria is monitored quarterly. On 20 December 2016, Finnair's Board of Directors decided on a new plan for years 2017-2019.

Long-term incentive plan for pilots

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

The plan period is 2015-2018 and the prerequisite for rewarding pilots based on this plan is the achievement of the agreed cost savings over this time period. In addition, the company share price must be at least 4 euros at the end of the incentive plan. If these conditions are met, the pilots are entitled to a cash payment. The amount of the payment is based on the Finnair share price. The total payment is 12 million euros with a share price of 4 euros and 24 million euros with a share price of 8 euros, which is also the maximum earning of the plan. Divided over the four-year period, the annual earnings potential for one participant is equivalent to 5-10 per cent of the annual base salary.

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

Management remuneration decision-making procedure

The Board of Directors' remuneration: The Shareholders' Nomination Board prepares annually its proposal for the remuneration of the members of the Board of Directors. The Annual General Meeting of shareholders makes the final decision on the Board's remuneration.

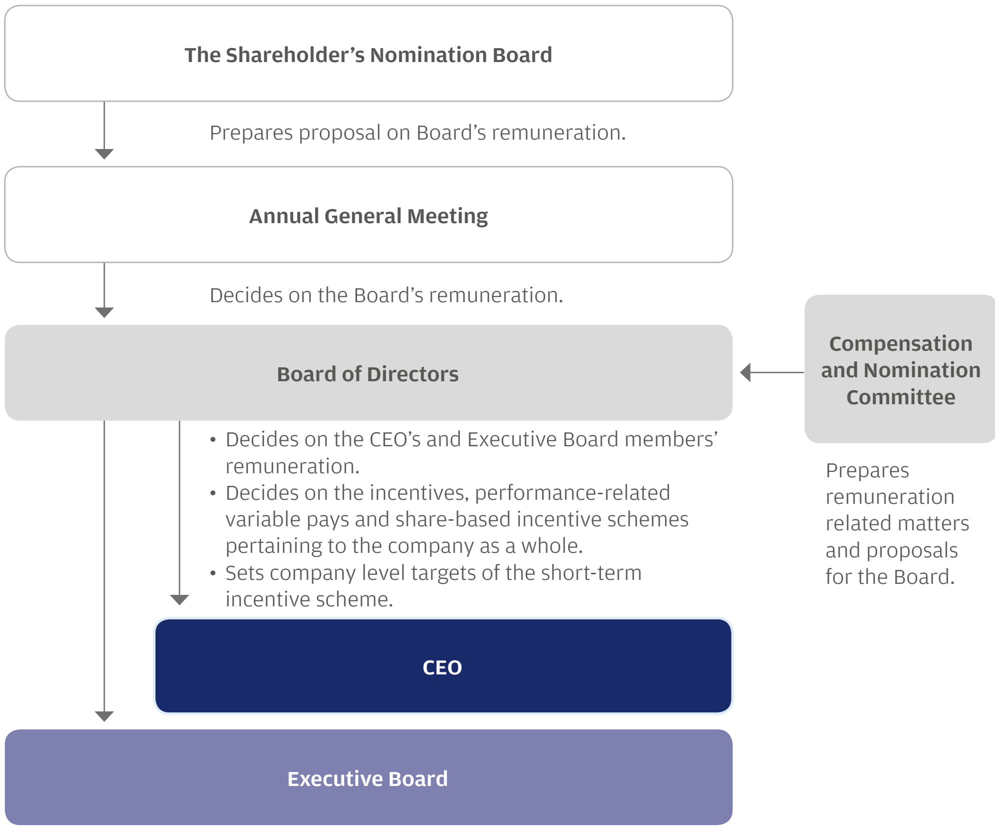
The remuneration of the CEO and the Executive Board: The Board decides on the salary, incentive schemes and associated targets of the CEO and other members of the Executive Board based on preparatory work carried out by the Board's Compensation and Nomination Committee. Decisions on remuneration have been made with consideration of the government guidelines.

Remuneration of the Board of Directors in 2016

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

The members of the Board of Directors are not covered by the company's share incentive scheme or other incentive schemes.

Remuneration decision-making procedure



The annual remuneration and meeting compensation decided by the 2016 AGM for the members of the Board of Directors are:

- Chairman's annual remuneration, 61,200 euros
- Deputy Chairman's annual remuneration, 32,400 euros
- Chairmen of the Audit Committee and Compensation and Nomination Committee, 32,400 euros, where these individuals are neither the Chairman nor the Deputy Chairman of the Board
- Other Board members' annual remuneration, 30,000 euros
- Meeting compensation paid per Board or committee meeting is 600 euros when the meeting takes place in the member's country of residence and 2,400 euros for other meetings. For telephone meetings, the fee is 600 euros.

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

Annual remuneration for members of the Board of Directors has remained unchanged since 2008.

Remuneration paid to Finnair Board of Directors in 2016

	Annual remuneration[1]	Board meeting	Committee meetings	Meeting compensations in total	Taxable benefits[2]	Total
Members 1.1.–31.12.2016						
Klaus Heinemann (chairman)	61,200	8/8	0/0	21,600	0	82,800
Maija-Liisa Friman	32,400	8/8	5/6	10,800	4,348	47,548
Gunvor Kronman	30,000	8/8	5/5	10,800	2,514	43,314
Jussi Itävuori	32,400	8/8	5/5	36,000	6,748	75,148
Jaana Tuominen	30,000	8/8	5/5	10,800	4,457	45,257
Nigel Turner	30,000	8/8	4/6	31,800	0	61,800
Members 17.3.–31.12.2016						
Jouko Karvinen (deputy chairman)	24,300	6/6	5/5	26,400	3,429	54,129
Members 1.1.-17.3.2016						
Harri Kerminen (deputy chairman)	8,100	2/2	3/3	4,800	0	12,900

Remuneration paid to the Board in 2016.
[1] The remuneration is expressed at the annual level but paid in monthly instalments.
[2] Taxable benefits include Finnair staff tickets. The members of the Board and their spouses have a right to use staff tickets in accordance with Finnair's staff ticket rule.

Management remuneration in 2016

In 2016, Finnair's CEO was Pekka Vauramo. The Executive Board comprised nine members in addition to the CEO. In 2016, the Executive Board got three new members: Piia Karhu, Katri Harra-Salonen and Jaakko Schildt. Meanwhile Ville Iho left the Executive Board on 31st December 2016. The Executive Board members are presented on page 117.

In 2016, the long term incentives from the LTI program 2013–2015 were paid to the management, in two parts in June and December. The achieved payout of the program was 27 per cent of the maximum.

The differential between management remuneration in 2015 and 2016 is explained by the larger composition of the Executive Board in order to better support the company's growth and strategy, and the payment of the abovementioned LTI incentives for the first time in three years. Furthermore, it reflects the STI incentives being achieved at higher rates than previously due to the company's result.

Supplementary pensions

The CEO

The CEO, Pekka Vauramo, accumulates pension and his retirement age is defined in accordance with the Finnish Employees' Pensions Act. In addition, the CEO is entitled to defined-contribution pension insurance, where the contribution equals 20 per cent of the CEO's fixed annual salary (pension contribution under the supplementary scheme as of 2017). The supplementary pension includes vested rights. The pension age is the earliest possible retirement age under the Employees' Pension Act.

Executive Board

The members of the Executive Board accumulate pension in accordance with the Finnish Employees' Pensions Act. In addition, the company has a supplementary pension scheme that includes three members of the Executive Board. The supplementary pension arrangements for members of the Executive Board are collective within the meaning of Finnish tax laws. All supplementary pensions taken for the executives are defined contribution schemes.The annual contribution equals 10 per cent of the income for the year. The supplementary pension includes vested rights. The retirement age is 63 years. There are no Executive Board members with defined benefit supplementary agreements.

New Executive Board member service contracts concluded after 1 January 2013 do not include supplementary pension benefits.

Termination of the service contract and severance pay

The CEO

According to Pekka Vauramo's service contract, both the CEO and the company have the right to terminate the service contract without a specific cause. The notice period is six months for both the company and the CEO.

In the event that the company terminates the service contract or the CEO resigns in connection with a transfer of control over the company, the CEO is entitled to a severance pay corresponding to monthly salary for twelve months in addition to the salary for the notice period. The severance pay does not apply if the CEO resigns or retires.

Executive Board

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

Other benefits

The CEO

CEO Pekka Vauramo's benefits include life insurance, free-time accident insurance, travel insurance, management liability insurance and medical insurance. The life insurance coverage starts at 20 per cent of annual pay and increases each year. The total sum may not, however, exceed 500,000 euros. The CEO also has a mobile phone benefit in line with company policy.

Executive Board

The benefits of the members of the Executive Board include free-time accident insurance, travel insurance, management liability insurance and the right to medical insurance. They also have a car benefit and mobile phone benefit in line with company policy.

Management remuneration, the company's long-term incentive plan and pension contributions are also described in Finnair Financial Statements in note 1.3.7 Employee benefits.

Salary and other remuneration paid, euros per year		CEO 2016	CEO 2015	Executive Board[1] 2016	Executive Board[1] 2015
		Pekka Vauramo	Pekka Vauramo		
Base Salary[2]					
The monthly salaries of the CEO and members of the Executive Board are decided by the Board of Directors.	**In total, euros**	**648,912**	**648,948**	**1,686,867**	**1,196,213**
Employee benefits					
Employee benefits are described on page 113	Car benefit, taxable value	0	0	60,201	47,025
	Phone benefit, taxable value	240	240	1,887	1,370
	Other taxable benefits[3]	2,052	2,304	17,145	12,281
	In total, euros	**2,292**	**2,544**	**79,234**	**60,676**
Short-term incentives[4]					
The principles are described on page 117	**In total, euros**	**260,889**	**215,252**	**588,791**	**201,263**
Long-term incentives[5]					
	Key personnel LTI, monetary and share reward, total	80,793	0	76,383	0
	Fly Share, monetary and share reward, total	0	0	13,552	0
	In total, euros	**80,793**	**0**	**89,935**	**0**
SALARY AND OTHER REMUNERATION PAID IN TOTAL		**992,885**	**866,744**	**2,444,827**	**1,458,152**

[1]Salary and remuneration included for Executive Board membership period only.
[2]Base salary includes holiday bonus.
[3]Other taxable benefits include health insurances and staff tickets.
[4]Earning period for incentives paid in 2015 was 1 Jul 2014 - 30 Jun 2015 and for incentives paid in 2016 1 Jul 2015 - 30 Jun 2016.
[5]No long-term incentives were paid in 2015.

The difference in the median pay of the Executive Board in 2015 and 2016 is explained by the larger composition of the Executive Board, which better supports the growth and strategy of the company. In addition, it was impacted by the STIs materialising at a higher level than previously due to the company's financial result.

BOARD OF DIRECTORS 31 DECEMBER 2016







Klaus Heinemann
b. 1951, Diplom Kaufmann, German citizen. Chairman of the Finnair Board of Directors since 27 March 2013. Member of the Board since 2012.
Committee memberships: -
Main occupation: Board professional.
Key positions of trust: Member of the Advisory Board of Skyworks Holdings LLC, Advisory Board Member Scope Ratings AG, Director of Avinomics GmbH.

Jouko Karvinen
b. 1957, M.Sc. (Tech.), Finnish citizen. Vice Chairman and Member of the Finnair Board of Directors since 2016.
Committee memberships: Audit Committee.
Main occupation: Board professional.
Key positions of trust: Member of the Board of Valmet Oyj, Member of Foundation and Supervisory Board of IMD business school, Lausanne, Switzerland, and Member of the International Advisory Board of Komatsu Corporation of Japan.

Maija-Liisa Friman
b. 1952, M.Sc. (Tech.), Finnish citizen. Member of the Finnair Board of Directors since 2012.
Committee memberships: Audit Committee (Chairman).
Main occupation: Board professional.
Key positions of trust: Vice Chairman of the Board of Neste Oyj, member of the Boards of SCA, LKAB, the Finnish Securities Market Association and Boardman Oy. Chairman of the Board of Helsinki Deaconess Institute.

Jussi Itävuori
b. 1955, M.Sc. (Econ.), Finnish Citizen. Member of the Finnair Board of Directors since 2012.
Committee memberships: Compensation and Nomination Committee (Chairman).
Main occupation: Senior Partner, RJI Partners Limited.
Key positions of trust: Member of the Board of Barona Group Oy and RJI Partners Oy, and Chairman of the Board of RJI Holding Oy and Cloudator Payroll Oy.

Gunvor Kronman
b. 1963, MA, Finnish citizen.
Member of the Finnair Board of Directors since 2012.
Committee memberships: Compensation and Nomination Committee.
Main occupation: CEO of Hanasaari – the Swedish-Finnish Cultural Centre.
Key positions of trust: Chairman of the Board of Kalevala Jewelry. Vice Chairman of the Board of Crisis Management Initiative and Plan International, Member of the Boards of The Finnish Red Cross Blood Service, Helsinki University, Konstsamfundet, The Swedish Royal National Theater Dramaten (Sweden), Rand Corporations (US/UK) and Augusta Victoria Hospital (Palestine).

Jaana Tuominen
b. 1960, M.Sc. (Tech.), Finnish citizen.
Member of the Finnair Board of Directors since 2014.
Committee memberships: Compensation and Nomination Committee.
Main occupation: CEO of Paulig Group since 2008.
Key positions of trust: Member of the Board of Directors of Suominen Oyj, Condfederation of Finnish Industries and Suomen Messut Osuuskunta, Chairman of the Board of Directors of Elintarviketeollisuusliitto ry.

Nigel Turner
b. 1958, BA (Hon.), British Citizen Member of the Finnair Board of Directors since 2014.
Committee memberships: Audit Committee.
Main occupation: -
Key positions of trust: Chairman of TrueNoord Ltd, an aircraft leasing company.

The Board of Directors was elected in the Annual General Meeting held on 17 March 2016. More detailed information about the board members and their ownership of Finnair shares can be found at https://investors.finnair.com/en/governance/insider-issues/managers-holdings.

EXECUTIVE BOARD 31 DECEMBER 2016









Pekka Vauramo
b. 1957, M. Sc. (Tech). President and CEO as of 1 June 2013. He joined Finnair from Cargotec, a Finnish cargo and load handling company, where he held different management positions between 2007 and 2013, most recently as COO of the MacGregor business area in Hong Kong. Between 1985 and 2007 he worked at Sandvik, a Swedish mining and construction company.

Eija Hakakari
b. 1961, M. Sc. (Education), SVP People & Culture as of 1 of October 2014. Before joining Finnair, she was SVP Human Resources at Stora Enso's Printing and Living division. Her previous positions include SVP Human Resources at Rautaruukki and various HR director positions in both China and Finland.

Katri Harra-Salonen
b. 1969, M.Sc. (Tech), eMBA, Finnair Chief Digital Officer (CDO) as of 21 March 2016. Harra-Salonen has made a long career in digital transformation positions. Since 2012, she has been the founder and CEO of Umbrella Strategic Advisory Ltd. Previously, she was CEO of Fjord Sweden in Stockholm and has also leadership positions at Satama Interactive in Finland and Sweden.

Juha Järvinen
b. 1976, MBA, BA (hons), Chief Commercial Officer as of 1 November 2014. In Finnair's service since 2012. Mr Järvinen has extensive experience in managing different services within the airline industry. Before his current position, he served as Managing Director of Finnair Cargo, and prior to that, as Vice President, Ground Handling International at SAS Scandinavian Airlines.

Piia Karhu
b. 1976, Doctor, Business Administration, SVP Customer Experience as of 1 March 2016. Karhu has held various leadership positions at Finnair since 2013, most recently in charge of network planning and business development.

Sami Sarelius
b. 1971, LLM, SVP and General Counsel, in Finnair's service since 1998.

Jaakko Schildt
b. 1970, MBA, BSc Engineering, SVP Operations as of 16 August 2016. Schildt joined Finnair from Thomas Cook Airlines UK, where he held the position of Accountable Manager. Previously, Mr Schildt has worked as the head of Finnair Technical Services, as well as in various leadership positions within SAS Group.

Arja Suominen
b. 1958, MA, eMBA, SVP Corporate Communications and Corporate Responsibility, in Finnair's service as of March 2011. Previously, Ms Suominen has worked as SVP, Communications at Nokia.

Pekka Vähähyyppä
b. 1960, M.Sc. Econ., eMBA, CFO as of 17 August 2015. Vähähyyppä joined Finnair from Stockmann where he was CFO in 2000–2015. Prior to that, he held financial management positions in for example, Nestlé's Nordic subsidiaries, OKO-Venture Capital and A-lehdet Oy.

More detailed information about the members of the Executive Board and their ownership of Finnair shares can be found at the Finnair website.

INFORMATION FOR THE SHAREHOLDERS

Annual General Meeting

Finnair Plc's Annual General Meeting will be held on Thursday 16 March 2017, at 15:00 at the Messukeskus Helsinki at the address Messuaukio 1, Conference Centre, Helsinki, Finland. The reception of persons who have registered for the meeting and the distribution of voting tickets will commence at 14:00. Coffee is served before the commencement of the AGM.

The notice to convene the AGM

The notice to convene the AGM and the proposals of the Board of Directors to the AGM will be published as a stock exchange release and on Finnair's company website. The notice will contain the agenda for the AGM. Shareholders are entitled to having an issue put on the Annual General Meeting's agenda, provided that such an issue requires a decision by the Annual General Meeting according to the Finnish Companies Act, and provided that they request it in writing in due time to be included in the notice.

The right to participate in the AGM

Each shareholder who is registered on Monday 6 March 2017 in the Company's register of shareholders maintained by the Euroclear Finland Oy has the right to participate in the AGM.

Registration for the AGM

The shareholder who wants to participate in the general meeting and exercise their voting right can register to the meeting at the latest on Monday 13 March 2017 at 10:00. Registration can be done:

- In the internet at http://company.finnair.com/en,
- By e-mail to: agm@finnair.fi,
- By phone from Monday to Friday at 9:00–16:00 in the number: +358 20 770 6866,
- By fax: +358 9 694 0205 or
- By mail to: Finnair Plc., Register of shareholders, HEL-AAC/ 502 01053 FINNAIR.

A holder of nominee registered shares is advised to request without delay necessary instructions regarding the registration in the shareholder's register of the company, the issuing of proxy documents and registration for the general meeting from his/her custodian bank. The account management organization of the custodian bank will register a holder of nominee registered shares, who wants to participate in the general meeting, to be temporarily entered into the shareholders' register of the company at the latest on Monday 14 March 2016 at 10 a.m.

The shareholder may participate in the meeting either in person or through authorised or proxy representative. Possible proxy documents shall be delivered by the end of registration period to: Finnair Plc/AGM, HEL ACC/502, 010153 Finnair, Finland.

AGM 2017 – Important dates

6 March 2017	Record date
13 March 2017	At 10:00 deadline for giving notice of attendance
16 March 2017	At 16:00 the reception of persons registered to the AGM will commence and At 15:00 the AGM will commence

Board of Directors' proposal on dividend

Finnair Plc.'s distributable funds were 181,101,862.30 euros on 31 December 2016. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.10 euro per share be distributed for 2016.

Financial information in 2017

Finnair Plc will publish four financial reviews in 2017. The publication dates are as follows:

- Financial Statements Bulletin for 2016 on Wednesday 15 February 2017
- Interim Report for January–March 2017 on Friday 28 April 2017
- Interim Report for January–June 2017 on Thursday 20 July 2017
- Interim Report for January–September 2017 on Wednesday 25 October 2017

The financial statements bulletin and interim reports in 2017 will be published at approximately 9:00 am EET.

Financial report, financial statements and interim reports are published in Finnish and English. The material is available on the company website. Shareholders can subscribe or unsubscribe for the releases at http://company.finnair.com/en/media

Silent period

Finnair's silent period starts three weeks prior to publishing of its interim financials and four weeks prior to publishing of annual financial results. Finnair will not comment on its business or meet with capital market representatives during that period.

Changes in contact information

Euroclear Finland Ltd maintains a list of Company shares and shareholders. Shareholders who wish to make changes to their personal and contact information are kindly asked to contact their own account operator directly. Finnair cannot make these changes.

Assessments regarding Finnair as an investment

According to our knowledge, the following analysts have regular coverage on Finnair Group. The list may be incomplete. The listed analysts follow Finnair on their own initiative and Finnair is not responsible for their views.

Carnegie, Robin Nyberg, Finland, Tel. +358 9 618 71 234
Evli Bank, Jaakko Tyrväinen, Finland, Tel. +358 9 4766 9314
HSBC, Achal Kumar, UK, Tel. +91-80-4555 2751
Nordea, Pasi Väisänen, Finland, Tel. +358 9 1655 9943
Pohjola, Jari Räisänen, Finland, Tel. +358 10 252 4504
Inderes, Antti Viljakainen, Finland, Tel. +358 44 5912216

Sustainability

MATERIALITY ANALYSIS

Finnair updated its materiality analysis for corporate responsibility in 2015 in accordance with the GRI G4 reporting guidelines. The materiality analysis was used to identify the key economic, environmental and social impacts in Finnair's value chain as well as impacts on business and stakeholder decisionmaking.

The materiality analysis was based on identifying corporate responsibility issues emerging from Finnair's business environment through an analysis of industry trends, legislation, corporate responsibility reporting guidelines, the reporting of peer companies and issues highlighted by various stakeholders.

The identified corporate responsibility aspects were assigned priorities in expert workshops based on their business impact and stakeholder interest.The results of the prioritisation were reviewed with the representatives of key stakeholders. Finnair's Executive Board and Board of Directors approved the results of the materiality analysis.

The material aspects defined as a result of the materiality nalysis were grouped under five themes. This analysis was also used as the basis for reporting for 2016.

Identified material themes and aspects of corporate responsibility

Environment

- Fuel efficiency
- Energy and greenhouse gas emissions
- Environmental legislation and regulation
- Efficient air traffic management
- Biodiversity

Economy

- Financial performance and future competitiveness
- Local economic impacts

Ethical business conduct and responsible sourcing

- Code of conduct
- Anti-corruption and anti-bribery policies
- Human rights
- Purchasing practices and supply chain sustainability

Personnel

- Employee safety
- Competence development, wellbeing, diversity, equality and non-discrimination

Customer

- Employee safety
- Competence development, wellbeing, diversity, equality and non-discrimination

Finnair's most significant corporate responsibility impacts are related to ensuring the safety of customers and employees, maintaining the company's financial competitiveness and its role in Finnish society, and the continuous improvement of fuel efficiency. In addition to these themes, stakeholder representatives highlighted the significance of employee competence, well-being and equality, as well as ethical operating methods and good corporate governance.

The following table illustrates the links between Finnair's material themes and aspects with the aspects defined in the GRI G4 reporting guidelines, as well as the aspect boundaries. Based on the materiality analysis, the GRI content reported by Finnair is focused on the most significant impacts of Finnair's value chain.

Finnair's material themes and aspects and aspect boundaries

Finnair's theme and material aspect	GRI G4 aspects (G4-19)	Aspect boundaries (G4-20, G4-21)
Environment • Fuel efficiency • Energy and greenhouse gas emissions • Environmental legislation and regulations • Route planning • Biodiversity	**Environmental responsibility aspects (EN)** • Energy • Emissions • Waste water and solid waste • Biodiversity • Compliance	Finnair's own operations and indirect impacts on greenhouse gas emissions (Scope 3) and biodiversity
Economic aspects • Financial results and future competitiveness • Local and economic impacts	**Economic responsibility (EC)** • Financial results • Indirect economic impacts	Finnair's own operations, society and local communities
Customer • Passenger well-being and safety • Customer satisfaction • Punctuality	**Product responsibility (PR)** • Customer health and safety • Product and service information • Marketing communications • Customer privacy protection • Compliance	Finnair's own operations and customers
Personnel • Employee safety • Employee competence, well-being, diversity and equality	**Social responsibility – Labour practices (LA)** • Employment • Employer-employee relations • Occupational health and safety • Training • Diversity and equal opportunities • Equal remuneration	Finnair's own operations
Ethical business and responsible sourcing • Code of Conduct • Anti-corruption and anti-bribery procedures • Human rights • Purchasing policies and supply chain responsibility	**Society (SO)** • Anti-bribery and anti-corruption • Lobbying • Restrictions on competition • Compliance **Human rights (HR)** • Human rights screenings • Supplier human rights screenings **Economic responsibility (EC)** • Purchasing policies	Finnair's own operations, partners and supply chain

REPORTING PRINCIPLES

Finnair was one of the first airlines in the world to communicate on its corporate responsibility issues under the Global Reporting Initiative (GRI) reporting framework. The Annual Report 2016 has been compiled in accordance with the GRI's G4 Guidelines (Core option).

The report covers the parent company, and all Finnish subsidiaries.

Finnair Group does not report on the operations of foreign subsidiaries, because they are deemed not to be of key significance in terms of the group's corporate responsibility issues as minor operators. Any exceptions to this are mentioned separately in connection with each indicator. Finnair does not report on outsourced operations, either. The business units and subsidiaries covered by the report are listed in the adjacent table.

Finnair's maintenance organisation consists of two independent companies: Finnair Technical Services Oy and Finnair Engine Services Oy. This approach is justified by the fact that the operations of both technical services subsidiaries are the repair and maintenance of aircraft and their components, and for this reason their corporate responsibility aspects are convergent at the group level. Hence, they are treated in this report as one unit, Finnair Technical Services.

Information sources, measurement and Finnair Group calculation methods

The information of the report has been collected from the group's internal statistics systems and also from various subcontractors. In terms of measurement and calculation methods, the GRI G4 calculation guidelines have been adhered to whenever the available data have so allowed. If some other measurement or calculation method has been used, this is mentioned in connection with the key figure concerned. The figures have been presented in time series when this has been appropriate and reliably possible.

Figures on economic responsibility are mainly derived from the financial statements. Other information with respect to economic responsibility is derived from the group's various operators.

Indicators on personnel are based on active employment relationships as at 31 December 2016. The figures exclude dormant employees and Aurinko Ou, Suntours' Baltic subsidiary (number of personnel on 31 December 2016).

Finnair's largest single material cost item is jet fuel. In this report, jet fuel is treated, however, as energy, because in terms of its purpose and environmental effects it is sensible to understand jet fuel as stored energy. Fuels are also reported on the basis of their mass and volumes.

Fuel consumption and emission figures for flight operations (Annex 1 EU ETS Directive 2003/87/EC of the European Parliament and of the Council) are derived from the company's own monitoring systems and based on actual fuel consumption (Method A EU ETS Monitoring and Reporting Regulation (EU) N:o 601/2012). Emission factor for jet fuel used in the report is 3.15 kg CO_2/kg (Default IPCC emission factors, taken from the 2006 IPCC Inventory Guidelines).

Finnair Group

Operating area	Business unit / subsidiary	Included in report
Airline business	Airline business	x
	Finnair Cargo Oy	x
	Finnair Aircraft Finance Oy and FAF subsidiaries	x
	Finnair Technical Services Oy	x
	Finnair Engine Services Oy	x
Travel services	Oy Aurinkomatkat - Suntours Ltd Abx	x
	Finland Travel Bureau (SMT)*	x
	Amadeus Finland Oy	x
Other functions	Group administration	x
	Joint functions	x
	FTS Financial Services Oy	x
	Finnair Flight Academy Oy	x

*SMT was sold during the last quarter of 2016, reported figures are from January-October.

European Union Emissions Trading System (EU ETS) “Method A” formula: Amount of fuel contained in aircraft tanks once fuel uplift for the flight is complete – Amount of fuel contained in aircraft tanks once fuel uplift for subsequent flight is complete + Fuel uplift for that subsequent flight. This method is used in order to capture the fuel consumption by the aircraft's auxiliary power unit (APU) on the ground.

Where Method A cannot be used, we are using actual leg consumption (fuel onboard - remaining fuel) adding average APU usage.

Fuel mass is converted to volume using densities provided by fuel vendor. If density is not available we are using default value 0,800.

For wet-leased flights fuel burn is requested from wet-lessor. If not received then fuel burn is calculated by aircraft manufacturers specifications or lessors information on aircraft type fuel burn per block hour.

Data gaps and erroneous data are handled using substitution data as close to actual values as possible. The electricity and heat data are based on metered consumption data, and on estimations based on surface area, where direct metering data was unavailable.

Finnair has assessed its Scope 3 emissions based on GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard). Category 3 (Fuel and Energy related activities not included in Scope 1-2) primary data originates from Finnair's fuel data base. Emission factor source: SFS-EN 16258 standard for JET A-1. Emissions of Extraction, production and transportation of the fuels = amount of fuel * 0,0159 tonnes CO_2/GJ.

In relation to material streams, the amounts of waste and energy consumption of properties, data have been obtained from service providers, goods suppliers and on the basis of invoices paid. With respect to Finnair Technical Services, environmental data are also obtained from monitoring and measuring systems required by their environmental permits. In terms of Technical Services' use of materials, only chemicals are reported, because the statistical practice of raw materials and spare parts does not allow a comparable way of presentation. Finnair Technical Services is not, however, a significant user of raw materials, and its main environmental aspects relate to storage and use of chemicals.

Information on personnel comes from Finnair's HR information system and from parties responsible for the well-being of employees. Accident statistics are obtained from the insurance company and they are updated retroactively, as a result of which the 2016 figures may be subject to further adjustment. Information relating to human rights and local communities are derived from procurement agreements, from personnel responsible for procurement, subcontractors and, in terms of the impact of tourism, mainly from Aurinkomatkat-Suntours, which as a tour operator occupies a key position in this respect. Operational compliance with laws and regulations has been confirmed with the group's Legal Affairs department.

Customer satisfaction data, on the other hand, are based on customer satisfaction surveys and on feedback received by the group.

Effect of any restatements of information provided in earlier reports

In 2015, Finnair updated its materiality analysis on corporate responsibility in accordance with the GRI G4 reporting guidelines. Impacts and indicators related to material aspects were redefined in the process. This report follows the same principles.

However, there have been no changes in the data compared with the previous report. Information on changes in individual indicator data is provided under the section on the indicator in question.

Changes pertaining to the Finnair's organisational structure and the calculation of financial statement data are described in more detail in connection with Finnair's financial key figures.

Reporting priorities

In 2013, Finnair discontinued the publication of a separate corporate responsibility report and financial report. All the data can be found in the Annual Report and this GRI section.

The priorities of the report are based on the materiality analysis described on pages 123.

FINNAIR HAS REPORTED *ACCORDING TO THE GRI GUIDELINES EVER SINCE 2008.*

ECONOMIC RESPONSIBILITY

Finnair's objective is to create sustainable economic added value by producing flight services profitably, cost-competitively and in harmony with the needs of the environment and society. Responsible operations are the cornerstone of profitable business activity, and Finnair takes into account the effects of its operations on society.

Finnair's Board of Directors has set the company's financial targets, which are provided in information material for investors. As a public limited company, Finnair is committed to earning a profit for its shareholders. The company's profit distribution principles are expressed in Finnair's dividend policy. Finnair's financial reporting aims to transparently provide information about Finnair's financial position and development.

Finnair's economic responsibility in 2016

In 2016, Finnair was deemed by an independent Finnish NGO as a responsible taxpayer whose reporting provides adequate information to assess the degree responsibility of its tax planning. Finnair's tax footprint report is presented on page 87–89.

Finnair seeks to make its financial statements easier to read and understand by various specific measures: Firstly, the notes are presented as business-based combinations including related accounting principles, critical accounting estimates and sources of uncertainty. Secondly, particularly interesting figures are highlighted with a circle and explained in a text box marked with a star. Thirdly, illustrating charts are used in various sections of the financial statements so as to facilitate understanding the figures.

Indicators of economic responsibility

EC1 Direct economic value generated and distributed

EUR mill.	2016	2015	2014
Direct economic value generated			
Consolidated turnover	2,316.8	2,254.5	2,284.5
Other operating income	75.5	85.2	18.3
Financial income	1.0	1.3	3.5
Total	**2,393.3**	**2,341.0**	**2,306.3**
Economic value distributed			
Cash paid outside the company, materials and services, other operating expenses	1,939.0	1,802.3	1,905.4
Payments to personnel*	341.6	335.6	344.3
Payments made to shareholders and loan providers			
Dividend**	0	0	0
Interest and other financial expenses	11.5	9.7	26.9
Payments to governments***	11.5	9.6	7.6
Donations and other charitable payments	n/a	n/a	n/a
Distributed, total	**2,300.2**	**2,157.2**	**2,284.3**
Economic value retained for operational development	**93.1**	**183.7**	**22.0**
Investments in tangible and intangible assets as well as acquisitions of subsidiaries	516.9	329.7	82.4
Comparable operating result	55.2	23.7	-36.5
Return on capital employed (ROCE), %	8.9	12.2	-6.5

[1] http://www.finnwatch.org/fi/blogi/365-ruusuja-finnairin-veroraportille (in Finnish)

* Payments to personnel include wages and salaries and paid contributions related to pension plans. More information on payments to personnel is available in Finnair's 2015 Remuneration Statement on pages 95–106 of the annual report.
** The Board of Directors proposes to the Annual General Meeting 2016 that.
*** Includes paid income taxes, social security payments and taxes on property. Taxes and charges comparable to taxes paid by Finnair have been discussed also in Finnair's Tax Footprint Report for 2015 on pages 87–89 of the annual report.

Note! Payments to governments do not include payments to Finavia, which is an airport operator 100% owned by the Finnish government. Finnair paid traffic charges and rents totalling 60 million euros in 2016 and 55 million euros in 2015 to Finavia. Of these expenses, approximately 26 million euros (25) were related to air traffic control. In addition, Finnair passed levied passenger charges, totalling approximately 70 million euros in 2016 and 65 million euros in 2015, on to Finavia.

G4-EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change
In combating climate change, the main measures are directed at reducing the combustion of fossil fuels. The jet fuel used by Finnair is fossil fuel and fuel costs are Finnair's single most significant cost item. Therefore, all the factors influencing the price of jet fuel similarly influence Finnair's operating costs. The need to reduce fuel consumption and the resultant carbon dioxide emissions has a significant impact on the company's business operations. In 2015, fuel made up over a quarter of Finnair's operational expenses; therefore efficiency has a material impact on the development of shareholder value.

In order to reduce its fuel consumption, Finnair follows a strategy comprised of four elements: technological development, improvement of operational efficiency, development of infrastructure and support of a global market-based measure to offset CO2 emissions. Finnair operates a modern fleet and invests from 2015 onward in fuel-efficient next-generation aircraft to maintain its competitive advantage.

For several years now, Finnair has voiced its support for a global market-based measure for offsetting greenhouse gas emissions that would complement the industry's technological, operational and infrastructural efforts to reduce emissions. In 2016, Finnair participated in the European Union's Emissions Trading Scheme (EU-ETS), which concerned only Intra-European flights. The direct costs incurred by Finnair from emissions trading totalled approximately 1.7 million euros in 2016. The direct costs of emissions trading in the coming years are difficult to estimate due to potential changes to the current ETS model.

Finnair is a leading airline in carbon dioxide emissions reporting and reducing emissions. The risks, opportunities, financial effects and management methods related to climate change are described in detail in Finnair's responses to the Carbon Disclosure Project (CDP) report. In 2016, the Carbon Disclosure Project (CDP) recognised Finnair as one of the leading Nordic companies in climate issues, with a score of A-.

G4-EC3 Coverage of the organisation's defined benefit plan obligations
All Finnair employees are covered by pension security in accordance with the Employee Pensions Act (TyEL). Pension contributions amounted to 18.0 per cent of salaries and 13.9 per cent of total personnel expenses in 2016. In addition, some employees are covered by an additional pension fund benefit and management by an additional benefit in accordance with their contracts. Of group personnel, around 39.2 per cent are covered by the additional pension fund benefit. Finnair's pension liability (Finnish Accounting Standards) in respect of its own pension fund was 340.0 million euros at the end of 2016. Pension liabilities are covered in full.

G4-EC4 Significant financial assistance received from government
The Finnish Government does not support Finnair's operations financially. The Finnair Aviation College constitutes an exception. The Finnair Aviation College, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). The Finnair Aviation College's task is to arrange further vocational training leading to a vocational or special vocational qualification as well as other further vocational training required for the practice of Finnair Plc's and its subsidiaries' operations (Further Vocational Training Arrangement Permit 551/530/2006, 13 December 2006). As a privately-owned educational establishment, the Finnair Aviation College funds its operations in accordance with

FINNAIR IS *A LEADING AIRLINE* IN CARBON DIOXIDE EMISSIONS REPORTING AND REDUCING EMISSIONS.

government aid practices. In 2016, the Finnair Aviation College received a total of approximately 2.0 million euros.

G4-EC9 Proportion of spending on local suppliers at significant locations of operation

Finnair's home base is Helsinki Airport, where almost all Finnair flights depart or arrive. As measured by the number of passengers, every single other airport, or so-called outpost, constitutes less than 5 per cent. In addition, Finnair's corporate headquarters and the subsidiary for technical operations are located in the immediate vicinity of Helsinki Airport. Therefore, the majority of Finnair's sourcing is concentrated around the Helsinki Airport area.

In 2016, 45 per cent of Finnair's goods and services procurement was made with Finnish suppliers. Finnair's largest single procurement item is jet fuel. In jet fuel procurement, Finnair gives significant weight on financial factors and reliability of supply. Jet fuel is typically procured locally on in each flight destination from some 55 different suppliers. In 2016, over half of Finnair's global fuel purchases were refined locally in Finland.

Finnair Group's subsidiary, package tour organiser Aurinkomatkat-Suntours Ltd uses primarily small and medium-sized hotels, which are, as a rule, locally owned. In addition, Aurinkomatkat has a local representative at each of its destinations, from whom the company purchases, among other things, ground transfers, tour arrangements and other operational services.

At the group level, Finnair collects and monitors spend data on purchases from all suppliers and from all regions. Finnair requires both locally and globally compliance with air operation laws and regulations. Attention is also paid to the appropriateness, supply reliability, price competitiveness and quality. The products purchased must be sustainable and as safe as possible for people and the environment. Many of the group's procurement categories are officially regulated, in which case possible suppliers must be approved by the authorities. For example, all purchases relating to flight safety are of this type. The company-wide Supplier Code of Conduct defines the overall policy on sustainability and ethics of Finnair procurement activities.

Finnair's business is by nature complex and in some respects highly technical. The company has operations and supply chain partners in dozens of different countries, each with varying laws and practices. The most important social responsibility areas concern safety, personnel, the supply chain and customers. Finnair developed cooperation in corporate responsibility aspects with domestic suppliers and partners in 2016 by sharing best practices in responsible sourcing. The aim of the cooperation was to improve the traceability of products and services purchased from domestic suppliers within the supply chain traceability of products and services purchased from domestic suppliers.

For several years now, Finnair has voiced its support for a global market-based measure for offsetting greenhouse gas emissions

In 2016, 45 per cent of Finnair's goods and services procurement was made with Finnish suppliers

SOCIAL RESPONSIBILITY

Finnair's business is complex by nature, and in some respects highly technical. The company has operations and supply chain partners in dozens of different countries, each with varying laws and practices. The most important social responsibility areas concern safety, personnel, the supply chain and customers.

Finnair's social responsibility in 2016

- Finnair revised its Code of Conduct and began related training
- Finnair implemented the SEDEX supplier auditing tool chosen by the **one**world alliance and conducted risk surveys on suppliers
- Finnair organised a Supplier Day event and communicated its responsibility efforts extensively to partners
- The Working Group for Equality completed Finnair's Equality Plan. The plan reviews the current situation and defines objectives and actions for the coming year
- Aurinkomatkat is perceived by consumers as the most sustainable tour operator according to the Sustainable Brand Index survey, Scandinavia's largest brand survey focused on sustainable development and responsibility. The survey is based on the 10 principles of the UN Global Compact initiative. Finnair joined Unicef and other travel industry operators to survey the human rights impacts of travel and tourism in a pilot project in Vietnam in 2015–2016. An assessment of aviation and children's rights was also produced as a final report commissioned by Unicef.
- The score of the We Together @Finnair survey was 3.69 (H2 2016)
- Finnair signed a cooperation agreement with UNWomen

Responsibility for personnel

As Finnair is a significant employer, social responsibility is materially related to the company's personnel and working conditions. Personnel management policies cover all aspects of social responsibility that have been identified as material.

The impacts affecting personnel and working conditions are managed based on Finnair's strategic HR guidelines and HR policy. Finnair's values–Commitment to Care, Simplicity and Courage–which serve as a guideline for everyone at Finnair and which were refined and clarified in cooperation with personnel in 2016, are increasingly reflected in day-to-day operations according to Finnair's personnel. The process of refining the core values also involved the renewal of Finnair's employee survey. The new We Together @ Finnair survey helps the company determine what areas it has been successful in and what areas need improvement. The employee survey covers the following key themes: My job, Managerial and supervisory work, Teamwork, and My employer

Leadership development continues to be one of Finnair's key HR focus areas. Development needs in teams and the organisation are identified and the welfare and commitment of the personnel are regularly monitored by an employee survey.

Equality and non-discrimination are foundational values for Finnair. The Working Group for Equality, established in 2015, drafted Finnair's Equality Plan. The goal of the Working Group and the Plan is to promote equality with regard to customers as well as employees. We also engage in active cooperation with the Office of the Non-Discrimination Ombudsman in Finland to develop our practices.

G4-10 Total number of employees by employment type, employment contract, region and gender

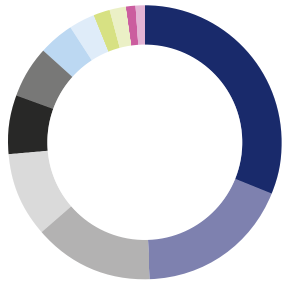
Finnair's total number of employees did not increase much in 2016 despite it being a year of new recruitment: the total number of employees increased particularly due to growth in the number of flight personnel, but other factors, such as the divestment of SMT, reduced the total number.

At the end of 2016, the number of Finnair employees in active employment relationships was 4,642, which is 105 more than the year before. Geographically, the majority of personnel work in Finland, particularly at Helsinki Airport or in its immediate vicinity.

On 31 December 2016, there were 523 Finnair employees in active employment relationships working outside Finland. Of these, 158 worked in financial management in the Baltic countries, 17 in travel agencies and tour operators based in the Baltic countries, and 75 as guides at Aurinkomatkat Suntours' holiday destinations. The rest are employed in sales and customer service duties in Finnair's passenger and cargo traffic.

Employees by group

%



- Cabin Crew (SLSY) 31%
- Pilots (SLL) 18%
- White Collar Employees (FYT) 14%
- Abroad 10%
- Technical Services (IAU) 7%
- Ground Service (IAU) 6%
- Technical Employees (FT) 4%
- Aviation Employees (LTH) 3%
- Management 2%
- Travel Guides 2%
- Travel Agency Staff 1%
- Travel Agency Professionals 1%

Full-time staff accounted for 97 per cent of Finnair employees in 2016, and 97 per cent of staff were employed on a permanent basis. The average age of employees was 43.7 years.

G4-11 Percentage of total employees covered by collective bargaining agreements

All Finnair employees in Finland have the right and opportunity to agree on their terms of employment through collective bargaining. Senior management constitutes an exception to this, as its terms of employment are agreed on locally or individually.

Finnair currently has employees abroad in 26 countries. The employment contracts and terms of employment are based on local legislation. Employees have the opportunity to agree on their terms of employment through collective bargaining in countries in which that is the local practice. Finnair does not limit its employees' rights to participate in trade union activities.

G4-12 Description of the organisation's supply chain

Our diverse supply chain is built around our route network. It includes suppliers regulated by the aviation industry, suppliers and service providers who specialise in airlines, as well as suppliers who make it possible for us to conduct our core business. Our international supplier network enables us to operate at a world-class level, implement our growth strategy and provide new value-added services to customers.

G4-13 Significant changes during the reporting period regarding the organisation's size, structure, ownership or supply chain

Finnair's own operations involve no significant direct social responsibility risks or impacts. However, indirect risks and implications may exist in relation to the supply chain and outsourced operations. In order to improve the monitoring of its own operations and those of its entire supply chain, Finnair continued the project it began in 2015 to assess the realisation of social responsibility and related risk assessment. Finnair also implemented the SEDEX system as part of its sourcing processes and operating methods to improve supply chain risk management, traceability and the assessment of social impacts. The system was implemented in cooperation with the **one**world alliance.

G4-LA1 Total number and rates of new employee hires and employee turnover

New personnel 2016

(New hires and replacements only, internal transfers and re-entries into the organisation excluded)

Age group	Men	Women
<30	108	236
30-50	190	168
>50	13	14

Turnover 2016*

(Voluntary)

Age group	Men	Women
<30	7.1%	16.1%
30-50	2.0%	4.8%
>50	0.9%	0.6%
Yhteensä	3.8%	

* See breakdown of personnel by age group on page 135.

G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation

Finnair employees enjoy the same benefits irrespective of their type of employment. Some benefits are such that they enter into effect only after employment has lasted a certain period of time. An exception is Finnair's Financial Services Office, which only serves permanent employees of Finnair Plc or its subsidiaries who are its members.

G4-LA4 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements

Significant operational changes in Finland are governed by the Finnish Act on Cooperation within Undertakings. Depending on the matter in question, the minimum time period applied can range from one day to six weeks. The collective bargaining agreements that concern Finnair do not include provisions that run counter to these legislative provisions.

For redundancies and layoffs, the minimum notice period pursuant to the Act on Cooperation within Undertakings applies in addition to the statutory notice period for redundancies and layoffs prior to the termination of employment or payment of wages. The statutory notice period for layoffs is two weeks and the notice period for employees made redundant ranges from 14 days to six months depending on the duration of their employment. Some collective bargaining agreements contain provisions on notice periods for layoffs that are more advantageous to employees..

G4-LA5 Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advise on occupational ealth and safety programs

At Finnair, cooperation on occupational health and safety is organised in compliance with Finnish occupational health and safety legislation. Personnel have representation in official occupational health and safety committees at the company level or the business unit level. The occupational health and safety of Finnair's personnel

+105

Finnair personnel grew by 105 new employees in 2016

3.69

The score of We together @Finnair employee survey was 3.69

abroad is also taken into consideration in the work of the committees. The occupational health and safety committees operate at the company level, representing various personnel groups. In large subsidiaries, employees are also represented by occupational health and safety delegates at the department level. Occupational health and safety delegates are selected via elections for two-year terms. Occupational health and safety elections were most recently arranged in November–December 2015, with the term of the elected delegates starting at the beginning of 2016 and concluding at the end of 2017. Employee health and safety issues are also handled by Finnair's Trust Forum. Members of the Executive Board, HR management, delegates and occupational health and safety organisations are invited to join the forum. The forum provides background information and discusses matters such as equality and non-discrimination, planning and changes pertaining to employees on a broad basis.

G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities

There were two cases of suspected occupational diseases at Finnair.There were no accident-related employee fatalities in 2016 (the most recent fatality was in 2005).

Work-related accidents are divided into workplace accidents and business trip accidents. The table below shows all accidents that resulted in at least one day of sickness absence and occurred during work-related travel or at the workplace

Loss time injury frequency (LTIF) refers to the number of workplace accidents per one million working hours.

The airline's ground personnel include Group management, support services, ground crew and operative ground personnel.

G4-LA7 Workers with high incidence or high risk of diseases related to their occupation

Medical examinations pertaining to exposure at work include examinations concentrating on the effects of carcinogenic substances, solvents and other chemicals, noise, vibration and working night shifts. To prevent/minimise exposure to such work-related health hazards, the primary focus is on implementing working methods and procedures that involve minimal exposure to hazards. Cosmic radiation assessments were conducted for a total of 17 pregnant members of flight personnel in 2016. Finnair Health Services has monitored the radiation exposure of all flight personnel on a quarterly basis. Radiation exposure levels have not exceeded the annual maximum level. All flight personnel can check their cumulative radiation exposure by accessing a browser-based system that provides information on actual hours of flight duty performed and a mathematical calculation of cosmic radiation exposure based on the routes flown. No employee's radiation exposure has exceeded the annual maximum level (6 mSv).

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

		Medical check-ups at Finnair in 2016
Finnair Oy		
	Group functions	14 / 240
	Commercial	41/177
Customer Experience		
	Helsinki Airport Customer Service	73 /251
	Inflight Customer Service	519/1551
Operations	Flight OPS	105/729
	Operations other	40/214
	Finnair Cargo Oy	41/87
	Finnair Flight Academy	14/39
	Finnair Technical Services Oy	149/539

16
LTIF

16 workplace accidents per one million working hours (LTIF = Loss time injury frequency)

Finnair Health Services offers employees inoculations against work-related infectious diseases and influenza

Age group	Work-related accidents	Workplace accidents	Loss time injury frequency	Business trip accidents
Airline's flight personnel	73	58	23	15
Airline's ground personnel	22	13	8	9
Finnair Technical Services Oy	24	17	18	7
Finnair Cargo Oy	1	0	0	1
Finnair Flight Academy Oy	1	1	18	0
Aurinkomatkat Oy	2	1	4	1
Total	**123**	**90**	**16**	**33**

* Loss time injury frequency (LTIF) refers to the number of workplace accidents per one million working hours

G4-LA8 Health and safety topics covered in formal agreements with trade unions

Finnair's primary occupational safety forums are the joint occupational health and safety committees of personnel and the employer.

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

The focus areas in 2016 were:

- Reducing accidents
- Developing the reliability and usability of the accident reporting tool
- Activating the safety observation process
- Further developing expertise in investigating accidents
- Threat of violence training in customer service functions
- Risk assessments, taking into account changes in the airport area and the fleet
- Taking workplace bullying into consideration in occupational health and safety training
- Developing the safety culture in the appropriate direction

One trend that can be highlighted in relation to developments in these focus areas is that the accident frequency decreased slightly from the previous year. The accident tool and the related processes were updated in the first half of the year, which enabled more efficient sharing of accident information during the second half of the year. The update also improved the tool's reliability.

The number of work-related safety observations tripled in 2016. This creates a good foundation for shifting the focus of activities even more towards proactive measures. The risk assessments conducted in 2016 were mostly focused on renovated premises and changed working conditions.

The "threat of violence" training designed the previous year was rolled out for all customer service personnel. Another point of focus was the occupational health and safety competence of inflight supervisors. Workplace bullying was discussed as part of several occupational health and safety training modules, but this area nevertheless requires more attention in 2017.

In the fourth quarter of 2016, the operating units drafted function-specific plans aimed at reducing the accident frequency. The measures outlined in the plans will mostly be implemented in 2017. The planned improvements include a more prominent role for occupational safety in performance assessments, as well as increasing the visibility of supervisors, and developing their roles, on safety tours. In addition, several training events will be held for supervisors and managers in 2017 with the theme of Developing the Safety Culture. Safety reporting is seen as having a key role in this development, and providing comprehensive support to safety reporting will be one of the focus areas in 2017.

The development of shared occupational safety practices for workplaces continued in 2016. Finnair took the convening role in cooperation meetings between the companies that work in and around aircraft during turnarounds. The meetings included sharing information on actual hazardous situations and accidents. The meetings increased the understanding of critical hazards from the perspective of different participants, as well as processes that are perceived to be difficult.

In addition, Finavia convened a cooperation forum concerning the entire airport, with Finnair's representatives also participating in the forum.

As an aviation industry employer, Finnair has also participated in the development of the occupational safety of its employees in cooperation with representatives of labour market organisations in a transport and logistics group coordinated by the Centre of Occupational Safety.

190,503 hours

Total training hours

44 hours

Training hours per employee

G4-LA9 Average hours of training

	Women	Men	Total
Employees	7266	9763	17029
Office staff	9208	11008	20216
Cabin	81166	10992	92157
Pilots			62906
Management	445	981	1426
Total			**190503**

Employees 31 December 2016 (active employees only)

	Women	Men	Total
Employees	284	410	694
Office staff	544	568	1112
Cabin	1378	188	1566
Pilots	20	825	845
Management	24	48	72
Total	**2250**	**2039**	**4289**

Training hours per employee

	Women	Men	Weighted average
Employees	26	24	26
Office staff	17	19	18
Cabin	59	59	59
Pilots			74
Management	19	20	20
Total			**44**

Gender is no specified in the source data for all labour agreement sectors. In addition, some of the agreements for foreign cabin crew do not allocate training expenses and hours to Finnair's figures

The working group promotes occupational safety, occupational health and safety cooperation and the development of working life in aviation industry workplaces. http://ttk.fi/toimialat/kuljetus_ja_logistiikka/ilmailuala

G4-LA10 Programs for skills management
Maintaining employee competence has a significant effect on the implementation of strategy. Competence development needs are surveyed by unit and by individual in conjunction with performance reviews. As the only airline company in Finland, it is particularly critical that Finnair maintains an appropriate level of aviation-specific competencies.

The strategic development of competencies requires cooperation with various parties. Learning and development solutions are built at the company, unit, team and individual levels. In addition to traditional classroom teaching, competence is developed by a variety of methods, including learning on the job, online learning, workshops, coaching and mentoring. Competence development was made more systematic by launching a competence development process at the unit level to identify current and future key competencies from the perspective of the business and the implementation of strategy. Training and development measures will be increasingly closely linked to these identified needs.

The technical professional training for flight personnel is produced in cooperation with Finnair Flight Academy, while Finnair's technical services unit handles its own professional technical training. The People Development unit is responsible for strategic competence development.

Development areas in 2016 included the following:

A. Development of managerial and supervisory work
- Leaders' Next MOVE leadership training continued for all Finnair managers and supervisors
- A management development project was carried out as part of the Operations unit's strategic OPS Excellence project
- Finnair's Leadership Forum concept was continued
- MOVE onboard supervisor training was updated
- Fourth iteration of project manager training

Developing the competence of Finnair's employees to support competencies related to the digital transformation:

- FitForFuture Slush Edition program for about 100 interested Finnair employees
- Open DigiMornings lectures in the HOTT auditorium, with various themes related to the digital transformation

B. Customised personnel development solutions
- Engaging personnel on a broad basis in Finnair's Culture Journey
- A350 training program for A350 flight personnel and service concept developers
- Renewal and implementation of cabin crew training
- Service Days 2016 in line with the UNCE concept, aimed at ground and flight crew to ensure a consistent service experience for customers
- Training related to the transformation of cargo operations and the implementation of Skychain
- Professional technical training for pilots related to the growth strategy and training for new pilots.
- Change support in areas including IT and OCC (Operations Control Center)
- Training related to the development of the customer management system used in sales, and maintaining related user competencies
- Induction training in sales
- Sales coaching was continued and a concept was created for sharing best practices
- Finnair Negotiation Champions training
- 360-degree assessments and related development discussions were carried out in a few units

C. Team development and coaching
- Individual coaching programs for key individuals continued
- Group coaching programs for different target groups continued

D. Professional competence development and induction training
- #JoinFinnair induction training for all new employees
- Safety training for all employees, with targeted training for special groups
- General competence development, including the development of competencies related to systems, languages and purchasing

Permanent themes include making the airport a safe workplace, developing occupational safety training in the aviation industry, occupational health awareness for supervisors, and occupational safety card training. Other professional training organised in 2016 included outstation training, first aid and emergency training, basic and recurrent training, systems training and cooperation with Helmi Business College.

The Finnair Aviation Academy, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). Its task is to arrange further vocational training leading to a vocational or special vocational qualification as well as other further vocational training required for the practice of Finnair Plc's and its subsidiaries' operations (Further Vocational Training Arrangement Permit 551/530/2006, 13 December 2006). As a privately-owned educational establishment, the Aviation Academy funds its

At the end of 2016, 56 per cent of Finnair's employees were women

43.5

The average age of Finnair's personnel in 2016 was 43.5 years

operations in accordance with government aid practices and it is a member of Business Education Establishments ELO (Elinkeinoelämän oppilaitokset Elo ry).

G4-LA11 Percentage of employees receiving regular performance and career development reviews

Performance and career development reviews cover all Finnair personnel. The PD process (Performance Dialogue) is a management tool based on biannual discussions that guide the setting and achievement of targets, the evaluation of performance and management, and development.

G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

At the end of 2016, 56 per cent of Finnair's employees were women and 44 per cent were men. Three of the seven members of Finnair's Board of Directors are women. The average age of Finnair's personnel in 2016 was 43.5 years. Of the personnel, 28 per cent were over 50 years of age, while nine per cent were under 30 years of age. Finnair does not maintain statistics based on ethnicity.

All personnel*

Age group	Men	Women
<30	131	303
30–50	1,479	1,422
>50	551	768

* Employees of travel agencies and tour operators in the Baltic countries have not been taken into account in the breakdown.

Management

Age group	Men	Women
<30	0	0
30–50	32	20
>50	16	4

G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

The base salaries of female employees were, on average, 10 per cent lower than the corresponding base salaries of males in personnel groups (management and white collar employees) falling within the scope of position evaluation (Mercer). The total number of personnel included in the comparison was 736, of which 359 (49%) were female.

Wage-setting for other personnel groups is based on payscale salaries and raises based on the number of years in service, which leads to equal levels of remuneration between men and women.

Human rights

Finnair's own operations involve no significant direct social responsibility risks or impacts. However, indirect risks and implications may exist in relation to the supply chain and outsourced operations. In order to improve the monitoring of its own operations and those of its entire supply chain, Finnair launched a project in 2015 to develop methods to assess the realisation of social responsibility and human rights and related risk assessment. These development efforts continued in 2016 with the deployment of tools for supply chain risk management and the assessment of social impacts in cooperation with the **one**world alliance. See G4-HR9-11 below.

THE IMPLEMENTATION OF THE SEDEX SYSTEM WAS CARRIED OUT IN COOPERATION *WITH THE ONEWORLD ALLIANCE.*

G4-HR9 Total number and percentage of operations that have been subject to human rights reviews or impact assessments

Finnair continued the project it began in 2015 to develop the realisation of social responsibility and related risk assessment. In the previous year, the current policies and procedures were reviewed against the UN Declaration of Human Rights as well as guidelines and best practices for businesses. Risks related to human rights violations in Finnair's own operations, the operations of Aurinkomatkat Suntours and the supply chain were also assessed.

After assessing the risks related to human rights violations in the supply chain, Finnair implemented the SEDEX system to improve risk management, the evaluation of social impacts and traceability in the supply chain. The implementation of the SEDEX system was carried out in cooperation with the **one**world alliance. As part of the system's implementation, suppliers of key significance with respect to social responsibility risks and economic contribution were identified and invited to engage in more comprehensive assessments conducted under the SEDEX system. Assessment of the direct geographical and industry-specific social responsibility risk of all suppliers that are significant regarding customer experience was made using a risk assessment tool. From now on, Finnair aims to include all new suppliers in the SEDEX system starting from the bidding phase.

FINNAIR REQUIRES ITS SUPPLIERS TO COMPLY WITH *SIMILAR ETHICAL STANDARDS* AS THE COMPANY DOES IN ITS OWN OPERATIONS.

G4-HR10 Percentage of new suppliers that were screened using human rights criteria
Finnair has its own ethical guidelines for suppliers (Supplier Code of Conduct) and subcontractors, and all suppliers are required to comply with them. All partners and subcontractors, moreover, are obliged to comply with the principles of the UN Universal Declaration of Human Rights as well as local legislation.

Finnair began human rights assessments in the previous year and extended them to the supply chain in spring 2016. Finnair implemented the SEDEX system to improve supply chain risk management, traceability and the assessment of human rights impacts in cooperation with the oneworld alliance. As part of the system's implementation, suppliers of key significance with respect to social responsibility risks and economic contribution were identified and invited to engage in more comprehensive assessments conducted under the SEDEX system. In addition, assessment of the direct geographical and industry-specific social responsibility risk of all suppliers that are significant regarding customer experience was made using a risk assessment tool. The aim is to engage new suppliers in the SEDEX system starting from the bidding phase. See G4-HR11 below.

G4-HR11 Significant actual and potential negative human rights impacts in the supply chain and actions taken
The sustainability of the supply chain is of major importance for the airline as Finnair uses partners and service providers to an increasing degree as it expands its international route network. Conforming with the UN's Universal Declaration of Human Rights and all applicable laws and statutes is a minimum requirement for suppliers. Finnair requires that its suppliers comply with similar ethical standards as the company does in its own operations. Finnair's Supplier Code of Conduct provides clear principles to ensure ethical purchasing. Responsibility aspects are considered in cooperation with the social responsibility unit.

Finnair continued the human rights assessments it first began in autumn 2015, and the related risk assessments were extended to the supply chain in spring 2016. The supply chain risk assessments were used to identify the sourcing categories and geographical areas that are the most critical with respect to social responsibility, and efforts were made to increase responsibility in sourcing in these areas in 2016. Suppliers of key significance with respect to social responsibility risks and economic contribution were identified and invited to engage in the SEDEX system, which facilitates more comprehensive impact assessment and risk management. Assessment of the direct geographical and industry-specific social responsibility risk of all suppliers that are significant regarding customer experience was made using a risk assessment tool. To monitor the realisation of responsibility, the need for social audits is assessed based on information including industry-specific risk surveys and assessments obtained through the system.

Finnair is aware of the environmental and human rights risks related to the most critical categories and geographical areas, and the company aims for continuous improvement to prevent risks. Communication related to the supply chain's human rights impacts and the responsibility efforts of the sourcing organisation was improved to increase awareness both internally and externally in 2016. Finnair organised its first Supplier Day event for its most significant suppliers, with the main themes being related to the development of responsibility, cooperation and supplier relations.

Society

Aviation is a strictly regulated industry. As such, it is important for Finnair to participate in discussions and decision-making regarding its operating conditions. It is part of the company's growth strategy to aim at securing adequate traffic rights.

Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and expertise. The company does not pressurise or support political decision-makers in any way in pursuing its interests. The legality and ethics of lobbying activities is controlled as part of the company's general super-

FINNAIR ORGANISED THE FIRST SUPPLIER DAY FOR ITS MOST SIGNIFICANT SUPPLIERS, WITH *THE DEVELOPMENT OF RESPONSIBILITY, COOPERATION, AND SUPPLIER RELATIONS* AS THE MAIN THEMES.

vision and audit processes. Finnair is committed to complying with international and national legislation in its operations, as well as the ethical operating principles laid out in the Code of Conduct. In 2014, the Group Executive Board approved additional group-wide guidelines to supplement the Code of Conduct with regard to the prevention of bribery and topics including hospitality, conflicts of interest and compliance with anti-competition regulations.

G4-SO3 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified
The identification and assessment of risks related to corruption are part of the general risk assessment of the company and its business units, and Finnair's business units conduct an analysis of risks related to corruption as part of the company's general risk survey.

G4-SO4 Communication and training on anti-corruption policies and procedures
Finnair's Code of Conduct includes an anti-corruption section, and the receiving and giving of bribes is strictly prohibited. Preventing corruption is the responsibility of everyone at Finnair, including the heads of business operations and the internal audit.

Certain job descriptions at Finnair are such that they are considered to have a higher than normal risk of corruption associated with them. All those handling such tasks are offered the opportunity to participate in anti-corruption training in business units and subsidiaries. Finnair's Code of Conduct and Guidelines for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials are also communicated to the employees handling such tasks. The Group's Guidelines for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials specify more detailed guidelines concerning bribery and hospitality, and the Group's Conflict of Interest Guidelines cover the identification and avoidance of conflicts of interest and related conduct.

G4-SO6 Total value of political contributions by country and recipient/beneficiary
Finnair does not support any political parties or persons.

Product responsibility

The aviation industry consists of a strictly regulated value chain comprised of multiple suppliers of products and services. As an airline and service company at the top of this value chain, Finnair creates added value for its customers by providing them with a comprehensive and high-quality service product in collaboration with its partners. We are responsible for transporting customers and their baggage to their destinations safely, smoothly and punctually.

The most significant product responsibility aspects in the Finnair Group's operations are flight safety, food safety, responsibility for individual customers, and responsibility for the cargo carried.

G4-PR3 Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant products and service categories subject to such information requirements
Finnair's operations are regulated by numerous official regulations and international agreements. For the customer, the most important product information issues relate to the conditions of carriage and customer's rights.

The duty to disclose relating to the conditions of carriage is based on the Montreal Convention, and the content of the Convention has also been codified in official regulations. Finnair's General Conditions of Carriage are

Links

Finnair's General Conditions of Carriage
http://www.finnair.com/INT/GB/info/conditions-of-carriage

Finnair Notice on Passenger Rights
https://www.finnair.com/go/documents/PDFs/Finnair-Noticeon-Passenger-Rights-2012.pdf

Cargo guidelines and conditions of carriage
http://www.finnaircargo.com/en/cargo/guidelines.html

http://www.aurinkomatkat.fi/matkaehdot
(Aurinkomatkat general conditions of travel, in Finnish)

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

EU Package Travel Directive
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31990L0314:FI:HTML

Minimum Air Transport Passenger Rights when passengers are denied boarding against their will or a flight is cancelled or delayed
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004R0261:FI:HTML

Finnish Personal Data Act
http://www.finlex.fi/fi/laki/ajantasa/1999/19990523?search%5Btype%5D=pika&search%5Bpika%5D=henkil%C3%B6tieto

enclosed with travel and cargo documents, and are also available on the company website. The special conditions for package tours are based on the EU Directive 90/314/EEC. The conditions relating to package tours provided by Finnair are to be found in the tour operators' travel documents, travel brochures and websites.

The airline has a duty to communicate the passenger's rights if a passenger is denied access to a flight, the passenger's flight is cancelled or the flight is delayed. This duty is based on EC Regulation 261/2004. At the same time, the airline must inform customers with whom they can file a complaint. Finnair complies with these regulations in its customer service operations.

A customer's protection of privacy is prescribed by the Finnish Personal Data Act 22.4.1999/523.

G4-PR5 Results of surveys measuring customer satisfaction

Finnair monitors the customer feedback it receives and reports on the feedback to the unit concerned at least once per month. In urgent matters the feedback is forwarded immediately. In 2015, customer feedback was utilised in monitoring customer reactions to product and service renewals. Based on feedback, we have developed the customer experience at the airports and in the cabin, with development efforts focused on areas including check-in, lounge services, inflight entertainment and inflight meal and beverage services. Proactive customer compensation in airport services has also been developed further. Customer feedback helps improve the overall customer experience, and feedback is also important for motivating customer service personnel.

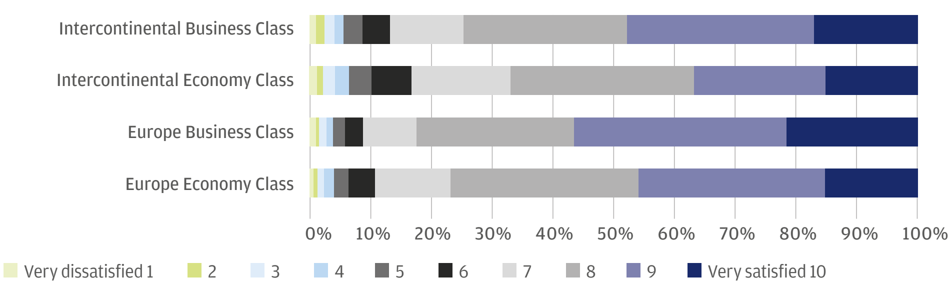
In addition to spontaneous customer feedback, customer perceptions of the service experience are monitored by using questionnaires on scheduled flights, and the results are reported monthly. Finnair's customer satisfaction survey covers all scheduled traffic destinations operated by Finnair and Norra. The survey is conducted using e-mail questionnaires based on partial random sampling, performed 1–7 days following the flight. The survey's key indicators are the general rating of the flight experience as well as ratings of various elements such as booking, airport services and in-flight services. On its Asian and European routes, Finnair also participates in IATA's competitor monitoring surveys, which track the quality of service experienced by the customer in comparison to the most important competitors.

In autumn 2016, the Airs@t comparisons were also conducted on North American routes.

Survey-based data plays an important role in the development of the customer experience. In 2016, Finnair's overall customer satisfaction was close to the level seen in recent years. Of all customers completing the survey in 2016, 76 per cent rated their experience between 8 and 10 on a scale of 1–10 (75 per cent in 2015). Finnair's Net Promoter Score, which measures customers' likelihood of recommending Finnair's services, was higher than in 2016 almost all through the year, with score reaching a new record (48%) under the current measurement principles in May 2016. The NPS for the full year was four percentage points higher than in 2015. The strengths of Finnair's service included efficient and smooth ground services and effective transfers at Helsinki Airport. Customers also appreciate Finnair's cabin environments—with the new A350 aircraft receiving particularly high scores—and friendly inflight service. Development areas highlighted previously in customer feedback include inflight entertainment and meals. Finnair placed a particular focus on these areas last year, which was reflected in higher scores.

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

Finnair's customer satisfaction with flight as a whole in 2016



76 per cent rated their customer experience between 8 and 10

48%

Net Promoter Score reached a new record (48%) under the current measurement principles in May 2016

ENVIRONMENTAL RESPONSIBILITY

Finnair's environmental responsibility management is based on the principle of continuous improvement. Environmental responsibility is managed with the help of the company's environmental policy and system. The environmental and energy policy lays out the targets for environmental management.

In 2014, Finnair became the first European airline to receive IATA Environmental Assessment (IEnvA) Stage 2 certification for its environmental management systems. IEnvA is an environmental management system developed by IATA for airlines, which Finnair applies to make use of the best practices in its industry.

Finnair's environmental management system is assessed by third-party auditors authorised by IATA who are qualified to perform audits of environmental management systems. To improve performance, Finnair has identified the key environmental aspects of its operations and set targets related to them.

Finnair's key environmental aspects are:

- Emissions from the use of jet fuel
- Flight noise
- The energy consumption of properties
- The use of anti-icing fluid
- Cabin waste

Finnair's environmental responsibility in 2016

- Finnair continued the replacement of its Airbus A340 wide-body aircraft with next-generation Airbus A350 XWB aircraft that are on average 25 per cent more fuel-efficient than their predecessors. At the end of 2016, Finnair's fleet included seven Airbus A350XWB aircraft.
- CO_2 emissions from flight operations increased by 4.9 per cent from the previous year, while available tonne kilometres (ATK) increased by over 8 per cent over the same period.
- Measured by the unit-specific CO_2 emissions of revenue tonne kilometres, emissions decreased by 4 per cent from the previous year.
- The volume of waste increased by approximately 5 per cent from the previous year.
- The total consumption of anti-icing fluid increased by 80 per cent compared to the previous year.
- Finnair joined the energy efficiency pact of the Confederation of Finnish Industries, Ministry of Economic Affairs and Employment and the sectoral business organisations. The pact requires a reduction of 4 per cent in properties' energy consumption by 2020 from the level of 2017 and a further 7.4 per cent by 2025.
- Finnair was identified as a Nordic leader again in 2016 in climate-change related corporate actions and communication to investors and other stakeholders by CDP, the independent international not-for-profit for promoting environmental reporting. Finnair was listed in the Nordic Disclosure Leadership Index with the score A–. In the Nordic countries, there were 39 companies that reached the Leadership level by achieving the score A or A–.
- The German ESG rating company oekom research AG updated its analysis of Finnair as a responsible investment at the beginning of 2016. The analysis looks into the sustainability efforts by companies in the investment universe extensively, covering environmental and social responsibility as well as corporate governance. Finnair's peer group in the review comprises globally 77 companies in the transportation and logistics sector, including major airlines. Finnair was awarded the rating B-, the highest in the peer group, along with the designations "Prime" and "Industry Leader", corresponding to a buy rating for responsible investors.

G4-EN3 Energy consumption within the organisation

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

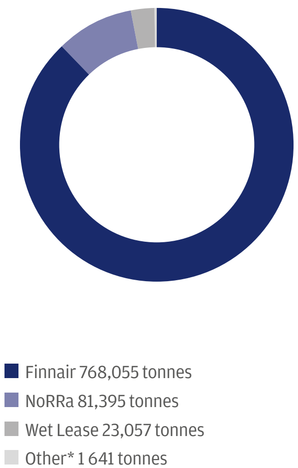
Fuel consumption

Finnair's total consumption of jet fuel comprises flights operated by Finnair itself, flights operated by Norra on Finnair's behalf as well as so-called wetlease flights leased on a short-term basis from other operators due to lack of fleet or crew. In addition, jet fuel is consumed on transfer and training flights as well as test runs by technical services.

In 2016, Finnair's jet fuel consumption increased by 41 million kilogrammes or approximately 4.9 per cent compared to the previous year. The higher total consumption of fuel was primarily due to traffic growth. The breakdown of total consumption in 2016 is presented in the adjacent chart.

Total jet fuel consumption

tonnes



*Other consumption = cargo flights

Finnair's fuel consumption 2014–2016

Jet fuel	2016	2015	2014
Jet fuel (Jet A-1), kg	874,148,241*	833,294,028	736,022,045
MWh	10,516,003	10,024,527.2	8,854,345.2
GJ	37,857,612	36,088,298	31,875,643
Change %	4.9	13.2	-0.8
Ground vehicles			
Petrol, Diesel and Fuel Oil	71,164	53,318	55,016
MWh	703	525	542
GJ	2,530	1,890	1,951
Change	33,5	-3.1	-10.2
Total			
MWh	10,495,294	10,025,052	8,854,887
GJ	37,860,142	36,090,188	31,877,594
Change %	4.9	13.2	-0.9

* These figures are externally assured.
NoRRA's fuel consumption is included as of 4/2015.

Energy consumption of finnair's properties 2011–2016

Energy	GJ/MWh	2016**	2015	2014	2013	2012	2011
Electricity	MWh	33,253*	34,294	39,811	46,104	52,584	54,721
	GJ	119,711	123,459	143,320	165,974	189,302	196,996
Change %		-3.0	-13.9	-13.6	-12.3	-3.9	-2.3
Heat	MWh	35 890*	26 182	50 986	56 200	63 002	59 551
	GJ	129 204	94 257	183 550	202 320	411 379	455 072
Change %		37.1	-48.6	-9.3	-10.8	5.8	-15.4
Total	MWh	69 143*	60 477	90 797	102 304	115 586	114 272
	GJ	248 915	217 716	326 869	368 294	416 110	411 379
Change %		14.3	-33.4	-11.2	-11.5	1.1	-9.6
Change from 2007, %		-39.5	-48.2	-22.3	-12.5	-4.8	-2.2

* These figures are externally assured.
**2016 Figures include Finnair flight operations building (TOKE) that was not included in comparison periods.

Energy and heating consumption of properties

In 2016, the energy consumption of Finnair's properties amounted to 69,143 MWh. Of this amount, electricity consumption accounted for 33,253 MWh, while heating energy accounted for 35,890 MWh. The consumption of heat increased materially from the previous year due to the introduction of aircraft hanger no 11 and the new cargo terminal. In addition, the energy figures for 2015 did not account for the heat energy consumption of the old cargo terminal. The combined consumption of heating energy by these three properties in 2016 amounted to approximately 6,500 MWh.

FINNAIR AIMS TO EXCEED AUTHORITIES' REQUIREMENTS AND TO BE A BELLWETHER IN ENVIRONMENTAL ASSESSMENT, REPORTING AND RESPONSIBILITY.

G4-EN5 Energy intensity

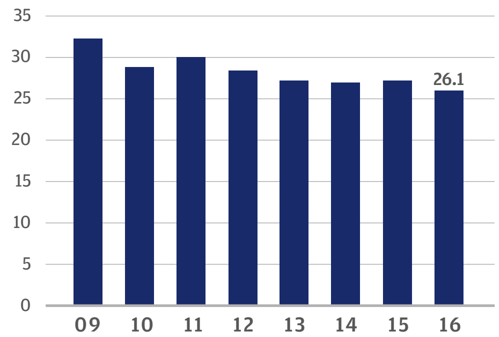
Fuel efficiency of Finnair aircraft

Finnair's target is to reduce the CO_2 emissions of its own traffic operations relative to revenue tonne kilometres (RTK) by 20 per cent per seat by 2017, using 2009 as the baseline.

Finnair's measures to improve its fuel efficiency focus primarily on flights operated by the company itself. Finnair monitors the fuel efficiency of its flights primarily by the payload indicator (RTK), which accounts for the passenger load factor, the volume of cargo transported and the distance between the origin and destination. The following chart illustrates the fuel efficiency of all Finnair flights in 2009–2016, and the table below shows the fuel efficiency of commercial flights operated by Finnair itself over the same period.

Developments in fuel efficiency of flights operated by Finnair in 2009-2016

fuel kg/100RTK



RTK = revenue tonne kilometres, i.e. capacity use according to payload weight

Flights operated by Finnair, excluding NoRRA.

Fuel efficiency of flights operated by Finnair in 2009–2016

	2016	2015	2014	2013	2012	2011	2010	2009
Consumption, tn								
g/RPK*	31.4	32.5	32.4	32.7	34.3	37.9	38.0	38.1
g/ASK*	25.4	26.5	26.3	26.2	26.8	27.9	29.0	28.6
g/RTK	260.5	272.0	269.3	272.8	284.5	301.1	289.3	323.4
g/ATK	170.2	180.4	179.9	179.5	183.8	185.4	187.3	186.6

* Fuel consumption of taxiing and flight excluding consumption by the Auxiliary Power Unit (APU)

Finnair's opportunities to have an impact on the fuel efficiency of flight operations leased from NoRRA and other cooperation partners are mainly limited to route planning, fleet utilisation and load factor optimisation.

Energy efficiency of Finnair's properties

The properties owned and leased by Finnair are mainly located in the Helsinki Airport area. The combined size in cubic metres of these properties was 2 million m^3 in 2015, and the energy efficiency was 29,100 KWh/m^3.

2016 Figures include Finnair flight operations building (TOKE) that was not included in comparison periods.

Energy consumption figures are not available for Finnair's offices (sales etc.) abroad, as their energy consumption is typically invoiced as a fixed part of rent.

G4-EN6 Reduction of energy consumption

Owing to the energy-intensive nature of its operations and the resulting costs, Finnair naturally has a strong aspiration to make its operations more energy efficient, particularly by striving to reduce jet fuel consumption. Airlines with an environmentally friendly mindset, such as Finnair, strive to operate a modern fleet. The average age of the fleet operated by Finnair was approximately 10 years at the end of 2016. Next-generation aircraft consume approximately 25 per cent less fuel than their predecessors. The CO_2 emissions of the aircraft have also declined by a corresponding amount.

By the end of 2016, Finnair had seven next-generation Airbus A350 XWB wide-body aircraft, which were used to replace six Airbus A340 aircraft. In addition to providing a first-class travel experience, the new Airbus A350 XWB aircraft offer 20 per cent more cargo and passenger capacity than their predecessors, and are approximately 25 per cent more efficient than their predecessors in terms of fuel consumption.

The fleet investment, which is the most significant in the company's history, will see Finnair take delivery of a total of 19 Airbus A350 XWB aircraft. They support the company's pursuit of the target of reducing CO_2 emissions by 20 per cent per one hundred tonne kilometres flown by the end of 2017, using 2009 as the baseline.

In addition to fleet modernisation, Finnair strives to improve fuel efficiency by other means. The ongoing fuel conservation program has achieved a reduction of several per cent in jet fuel consumption in recent years. A 2 per cent increase in fuel efficiency in Finnair's traffic corresponds to approximately 15 million kilogrammes of fuel, which in turn corresponds to a reduction of nearly 50 million kilogrammes of CO_2.

The most significant factor affecting the fuel consumption of an aircraft is its weight. The use of new technology and high-quality lightweight materials have enabled Finnair to reduce the empty weight of its aircraft. Weight, along with safety, is a key consideration in all aircraft equipment purchases.

Finnair has also invested in fuel efficiency in its operational functions. For example, single engine taxiing is used whenever possible, and the use of APU engines (the auxiliary power unit, or APU, generates electricity and pressurised air for various aircraft systems) has been optimised to reduce emissions and noise. These measures alone result in annual fuel savings of several million kilogrammes.

In addition to various fuel efficiency projects, Finnair continued its economical flying training program introduced in 2012 and aimed at all Finnair pilots. The aim of the training is to implement consistent operating practices and disseminate information on the factors that influence overall flight economy. These include optimal airspeed and altitude, as well as continuous descent approach (CDA). Finnair's flight planning is also aimed at achieving optimal fuel efficiency by selecting the most economical route alternatives whenever possible.

Finnair engages in international cooperation with the aim of increasing the efficiency of airspace use and introducing new flight paths on routes used by Finnair to improve fuel efficiency.

In March 2016, Finnair participated in the international Earth Hour for the eighth time by switching off its advertising lights at the airport and in various properties for a whole weekend and informing personnel of ways to conserve energy when at work as well as when off duty.

In October, Finnair organised its annual energy conservation week, during which information and energy conservation tips were distributed internally. Every day of the week had its own theme, and in relation to each theme personnel were encouraged to discuss and consider the significance of energy conservation as well as new ways to save energy.

Finnair Facilities Management joined a nation-wide energy efficiency agreement in the service sector, which is part of the implementation of Finland's long-term energy and climate strategy and the framework decision of the Council of State on energy efficiency measures. The agreement obliges Finnair to reduce its properties' energy consumption by 7 per cent from the 2016 level by 2020.

Together with local partners, Finnair is evaluating the possibility of establishing a biofuel hub at Helsinki Airport. The company is part of a project led by the Finnish Ministry of Transport and Communications that also includes Finavia and Neste Oil as partners. Finland is very well positioned to be among the first countries in the world to introduce biofuels in broader and continuous use in aviation. Renewable biobased diesel is considered a potential alternative to biokerosene due to its lower investments required for continuous production, and therefore lower costs. Renewable biobased diesel has not yet received international approval for use as aviation fuel, but the approval process is underway.

Finnair is an active member of the Nordic Initiative for Sustainable Aviation working group comprised of Nordic airlines, airport operators and government ministries who are working together with aircraft manufacturers to expedite the development of biofuel in the aviation industry.

THE STANDBY WEIGHT OF FINNAIR AIRCRAFT DECREASED WITH *NEW TECHNOLOGY AND LIGHTER, BETTER QUALITY MATERIAL.*

Finnair wants to find an ecologically, financially and socially sustainable fuel solution. The projects that are currently underway play a significant role in achieving this objective.

G4-EN7 Reductions in energy requirements of products and services

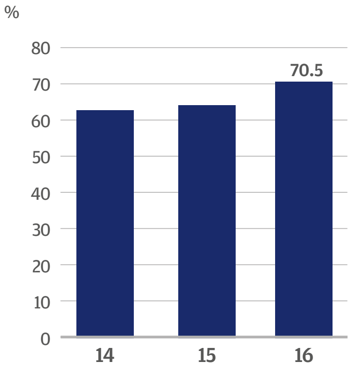
Development of in-flight processes of the service product

The main service process reform in 2016 was standardisation of the loading of the European narrowbody fleet. Finnair standardised the instructions for the loading of the narrowbody fleet and simplfied and harmonised the packing and loading process. The reform supports the work of the cabin crew, since it enables faster start of the cabin service and smoother customer service. In addition, in 2016 Finnair adopted a single service trolley standard for the entire Finnair fleet. The reform enables the cross-use of the new-generation light trolleys in across the fleet. These reforms generate savings in material cost and fuel costs due to weight savings. In addition, the provide a considerable improvement in work ergonomics.

The so-called expanded bonded store operations used in long-haul destinations was developed further. Products used in restocking aircraft at outstations are now transported to Finnair's 11 year-round destinations in

In October, Finnair held its annual energy saving week. During the week, information and tips on different ways to save energy were disseminated internally

CDA-approaches to Helsinki 2014–2016*



* The criteria for Continuous Descent Approach (CDA): At any stage of approach below 1,800 metres the aircraft does not maintain level flight more than 30 seconds.

three-month intervals, which means that the products do not need to be flown back and forth from Helsinki, which saves fuel.

Flight noise

One typical adverse environmental effect of air transport is noise. The noise produced by aircraft is mainly engine noise and aerodynamic noise. The level of engine noise is greater in takeoffs, while the level of aerodynamic noise grows during approaches.

Finnair has reduced noise by modernising its fleet and by scheduling takeoffs and landings at less undesirable times from a noise perspective. However, Finnair also operates flights in the evenings and at night, at which times noise is perceived to be more disruptive. The use of the continuous descent approach (CDA) also helps reduce flight noise within 10 kilometres of the airport. However, the use of CDA requires uncongested airspace and good weather conditions. During the busiest afternoon hours at Helsinki Airport, for example, when there are a lot of parallel approaches, using CDA is not possible.

The International Civil Aviation Organisation (ICAO) has specified noise certification limits for aircraft and their engines. Over 90 per cent of Finnair's fleet is compliant with the specifications for Chapter 4, which is the newest and quietest ICAO noise category. The remaining below 10 per cent of Finnair's aircraft are categorised in Chapter 3.

Other products and services

G4-EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

Finnair takes environmental aspects into consideration on the ground and in the air. Besides energy solutions that reduce the environmental load, Finnair's environmental strategy also includes the preservation and promotion of natural diversity, known as biodiversity thinking. Finnair has assessed the ecosystem services, or benefits provided to people by nature, that are most relevant to its business, as well as its most significant impacts on them.

Of the different categories of ecosystem services, cultural services and regulating services are the most relevant to Finnair's business. Cultural services include tourism, spiritual value and aesthetic value. Regulating services include the regu lation of air quality and the climate, disease control, pest control and pollination.

Finnair's core business and key product areas benefit ecosystem services in various ways. Cultural services are particularly important for travel services. Accordingly, Finnair's travel agency Aurinkomatkat Suntours has participated in various local projects to maintain biodiversity at various destinations for several years.

In planning its destination programs, Aurinkomatkat Suntours carefully evaluates their potential effects on the environment and biodiversity. The operations aim to avoid excursions to sites where visits could pose a threat to biodiversity. Customers are informed at destinations on appropriate conduct to preserve biodiversity.

For several years, Finnair has also actively supported a rain forest reforestation project in Madagascar in collaboration with the Finnish Association for Nature Conservation, although the company does not operate any flights to the area.

In the airline business, Finnair supported both cultural and regulating services by prohibiting the transportation of hunting trophies or memorabilia originating from endangered species or their parts in its cargo network. Furthermore, in 2016 Finnair signed the United for Wildlife (UFW) Buckingham Palace declaration of the Duke of Cambridge to prevent the illegal smuggling of wild animals. As a signatory, the company has undertaken to promote the awareness of different stakeholders about this topic.

The significance of biodiversity in Finnair's airline business will be highlighted further in the coming years through climate change mitigation measures. When biofuels replace fossil fuels in the future, the company wants to ensure that the primary production of the raw materials of the renewable energy sources it uses is in line with the principles of sustainable development and does not compromise ecosystem services. For example, in the manufacturing of biofuel, measures must be taken not to indirectly lead to changes in land use (ILUC).
The objective is to ensure that arable land used for growing food crops is not used to produce raw material for biofuel, which would result in either the clearing of forests or wetlands to create space for food production or a decline in food production.

Finnair wants to find an ecologically, financially and socially sustainable fuel solution

Regulating services have a significant impact on both the airline business and travel services. The local decline of biodiversity erodes the operating conditions of the tourism industry and increases the risk of infectious diseases. Climate change can lead to an increase or exacerbation of extreme weather phenomena, which in turn could restrict aviation or, in the worst case, prevent it entirely in some regions.

International cargo operations by both air and sea adhere to the International Standards for Phytosanitary Measures of the Food and Agriculture Organisation (FAO), which regulate, among other things, the quality and characteristics of timber used in logistics. Timber must be treated so that no parasites or insect pests are transported along with it. Correctly-treated timber is also stamped in line with the standard.

G4-EN15 Direct greenhouse gas (GHG) emissions (Scope 1)

Nearly all of Finnair Group's greenhouse gas emissions arise from flight operations. Flying primarily causes two kinds of direct greenhouse gas emissions: carbon dioxide and water vapour. Water vapour is the most important greenhouse gas in the atmosphere, but it is not generally examined directly as a human-derived greenhouse gas emission, because the water vapour in the atmosphere is mainly the result of natural evaporation. Air transport is in a special position in this respect because the water vapour generated by the engines is released high in the atmosphere, which increases the atmosphere's H_2O content above the cloud layer. However, not much is yet known about the potential impacts of water vapour emissions from aviation.

In 2016, the greenhouse gas emissions of Finnair's traffic amounted to approximately 2,940,138 tonnes of carbon dioxide. This figure covers Finnair's total fuel consumption (see table on fuel usage in 2014–2016).

Finnair's direct greenhouse gas emissions 2014–2016

CO_2 tn	2016	2015	2014
Flying, AY	2,753,567*	2,624,876	2,318,469
Ground equipment, AY	186,571	139,538	143,867
Total	**2,940,138**	**2,625,019**	**2,318,613**
Change %	12.0	12.3	-0.9

* These figures are externally assured. Calculated from p. 140 total consumption table.

G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)

In Finland, the energy consumption of buildings accounts for more than a third of total greenhouse gas emissions. Finnair uses means such as repairs and alterations, as well as user training, to ensure the energy efficiency of its business premises in order to mitigate the greenhouse gas emissions arising from the energy consumption of its buildings.

Of the district heating and electrical energy used by Finnair, 12 per cent was produced by natural gas, 46 per cent by coal, 2 per cent by heavy fuel oil and 40 per cent by mixed waste. In 2016, the CO_2 emissions arising from the production of heating energy amounted to 9,583 tCO_2, calculated according to the emission factor reported by the heating energy supplier (267 kg CO_2e/MWh). The location-based emissions of heat consumption amounted to 6,568 tCO_2. Calculated based on the average emission factor for Finnish district heating joint generation areas 183 g CO_2e/MWh).

The CO_2 emissions attributable to the production of electrical energy in 2016 were 6,950 tCO_2, calculated according to the emission factor for average electricity purchasing in Finland (209 g CO_2e/MWh) and 8,843 tCO_2, according to the supplier-specific emission factors (191 g and 267 g CO_2e/MWh).

FINNAIR REDUCED ITS *CARBON DIOXIDE EMISSIONS* RELATIVE TO REVENUE TONNE KILOMETRES (RTK) BY *19.4 PER CENT* FROM THE 2009 LEVEL BY 2017.

Finnair's indirect greenhouse gas emissions 2014–2016

CO_2 tn	2016*	2015	2014
Electricity	8,843	7,545	8,877
Heat	9,583	6,415	14,428
Total	**18,426**	**13,959**	**23,305**
Change %	32.0	-40.1	-11.0

*These figures as well as location based CO2 emissions are externally assured. 2016 Figures include Finnair flight operations building (TOKE) that was not included in comparison periods.

G4-EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)

The greenhouse gas emissions arising from the production of jet fuel constitute a significant proportion of Finnair's indirect greenhouse gas emissions balance. More than 55 per cent of the jet fuel used by Finnair and Norra is produced at the Neste oil refinery in Porvoo's Kilpilahti district. The greenhouse gas emissions arising from the production and transport of jet fuel amounted to an estimated 601,936 tonnes of CO_2 in 2016 (externally assured).

The purchases of Airbus A350 XWB wide-body aircraft represented Finnair's most significant investment in 2016. The indirect greenhouse gas emissions arising from the manufacture of four aircraft represent an estimated 8,484 tonnes of CO_2 on Finnair's emissions balance.

At the end of 2016, Finnair had a total of 708 leasing cars. Their combined emissions amounted to 1,663 tonnes of CO_2, which is 4.5 per cent higher than in the previous year. The average CO_2 emission per leasing car amounted to 115 g CO_2/km, which is 12 per cent less than a year earlier.

Business travel by Finnair employees primarily involves the company's own flights, the emissions of which are reported under Scope 1. Commuting by Finnair employees caused an estimated 3,408 tonnes of CO2 emissions in 2016. The reduction in emissions from the previous year was primarily due to a higher number of personnel reporting bus or train as their commuting method.

The CO_2 emissions caused by crew transportation at Helsinki airport station level amounted to slightly more than one tonne in 2016.

Finnair's indirect CO_2 balance also includes the capacity purchased from other operators by Finnair Cargo. In 2016, this cargo capacity produced approximately 8,943 tonnes of CO_2 in total. The amount includes cargo flights that were operated solely due to Finnair Cargo.

In addition, significant material flows are also generated by Finnair's subcontractor LSG Sky Chefs Finland Oy. The emissions arising from these materials, such as food and beverages served on flights, were not reported in 2016. The greenhouse impacts of the material flows could not be estimated.

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

When there is humidity in the air and the temperature is close to or below freezing, airlines use de-icing and anti-icing to ensure the safety of their operations. De-icing involves cleaning impurities on the exterior of the aircraft, while anti-icing involves spraying the exterior with a protective substance, propylene glycol (hereafter referred to as glycol), to prevent ice from accumulating on it. In 2016, the total consumption of glycol was 1,110,455 litres, and the water mixed with glycol amounted to 1,580,451 litres. The number of de-icing and antiicing treatments during the year was 4,805. The greenhouse impact of glycol could not be estimated, since no emission factor is available for it.

G4-EN18 Greenhouse gas (GHG) emissions intensity

The emissions intensity of an aircraft goes hand in hand with its energy intensity. In other words, as the energy consumption of the aircraft increases, its emissions increase.

The ratios for jet fuel and the energy consumption of properties are reported under EN5 Energy intensity.

G4-EN19 Reduction of greenhouse gas (GHG) emissions

Finnair's long term target 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 completed almost in full, as the relative annual carbon emissions decreased by 19.4 per cent during the period. The primary indicator used by Finnair in its emission target setting is RTK, since it measures fuel consumption and emissions in relation to the distance travelled and the volume of passengers and cargo. After all, flying with an efficiently filled aircraft is the most environmentally friendly way to fly. The achievement was largely based on the purchase of new aircraft as well as an improvement in the passenger and cargo load factors. In addition, fuel efficiency was improved during the period by modernising existing fleet and by improving processes.

The calendar year 2015 was mild with little snowfall. The ice removal season ended already at the end of February and did not begin again until Christmas. Therefore the consumption of ice removal agent in terms of litres was low (also the basis for environmental charge). In contrast, the ice removal season 2016 lasted longer into the spring, and the three-week period of very low temperatures (below -18 C) in January increased the consumption of glycol. In addition, there were several

Due to reduced energy consumption of buildings, the company cut its indirect carbon dioxide emissions by 4,880 tonnes from 2014

Whenever there is humidity in the air and the temperature is close to or below zero, airlines conduct ice removal and prevention to ensure safe operation

days at the end of 2016 with snowfall or storm, which also contributed considerably to the increase from the previous year. As a result, the consumption of glycol rose by almost 80% in 2016 from 2015.

Agreements made with the Helsinki Airport in 2016 contained, however, elements leading to optimal fluid consumption. Finnair uses CheckTime, a solution developed by the Finnish company Vaisala that utilises accurate weather analysis equipment at airports to measure the water value of rainfall and, based on the measurement results, calculates the saturation point for de-icing and anti-icing fluids. By implementing the CheckTime solution and training employees who use anti-icing fluids, Finnair was able to reduce its relative glycol consumption by almost 40 per cent by the end of 2016, using 2006 as the baseline, without compromising on safety.

Due to the reduction in properties' energy consumption, Finnair's indirect greenhouse gas emissions (Scope 2) decreased by 4,880 tonnes.

G4-EN21 NO_x, SO_x, and other significant air emissions

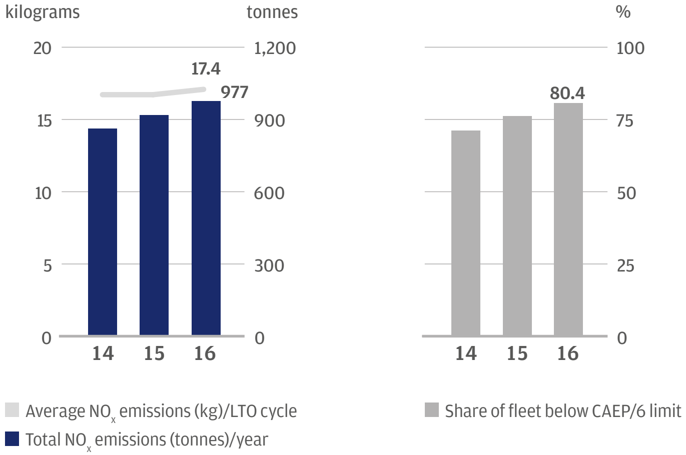
Besides carbon dioxide, nitrogen oxides (NO_x) are the most significant air emission of flying. NO_x emissions arise in combustion processes that take place at high temperatures.

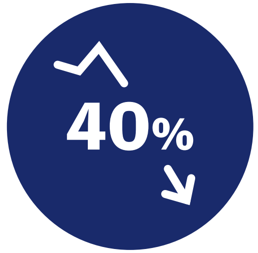
Nitrogen oxides contribute to the formation of ozone in the lower atmosphere, but destroy methane, which is a powerful greenhouse gas, in the atmosphere. The impact of nitrogen oxides is complex and in many respects still not fully understood.

The basis of the calculation of NO_x emissions produced by the engines of Finnair aircraft is the aircraft engine-specific emission database compiled by the UN International Civil Aviation Organisation (ICAO). The database covers the NOx emissions of different engine types during one internationally defined landing-takeoff cycle (LTO) up to the altitude of 915 metres (3,000 feet). ICAO has set a CAEP/6 target level for NOx emissions, and Finnair monitors the achievement of this target by using the percentage indicator "Proportion of the fleet represented by aircraft that are under the CAEP/6 limit". The calculation covers Finnair's own fleet and does not account for emissions by external flight operators in Finnair's purchased traffic (such as wet leases involving Finnair leasing an aircraft and its crew).

In addition to NO_x emissions, Finnair's operations give rise to volatile organic compound (VOC) emissions. VOC emissions are harmful to the environment by, for example, contributing to the formation of ozone in the lower atmosphere. Lower-atmosphere ozone, moreover, is harmful to both human and animal health and flora.

Fleet's NO_x emissions 2014–2016





Finnair was able to reduce its relative glycol consumption by almost 40 per cent by the end of 2016, using 2006 as the baseline

Airbus A350XWB-hankinnat olivat Finnairin merkittävin investointi vuonna 2016

The VOC emissions from Finnair's technical operations have declined significantly in recent years. The most significant individual factor in this decline is the discontinuation of aircraft painting operations. Finnair Technical Operations (FTO) nevertheless maintains the capacity to paint aircraft in order to prepare for unexpected incidents. FTO holds an environmental permit granted by the environmental protection authorities, which regulates the use of volatile solvents and specifies limits for emissions. In 2016, FTO's VOC emissions totalled 3.54 tonnes, remaining clearly below the allowed limit.

G4-EN23 Total weight of waste by type and disposal method

The total amount of waste generated by Finnair increased by approximately 5 per cent, or over 200 tonnes, from the previous year. The increase/reduction in the total weight of waste is primarily attributable to traffic growth.

The company placed even more focus on waste recovery and sorting. Finnair has set waste management objectives of increasing waste recovery, cost efficiency and safety, as well as reducing the volume of waste. In practice, this means that waste will be utilised as either energy or material.

Waste generated by Finnair's operations is no longer disposed of in landfills in Finland. The combination of mixed waste and energy waste is made possible by the thermic processing of waste at Ekokem's power plants in Riihimäki. Following a change in applicable regulations, food waste originating from outside of the EU that is subject to the EU by-products Regulation can now be directed to thermic processing, allowing it to be utilised with other waste in generating district heating and electricity.

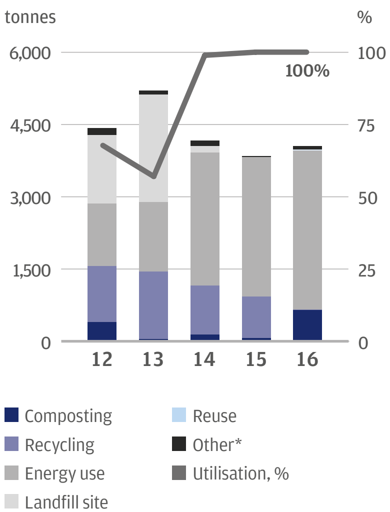
G4-EN24 Total number and volume of significant spills

In 2016, Finnair had no significant spills burdening the environment.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Finnair was not subject to any fines or other sanctions for noncompliance with environmental laws and regulations during the reporting period.

Amounts of waste and utilisation percentage 2012–2016



NONE OF THE WASTE GENERATED IN FINNAIR'S OPERATIONS IS ANY LONGER DISPOSED IN A LANDFILL IN FINLAND, AS IT IS *PROCESSED THERMICALLY.*

GLOBAL COMPACT INDEX

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Human Rights		**Location**
Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and	p. 3-4; 90-94; 130; 135-136
Principle 2:	make sure that they are not complicit in human rights abuses.	p. 90-94; 130; 135-136
Labour		
Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	p. 90-94; 131
Principle 4:	the elimination of all forms of forced and compulsory labour;	p. 90-94; 130; 135-136
Principle 5:	the effective abolition of child labour; and	p. 90-94; 130; 135-136
Principle 6:	the elimination of discrimination in respect of employment and occupation.	p. 90-94; 130; 135-136
Environment		
Principle 7:	Businesses should support a precautionary approach to environmental challenges;	p. 90-94; 139; 143
Principle 8:	undertake initiatives to promote greater environmental responsibility; and	p. 6; 18-20; 90-94; 139; 142-144
Principle 9:	encourage the development and diffusion of environmentally friendly technologies	p. 90-94; 139; 142-144
Anti-Corruption		
Principle 10:	Businesses should work against all forms of corruption, including extortion and bribery.	p. 90-94; 137

GRI G4 CONTENT INDEX

Code	GRI content	Location	Further information
General standard disclosures			
	Strategy and analysis		
G4-1	Statement from the CEO	p. 3-4	
G4-2	Description of key impacts, risks, and opportunities	p. 3-25; 49; 57-59; 107-112	
	Organisational profile		
G4-3	Name of the organisation	Finnair Group Plc	
G4-4	Primary brands, products and services	p. 8; 17; 28	
G4-5	Location of the organisation's headquarters	Tietotie 9 , 01053 Finnair	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	p. 12	
G4-7	Nature of ownership and legal form	p. 29-31	
G4-8	Markets served	p. 12	
G4-9	Scale of reporting organisation	p. 23-25	
G4-10	Total number of employees and breakdown by employment type, employment contract, region and gender	p. 130	
G4-11	Percentage of total employees covered by collective bargaining agreements	p. 130-131	
G4-12	Description of the organisation's supply chain	p. 131	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	p. 131	
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	p. 95-107	
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	p. 3-4; 18-19; 90-95	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation is active	p. 18; 90-95	
	Identified material aspects and boundaries		
G4-17	Entities included in the organisation's consolidated financial statements	p. 124-126	
G4-18	Process for defining the report content and the aspect boundaries	p. 123-124	
G4-19	Material aspects identified	p. 123-124	
G4-20	Aspect boundary within the organisation for each material aspect	p. 123-126	
G4-21	Aspect boundary outside the organisation for each material aspect	p. 123-126	
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements	p. 123-126	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	p. 123-126	
	Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organisation	p. 18	
G4-25	Basis for identification and selection of stakeholders with whom to engage	p. 18; 123-124	
G4-26	Organisation's approach to stakeholder engagement	p. 18	
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organisation has responded to them	p. 18	

Code	GRI content	Location	Further information
	Report profile		
G4-28	Reporting period for information provided	1.1.2016-31.12.2016	
G4-29	Date of most recent previous report	March 2015	
G4-30	Reporting cycle	Annually	
G4-31	Contact point for questions regarding the report or its content	Communications, Finnair Plc Tietotie 9, 01053 Finnair. comms(a) finnair.com	
G4-32	GRI content index	p. 149	
G4-33	Policy and current practice with regard to seeking external assurance for the report		Some of the indicators externally verified
	Governance		
	Governance structure and composition		
G4-34	Governance structure of the organisation, including committees of the highest governance body	p. 95-107	
	Ethics and integrity		
G4-56	Description of the organisation’s values, principles, standards and norms of behavior such as codes of conduct and codes of ethicp.	p. 8-17; 90	
Specific standard disclosures			
	Disclosures on management approach		
DMA	General disclosure on management approach	p. 90-94	
	Economic indicators		
	Economic performance		
G4-EC1	Direct economic value generated and distributed	p. 127	
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	p. 128	
G4-EC3	Coverage of the organisation's defined benefit plan obligations	p. 128	
G4-EC4	Financial assistance received from government	p. 128-129	
	Indirect economic impacts		
G4-EC8	Significant indirect economic impacts, including the extent of impacts	p. 16; 91	
	Procurement practices		
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	p. 129	
	Environmental indicators		
	Energy		
G4-EN3	Energy consumption within the organisation	p. 139-140	
G4-EN5	Energy intensity	p. 141	
G4-EN6	Reduction of energy consumption	p. 141-142	
G4-EN7	Reductions in energy requirements of products and services	p. 142-143	
	Biodiversity		
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	p. 143	

Code	GRI content	Location	Further information
	Emissions		
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	p. 144	
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	p. 144	
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	p. 145	
G4-EN18	Greenhouse gas (GHG) emissions intensity	p. 145	
G4-EN19	Reduction of greenhouse gas (GHG) emissions	p. 145–146	
G4-EN21	NO_X, SO_X and other significant air emissions	p. 146–147	
	Effluents and waste		
G4-EN23	Total weight of waste by type and disposal method	p. 147	
G4-EN24	Total number and volume of significant spills	p. 147	
	Compliance		
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	p. 147	
	Social indicators		
	Labor practices and decent work		
	Employment		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	p. 131	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	p. 131	
	Labor/management relations		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	p. 131	
	Occupational health and safety		
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	p. 131–132	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and gender	p. 132	
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	p. 132	
G4-LA8	Health and safety topics covered in formal agreements with trade unions	p. 133	
	Training and education		
G4-LA9	Average hours of training per year per employee by gender and by employee category	p. 133	
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p. 135	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	p. 135	
	Diversity and equal opportunity		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	p. 135	

Code	GRI content	Location	Further information
	Equal remuneration for women and men		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	p. 135	
	Human rights		
	Assessment		
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	p. 135	
	Supplier human rights assessment		
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	p. 136	
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	p. 136	
	Society		
	Anti-corruption		
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	p. 137	
G4-SO4	Communication and training on anti-corruption policies and procedures	p. 137	
G4-SO5	Confirmed incidents of corruption and actions taken		No incidents
	Public policy		
G4-SO6	Total value of political contributions by country and recipient/beneficiary	p. 137	
	Anti-competitive behaviour		
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes		No incidents
	Compliance		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No incidents
	Product responsibility		
	Customer health and safety		
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	70%, p. 94–95	
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		No incidents
	Product and service labeling		
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	p. 138	
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes		No incidents
G4-PR5	Results of surveys measuring customer satisfaction	p. 138	
	Marketing communications		
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes		No incidents
	Customer privacy		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		One incident
	Compliance		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		No incidents
OMA	Punctuality	p. 21	

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT

To the Management of Finnair Plc

We have been engaged by the Management of Finnair Plc (hereinafter also the Company) to perform a limited assurance engagement on selected environmental performance indicators for the reporting period 1 January 2016 to 31 December 2016, to be disclosed in the Sustainability section of Finnair Plc's Annual Report 2016 (hereinafter the Selected environmental information).

Selected environmental information

The Selected environmental information consists of the following performance indicators:

1. Fuel consumed by all flights under the Finnair Plc's callsign.
2. Energy consumed in Finnair Plc's properties.
3. Heating consumed in Finnair Plc's properties.
4. CO_2 emissions originating from the consumption referred to in point 1.
5. CO_2 emissions originating from the consumption referred to in points 2 and 3.
6. CO_2 emissions in Scope 3 category 3 (Fuel- and energy-related activities).

Management's responsibility

The Management of Finnair Plc is responsible for preparing the Selected environmental information in accordance with the Reporting criteria as follows:

For items 1 and 4 of the scope above:
- Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2016).

For items 2, 3 and 5 of the scope above:
- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.
- Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2016).

For item 6 of the scope above:
- The Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard as applicable.
- •Finnair's own reporting instructions (described in the Sustainability section of Finnair Plc's Annual Report 2016).

The Management of Finnair Plc is also responsible for such internal control as the management determines is necessary to enable the preparation of a Selected environmental information that is free from material misstatement, whether due to fraud or error.

Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Selected environmental information based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Finnair Plc for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3410 "Assurance Engagements on Greenhouse Gas Statements". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Selected environmental information is free from material misstatement.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Selected environmental information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Selected environmental information.

Our work consisted of, amongst others, the following procedures:

- Interviewing employees responsible for collecting and reporting the Selected environmental information
- Assessing how Group employees apply the Company's reporting instructions and procedures
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Finnair Plc's Selected environmental information for the reporting period ended 31 December 2016 is not properly prepared, in all material respects, in accordance with the Reporting criteria. When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Helsinki, 14 February 2017

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

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