Financial Statements

Financial Statements

How to read Finnair Financial Statements?
Finnair's financial statements are structured to facilitate reading and understanding of the financial statements and to clarify the overall picture derived from it. The notes to the financial statements have been combined to business related sections, separately listing the accounting principles, critical accounting estimates and sources of uncertainty in each section. In addition, comments on interesting figures and other highlights are provided in text areas marked with a star. The financial statements also include illustrative charts to support the understanding of 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.

This Financial Information 2021 is not an xHTML document compliant with the ESEF (European Single Electronic Format) regulation. Financial Information 2021 in accordance with ESEF regulations is available at https://investors.finnair.com/en.

Consolidated income statement

EUR mill.	Note	2021	2020
Revenue	1.1, 1.2	**838.4**	**829.2**
Other operating income		62.5	49.3
Operating expenses			
Staff and other crew related costs	1.3.8	-229.3	-163.9
Fuel costs		-211.4	-232.8
Capacity rents		-71.3	-89.3
Aircraft materials and overhaul		-117.2	-92.5
Traffic charges		-120.4	-112.4
Sales, marketing and distribution costs		-38.1	-28.2
Passenger and handling services	1.3.2	-148.0	-168.6
Depreciation and impairment	2.3	-319.8	-343.8
Property, IT and other expenses	1.3.3	-99.7	-111.6
Operating result		**-454.4**	**-464.5**
Financial income	3.1	12.8	38.7
Financial expenses	3.1	-117.8	-255.2
Exchange rate gains and losses	3.1	-22.5	26.6
Result before taxes		**-581.9**	**-654.4**
Income taxes	5.1	117.6	131.1
Result for the period		**-464.3**	**-523.2**
Attributable to			
Owners of the parent company		-464.3	-523.2
Earnings per share attributable to shareholders of the parent company, EUR			
Basic earnings per share	3.9	-0.34	-0.51
Diluted earnings per share	3.9	-0.34	-0.51

Consolidated statement of comprehensive income

EUR mill.	Note	2021	2020
Result for the period		**-464.3**	**-523.2**
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		30.1	-29.9
Translation differences			-0.7
Tax effect		-6.0	6.0
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.8.2	43.0	-13.1
Tax effect		-8.6	2.6
Other comprehensive income items total		**58.4**	**-35.1**
Comprehensive income for the period		**-405.9**	**-558.4**
Attributable to			
Owners of the parent company		-405.9	-558.4

The COVID-19 pandemic had a significant impact on Finnair's revenue and profitability also in 2021
The financial year 2021 was Finnair's second annual reporting period impacted by the COVID-19 pandemic. Although the gradual recovery of passenger air traffic began in the second half of 2021, the annual revenue remained at the level of the comparison period amounting to 838.4 million euro (829.2). Despite the notable cost-saving measures taken in 2021, the reported operating result remained close to the previous year's level due to the significant non-recurring items included in the result of the comparison period. Non-recurring items are presented in more detail in note 1.3.7 Items affecting comparability.

= Highlights

Consolidated balance sheet

EUR mill.	Note	2021	2020
ASSETS			
Non-current assets			
Fleet	2.1	946.3	1,440.3
Right-of-use fleet	2.2	1,025.3	772.5
Fleet total		1,971.6	2,212.7
Other fixed assets	2.1	162.3	185.3
Right-of-use other fixed assets	2.2	156.4	145.0
Other fixed assets total		318.7	330.2
Pension assets	1.3.8.2	80.9	31.8
Other non-current assets		6.9	25.1
Deferred tax assets	5.1	191.9	84.8
Non-current assets total		**2,569.9**	**2,684.7**
Current assets			
Receivables related to revenue	1.2.3	110.9	57.5
Inventories and other current assets	1.3.4	55.8	68.1
Derivative financial instruments	3.8	26.1	12.4
Other financial assets	3.2.1	531.4	358.3
Cash and cash equivalents	3.2.2	734.3	465.3
Current assets total		**1,458.5**	**961.8**
Assets held for sale		18.7	
Assets total		**4,047.1**	**3,646.5**

EUR mill.	Note	2021	2020
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		75.4	75.4
Other equity		400.2	821.2
Equity total		**475.7**	**896.6**
Non-current liabilities			
Lease liabilities	2.2, 3.3	1,204.1	880.6
Other interest-bearing liabilities	3.3	986.2	1,111.0
Pension obligations	1.3.8.2	0.7	1.5
Provisions and other liabilities	1.3.6	200.7	161.1
Non-current liabilities total		**2,391.6**	**2,154.2**
Current liabilities			
Lease liabilities	2.2, 3.3	176.9	135.6
Other interest-bearing liabilities	3.3	441.7	51.5
Provisions	1.3.6	13.8	20.0
Trade payables		53.5	24.8
Derivative financial instruments	3.8	0.4	99.7
Deferred income and advances received	1.2.4	291.1	133.6
Liabilities related to employee benefits	1.3.8.1	74.4	70.7
Other liabilities	1.3.5	128.1	59.8
Current liabilities total		**1,179.8**	**595.7**
Liabilities total		**3,571.4**	**2,749.9**
Equity and liabilities total		**4,047.1**	**3,646.5**

Refinancing plan was continued also in 2021
Finnair continued to execute its refinancing plan in 2021 in order to mitigate the impacts of the COVID-19 pandemic. This included, among other transactions, issuing a senior unsecured bond totaling to 400 million euro and closing of five new financing transactions relating to the A350 aircraft. As a result, the total interest-bearing debt increased to 2,808.9 million euro (2,178.7) and the sum of cash and cash equivalents and other financial assets to 1,265.7 million euro (823.7). The financing transactions of the A350 aircraft comprised of four sale- and leaseback agreements and one lease financing arrangement which are reflected as an increase in the value of the RoU fleet totaling to 1,025.3 million euro (772.5) and as a decrease in own fleet to 946.3 million euro (1,440.3).

The deferred tax assets increased to 191.9 million euro (84.8) due to the significant losses caused by the COVID-19 pandemic.

= Highlights

= Highlights

Consolidated cash flow statement

EUR mill.	2021	2020
Cash flow from operating activities		
Result before taxes	-581.9	-654.4
Depreciation and impairment	319.8	343.8
Financial income and expenses	127.5	189.9
Sales gains and losses on aircraft and other transactions	-19.4	-0.8
Change in provisions	19.8	3.5
Employee benefits	-4.3	-120.8
Other adjustments	3.3	0.7
Non-cash transactions	18.9	-116.6
Changes in trade and other receivables	-49.9	112.3
Changes in inventories	1.9	4.6
Changes in trade and other payables	257.3	-672.0
Changes in working capital	209.2	-555.2
Financial expenses paid, net	-99.3	-243.4
Income taxes paid		-6.4
Net cash flow from operating activities	**-25.3**	**-1,043.1**
Cash flow from investing activities		
Investments in fleet	-70.3	-300.7
Investments in other fixed assets	-6.0	-24.7
Divestments of fleet, other fixed assets and shares	441.7	221.1
Lease and lease interest payments received	11.7	16.1
Change in other current financial assets (maturity over 3 months)	-67.5	439.9
Change in other non-current assets	0.0	0.0
Net cash flow from investing activities	**309.6**	**351.6**
Cash flow from financing activities		
Proceeds from loans	396.7	872.8
Loan repayments	-154.8	-218.0
Repayments of lease liabilities	-146.8	-134.9
Share issue		511.7
Share issue costs		-11.1
Hybrid bond repayments		-200.0
Proceeds from hybrid bond		200.0
Hybrid bond interests and expenses	-20.5	-18.5
Acquisitions of own shares	-1.1	
Net cash flow from financing activities	**73.4**	**1,001.9**
Change in cash flows	**357.8**	**310.5**
Liquid funds, at beginning	792.2	481.7
Change in cash flows	357.8	310.5
Liquid funds, at end*	**1,150.0**	**792.2**

*** Liquid funds**

EUR mill.	2021	2020
Other financial assets	531.4	358.3
Cash and cash equivalents	734.3	465.3
Cash funds	**1,265.7**	**823.7**
Other current financial assets (maturity over 3 months)	-115.7	-31.5
Liquid funds	**1,150.0**	**792.2**

Changes in equity and liabilities arising from financing activities are disclosed in the note 3.3 Financial liabilities and in the note 3.9 Equity-related information.

The Group's liquidity remained strong in 2021
The net cash flow from operating activities improved significantly during 2021 but remained negative at -25.3 million euro (-1,043.1). The improvement was mainly due to the exceptionally large volume of cash refunds (relating to prepaid flight tickets) paid to customers in 2020 and on the other hand, the gradual increase in sales during the second half of 2021. The Group's total liquid funds grew to 1,150.0 million euro (792.2). The increase in liquid funds during the period was largely related to the positive investment cash flow resulting from the financing transactions of the A350 aircraft as well as the issuance of the senior unsecured bond of 400 million euro included in cash flow from financing activities.

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 total
Equity 1 Jan 2021	**75.4**	**168.1**	**-41.8**	**759.5**	**-262.6**	**198.0**	**896.6**
Result for the period					-464.3		-464.3
Change in fair value of hedging instruments			24.0				24.0
Actuarial gains and losses from defined benefit plans			34.4				34.4
Comprehensive income for the period			**58.4**		**-464.3**		**-405.9**
Hybrid bond interests and expenses					-16.4		-16.4
Acquisitions of own shares					-1.1		-1.1
Share-based payments				2.4			2.4
Equity 31 Dec 2021	**75.4**	**168.1**	**16.6**	**762.0**	**-744.5**	**198.0**	**475.7**

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 1 Jan 2020	**75.4**	**168.1**	**-6.7**	**256.1**	**275.2**	**198.2**	**966.4**
Result for the period					-523.2		-523.2
Change in fair value of hedging instruments			-23.9				-23.9
Actuarial gains and losses from defined benefit plans			-10.5				-10.5
Translation differences			-0.7				-0.7
Comprehensive income for the period			**-35.1**		**-523.2**		**-558.4**
Share issue				511.7			511.7
Share issue costs				-8.8			-8.8
Proceeds from hybrid bond						200.0	200.0
Hybrid bond repayments						-200.0	-200.0
Hybrid bond interests and expenses					-14.6	-0.2	-14.8
Share-based payments				0.6			0.6
Equity 31 Dec 2020	**75.4**	**168.1**	**-41.8**	**759.5**	**-262.6**	**198.0**	**896.6**

Equity ratio at 11.8% in 2021 (24.6%)
The COVID-19 pandemic continued to have a significant negative impact on the Group's consolidated result for the period as a result of which the Group's equity decreased to 475.7 million euro (896.6).
Finnair hedges against jet fuel price fluctuations with forward contracts and options according to its risk management policy decscribed in note 3.5 Management of financial risk. The change in fair value of hedging instruments amounting to 24.0 million euro (-23.9) related mainly to increased jet fuel prices at the year-end 2021. Changes in hedging reserve and other OCI (other comprehensive income) items are presented in more detail in note 3.9 Equity-related information.

= Highlights

Notes to the consolidated financial statements

Accounting principles

How should Finnair's accounting principles be read?
Finnair describes the accounting principles in conjunction with each note with the aim of providing an enhanced understanding of each accounting area. The basis of preparation is described as part of this note at a general level, while the principles 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. The table below shows in which notes the related accounting principles are presented and to which IFRS standard the accounting principle is primarily based on.

Accounting principle	Note	Nr.	IFRS
Segment reporting	Segment information	1.1	IFRS 8
Revenue recognition, other income and trade receivables	Operating income	1.2	IFRS 15, IFRS 9, IFRS 7
Provisions and contingent liabilities	Provisions	1.3.6	IAS 37
Employee benefits and share-based payments	Employee benefits	1.3.8	IAS 19, IFRS 2
Pensions	Pensions	1.3.8.2	IAS 19
Tangible and intangible assets	Fleet and other fixed assets	2.1	IAS 16, IAS 36, IAS 38
Leases	Leasing arrangements	2.2	IFRS 16
Impairment of assets	Depreciation and impairment	2.3	IAS 36
Interest income and expenses	Financial income and expenses	3.1	IFRS 7, IAS 32
Financial assets	Financial assets	3.2	IFRS 9, IFRS 7
Cash and cash equivalents	Financial assets	3.2	IFRS 9, IFRS 7
Financial liabilities	Financial liabilities	3.3	IFRS 9, IFRS 7
Derivative contracts and hedge accounting	Derivatives	3.8	IFRS 9, 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, IAS 28
Related party disclosures	Related party transactions	4.5	IAS 24
Income tax and deferred taxes	Income taxes	5.1	IAS 12

Company information

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 consolidated financial statements of Finnair Group for the year ended 31 December 2021 were authorized for issue by the Board of Directors of Finnair Plc on 16 February 2022. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc's consolidated financial statements for 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2021. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law. Changes applied in accounting principles in 2021 and future periods are described in the below section Changes in accounting principles.

The consolidated financial statements are presented in euros, which is the parent company's functional currency. Transactions denominated in foreign currencies are translated into functional currency by using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies and outstanding at the end of the reporting period are translated using the exchange rates of the closing date. Foreign exchange gains and losses arising from monetary assets and liabilities as well as fair value changes of related hedging instruments are recognized in the income statement.

The 2021 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value and derivative contracts measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest hundred thousand euro. The sum of the individual figures may differ from the total shown.

Impact of the COVID-19 pandemic on the consolidated financial statements

The financial year 2021 was the second annual reporting period severely impacted by the COVID-19 pandemic. The COVID-19 pandemic and the subsequent travel restrictions continued to have a significant negative impact on passenger demand also in 2021, which was heavily reflected in Finnair's revenue and profitability. Despite the gradual improvement in passenger demand in the second half of 2021, enabled by the increase in vaccine coverage and the partial lifting of travel restrictions, the number of passenger kilometers (ASK) offered in 2021 was slightly below the level of the comparison period totaling to 12,094 million (12,937 million). This is around one quarter of the pre-COVID-19 levels of 2019 (47,188 million). Finnair's revenue in 2021 totalled to 838.4 million euro (829.2) and the total number of passengers was 2.9 million (3.5). The relative improvement in revenue relative to the passenger volume was due to the record high revenues of the cargo business, which was boosted by the increased demand for air cargo resulting from the COVID-19 pandemic and global supply chain challenges. Cargo revenue increased by 88.3 percent to 334.7 million euro (177.7). Although Finnair was able to significantly reduce its variable costs during 2021 as part of its cost savings program, the Group's operating result of -454.4 million euro (-464.5) remained close to the comparison period due to the impact from non-recurring items. The positive impact of non-recurring items in 2020 operating result was 130.8 million euro, whereas for the financial year 2021 it was 14.4 million euro. The loss for the period 2021 amounted to -464.3 million euro (-523.2).

The negative result for the period caused by the COVID-19 pandemic also had an impact impact on the consolidated balanse sheet. The Group's equity declined by 47% to 475.7 million euro (896.6). Total net deferred tax asset recognized in the consolidated balance sheet as at the end of 2021 increased to 191.9 million euro (84.8). Further, the Group's total non-current liabilities increased to 2,391.6 million euro (2,154.2) mainly because of the four A350 sale and leaseback transactions and one leased A350 aircraft. Finnair also issued an unsecured bond of 400 million euro, which was raised repay some of the earlier, maturing bonds and to provide general funding for the Group. Finnair's current liabilities increased to 1,179.8 million euro (595.7) resulting mainly from the reclassification of the first pension premium loan repayment of 300 million euro (due in December 2022) to short-term liabilities and an increase in deferred income resulting from the increase in passenger ticket sales.

The Group's net cash flow from operating activities improved significantly during 2021 amounting to -25.3 million euro (-1,043.1). The improvement was mainly due to the exceptionally large volume of cash refunds (relating to prepaid flight tickets) paid to customers in 2020 and, on the other hand, the increase in ticket sales during the second half of 2022. Finnair's liquid funds grew by 357.8 million euro during the reporting period and totaled to 1,150.0 million euro (792.2) as at 31.12.2021. The increase in cash funds during the year was mainly due to aircraft financing transactions of the A350 aircraft and an issuance of the unsecured bond totaling to 400 million euro.

Further detail on the Group's financial figures can be found in the following notes: revenue and operating expenses (note 1.2 and 1.3), deferred income and advances received (note 1.2.4), pensions (note 1.3.8.2), aircraft financing transactions in notes 2.1, 2.2 and 3.3), derivatives and jet fuel hedges in notes 3.1 and 3.8, changes in liabilities and equity (notes 3.3 and 3.9) and income taxes (note 5.1).

The COVID-19 pandemic has also had an impact on the critical accounting estimates and sources of uncertainty. This have been dislosed in more detail in the below section Critical accounting estimates and sources of uncertainty.

Board's assessment of Finnair as a going concern

The consolidated financial statements have been prepared based on the going concern assumption. The Finnair Board of Directors has assessed the Group's ability to continue as a going concern based the Group's ability to meet its obligations as they fall due at least 12 months after the financial statements are issued. The Board of Directors' assessment is based on the Group's strategy and the latest three-year business plan approved by the Board of Directors. Due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the Board of Directors have reviewed three different scenarios prepared by the management that cover a period of 36 months from January 2022 to December 2024. The abovementioned scenarios have been sensitised to reflect differences in the expected pace of the recovery. Under all three scenarios, Finnair will be able to meet its obligations as they fall due at least 12 months after the date that the financial statements are issued.

Finnair's customer demand started to recover materially in September 2021 and the main differences between the most recent forecast scenarios prepared in connection with the 2021 financial statements relate to the pace of the expected demand recovery and unit revenue development. The demand and revenue are expected to recover somewhat slower during 2022 than what was estimated at the time of the preparation of the 2020 financial statements, which is caused by the prolonged impacts of the COVID-19 pandemic on travel restrictions. In the base case scenario, which is considered as the most probable of the three, Finnair expects to operate around 83% of its capacity (measured in annual available seat kilometres) in 2022 as compared to the pre-pandemic levels of the year 2019 (financial statements 2020: 95%). In the optimistic scenario, the annual capacity is expected to reach 87% of the 2019 levels in 2022, whereas in the most pessimistic scenario, it is expected to remain at 75%. Despite the differences in the pace of the recovery, the business is expected to return to the pre-covid levels of 2019 in 2023 under all but the pessimistic scenario, in which the 2023 annual operational capacity is expected to reach 98% of the pre-pandemic levels. All of the management forecast scenarios are based on the development of passenger demand and capacity levels that depend on the implementation of the vaccination programs, lifting of travel restrictions (especially in Asia) and global acceptance of vaccine passports. It is assumed in all scenarios, that the unit revenue (RASK) will remain below the 2019 levels throughout the period of the business plan due to lower passenger volumes and lower share of corporate travel. At the same time, the committed cost saving program included in the scenarios will decrease unit costs. Flight related variable expenses depend on the planned capacity, whereas aircraft maintenance investments are assumed to stay rather constant between all scenarios.

In 2021, Finnair continued to safeguard its strong cash position by optimizing investments, reducing costs, adjusting capacity to meet the demand and executing new funding transactions. Finnair continued targeting both temporary and permanent cost reductions and announced on 15th July 2021, that it had increased its earlier cost savings target to 200 million euro (based on 2019 operational volumes) from the beginning of 2022. The temporary measures of the program included temporary layoffs of employees, limiting spending only to the mandatory and compliance driven items and the temporary grounding of a large part of its fleet in order to accommodate its cost base to lower level of operations until the demand for flying returns again. In addition to the operational measures, Finnair continued its extensive financing programme to secure adequate funding and liquidity, consisting of e.g. an unsecured and undrawn hybrid loan agreement of 400 million euros signed with the State of Finland and the completion of five aircraft financing transactions related to A350 aircraft. In addition, Finnair issued a senior unsecured bond totaling to 400 million euro in order to repay its existing, maturing bonds and to provide general purpose financing.

As a result of the aforementioned actions, Finnair's liquidity position remained strong and as at 31 December 2021, the Group held liquid funds of 1,150.0 million euro (792.2). The cash funds including other current financial assets (maturity over 3 months) totalled to 1,265.7 million euro (823.7). The Group management and the Board of Directors continue to pay close attention to the Group's cash position considering the challenging dynamics in its current operating environment that are negatively impacting the Group's cash flows. The maturities of the Group's interest-bearing liabilities are presented in note 3.3. and information about hedging policies and management of liquidity risk is described in notes 3.5 and 3.8. Finnair had no debt covenants at the end of the financial year 2021.

The main identified uncertainties relating to the management estimates relate to the eventual duration of the COVID-19 pandemic as well as the timing of the expected demand recovery which depends on the timing and effectiveness of the vaccination programs and potential new virus variants, functioning of a vaccine passport solution, lifting of the travel restrictions and increased competition all of which cannot be known with certainty at the time of the publication of the financial statements. In addition, the price of fuel is subject to higher than average uncertainty, which is further increased by the possibility of an escalation of the geopolitical situation in Eastern Europe. The escalation and prolongation of the geopolitical situation could negatively affect the overflight permits, routings and costs of Finnair's flights to Asia. These events are not in the sphere of Finnair management's influence. The management has been required to apply material judgement relating to the duration of the COVID-19 pandemic and make estimates about the effectiveness and realization of the vaccination programs as well as the pace of the demand recovery for air passenger travel. This again is heavily impacted by the actions of the governments in many parts of the world and the time that it takes to get the pandemic under control.

Despite of the abovementioned uncertainties, Finnair's management has at its disposal other mitigating measures that are within the sphere of its influence and with which it believes it will be able to meet its obligations for at least 12 months after the date the financial statements are issued. These include utilization of the undrawn state hybrid loan totaling to 400 million euro, further to which Finnair's management will continue to seek additional financing and cost adjustment opportunities.

Considering the above-mentioned circumstances and uncertainties, as well as the already realized and planned measures to mitigate the impacts of the COVID-19 pandemic, the Board of Directors has concluded that the assessment does not cast significant doubt on the Group's ability to continue as a going concern and that consequently, the Group continues to adopt the going concern basis of accounting in preparing these consolidated financial statements. The Board of Director's conclusion is based on the information available as at the date of the issuance of the consolidated financial statements and an assessment conducted based on the information assuming, that the company is able to conduct its adjusted business operations according to the plan and to maintain sufficient financing for period of at least 12 months after the date that the financial statements are issued. The management and the Board of Directors have also considered events and developments taking place after the balance sheet date and concluded that there is no material impact on the scenarios approved by the Board of Directors and the going concern assessment of the Group.

Despite the various mitigating measures implemented by Finnair, the upcoming months will continue to be significantly affected by the pandemic and the resulting decreased demand for air travel causing lower revenues and weaker financial performance for a duration that is currently uncertain. Should future events or conditions cause the Group to be unable to continue its operations in accordance with current assessment of the Board of Directors, using the going concern principle may prove to be no longer justified and the carrying values as well as the classification of the Group's assets and liabilities would have to be adjusted accordingly.

Presentation of consolidated income statement and balance sheet

Finnair has changed the presentation of its consolidated income statement on 1 January 2021 in order to clarify the structure and will present the items 'Comparable EBITDA' and 'Comparable operating result' previously reported on the face of the income statement only in the notes to the financial statements. Similarly, items affecting comparability that were previously presented individually on the face of the income statement are included in those line items in the income statement to which they belong by their nature. Due to the change in the presentation of the income statement, the line items 'Items affecting comparability' and 'Comparable EBITDA' are no longer presented in the consolidated cash flow statement. In connection with the change in presentation, the income statement and cash flow statement for the comparison period 2020 have been adjusted accordingly to facilitate comparability between the periods. The changes are presented in more detail in Note 1.3.7. 'Items affecting comparability and changes in the presentation of the income statement and cash flow statement'.

The change in presentation had no effect on the Group's reported operating result or profit for the period in the current or previous financial year. The change also has no effect on the consolidated balance sheet.

The consolidated income statement includes a subtotal 'operating result' which is not defined in the IAS 1 Presentation of Financial Statements standard. The Group has defined it as the 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 realised changes in fair values of derivatives are included in the operating result if they arise from items related to business operations; otherwise, they are recognised in financial items. The operating result excludes financial items, share of results from associates and joint ventures and income taxes.

In the 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 as 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 loans from financial institutions, bonds, loans taken for aircraft financing (JOLCO-loans & export credit support), lease liabilities and commercial papers. 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 arising from interest-bearing loans.

Critical accounting estimates and sources of uncertainty

The preparation of IFRS financial statements requires Group management to make certain estimates, assumptions and judgements in applying the accounting principles that affect the reported amounts of assets and liabilities as well as income and expenses. The application of the accounting policies prescribed by IFRS require making estimates and assumptions relating to the future where the actual outcome may differ from the earlier estimates and assumptions made. In addition, management discretion has to be exercised in applying the accounting principles especially when the IFRS has alternative accounting, valuation or presentation methods. The estimates and assumptions made are based on past experience and management's best estimate of future events and other factors, that are believed to be reasonable given the current circumstances. The estimates and associated assumptions are continuously evaluated and any changes therein are reflected in the period that the changes occur.

The COVID-19 pandemic has increased the level of uncertainty relating to the near- and long-term development of the economy and its impact on Finnair's future operating environment. Despite increased vaccination rates and significant actions taken by the governments to contain the virus, it is difficult to forecast how long it will take to bring the global pandemic under control. In addition, the price of fuel is subject to higher than average uncertainty, which is further increased by the possibility of an escalation of the geopolitical situation in Eastern Europe. The escalation and prolongation of the geopolitical situation could affect the overflight permits, routings and costs of Finnair's flights to Asia. Given the unpredictability of the duration and the reach of the pandemic, price of jet fuel and the geopolitical situation, their impact on Finnair's future profitability, financial position and cash flows may eventually differ from the current management estimates and assumptions made.

In order to reflect the increased uncertainty in its estimates and assumptions caused by the COVID-19 pandemic, Finnair's management has considered three different forecast scenarios incorporating possible variations of the expected pace of the business recovery based on its best estimate at the time. These scenarios are discussed in more detail in the earlier section of the notes called Board's assessment of Finnair as a going concern. Further, in order to consider the increased uncertainty also in its impairment testing performed at the year-end, Finnair is using the expected cash flow approach which incorporates expectations about all forecast scenarios instead of relying on just a single, most likely, cash flow estimate.

Information about the estimates and judgement exercised by management in applying the Group's accounting principles and the areas where estimates and judgements have biggest impact on the financial statements are highlighted in the following table Critical accounting estimates and sources of uncertainty.

! The consolidated financial statements have been prepared on a going concern basis. Assessment of the going concern is made based on management estimates about future events and other information that is available to the management and the Board of Directors at the time of the assessment. The main identified critical estimates and sources of uncertainty related to the assessment are presented earlier in this note in section Board's assessment of Finnair as going concern. The identified main critical estimates and sources of uncertainty related to separate sections of the financial statements are presented in connection to the financial items considered to be affected and attached to the corresponding note. The table below shows where to find more information about those estimates and uncertainties. !

Critical accounting estimates and sources of uncertainty	Note number	Note
Finnair Plus Customer Loyalty Program	1.2	Operating income
Maintenance reserves of the fleet	1.3.6	Provisions
Pension obligations	1.3.8.2	Pensions
Leasing arrangements	2.2	Leasing arrangements
Impairment testing of the fleet and other fixed assets	2.3	Depreciation and impairment
Derivative contracts and hedge accounting	3.8	Derivatives
Deferred taxes	5.1	Income taxes

Changes in accounting principles

New and amended IFRS standards and IFRIC interpretations

The changes in the IFRS standards and IFRIC-interpretations effective from periods beginning 1 January 2021 included mainly amendments or improvements to current standards and did not have material effect on Finnair financial statements.

Other standards issued that are effective from periods on or after 1st of January 2022 mainly include amendments and improvements to current standards that are not expected to have a material impact on the Group's consolidated financial statements.

! = Critical accounting estimates

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

1 Operating result

i Operating result includes 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

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

The revenue by product and geographical area is presented in the note 1.2.1 Revenue by product and traffic area. The division is based on the destination of Finnair flights. Finnair operates international and domestic routes, but the assets are almost solely owned in Finland. The fleet composes the major part of the non-current assets (see note 2.1 Fleet and other fixed assets). The 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".

Despite the increase in vaccination coverage and partial lifting of the travel restrictions, and the resulting gradual increase in passenger demand and revenue during the second half of 2021, the number of passengers was slightly below the prior year level. The various travel restrictions due to COVID-19 continued to have a significant negative impact on passenger demand which was reflected in Finnair's revenue and profitability also in 2021. During the financial year Finnair transported 2.9 million passengers (3.5), which was 18.2 per cent less than in 2020. Decrease in passenger volumes was compensated by the record high revenues of the cargo business, which was boosted by the increased demand for air cargo resulting from the COVID-19 pandemic and global logistical challenges. Finnair was able to significantly reduce its variable costs during 2021 as a result of its cost savings program. The effects on revenue and operating expenses as well as the related receivables and liabilities are presented in more detail in the following notes 1.2 and 1.3.

Due to the wide scale of customers and nature of the business, sales to any individual customer is not material compared to Finnair's total revenue.

1.2 Operating income

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

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

Passenger revenue includes sale of flight tickets, and is recognised as revenue when the flight is flown in accordance with the flight traffic program. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger.

Sales price is allocated to a flight ticket and points in 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 measured at fair value 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 expiry of the points. The debt is derecognised when the points are used or expire.

Customer compensations for delays or cancellations is a variable consideration in the contract and it is recognised as an adjustment to revenue.

Ancillary revenue includes sale of ticket related services, such as advance seat reservations, additional baggage fees as well as different service fees, and sale of goods in the aircraft. The service revenue is recognized when the flight is flown in accordance with the flight traffic program, since it is considered as a contract modification instead of a separate revenue transaction. The sale of goods is recognized when the goods are delivered to the customer.

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

Tour operations revenue includes sale of flight and hotel considered as separate performance obligations, which are recognized as the service is delivered.

Public subsidies due to COVID-19 pandemic decreased slightly compared to previous year and they were not material in overall. Subsidies are recognised as other operating income. A

A **Trade receivables**
Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are 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 by the expected expiry of the points. These points are then fair valued as described above, and the result is recognised as liability on the balance sheet.

Estimating customer behaviour relating to the expiry of the points continued to be somewhat more challenging during financial year 2021 as a result of the COVID-19 pandemic, which has led to a low number of passenger flights and less recent activity of Finnair Plus members. This leads Finnair to have less recent data available that can be used as a basis of the estimates and thus increase the level of uncertainty about the expected customer behaviour and the point expiry rates in the future. !

1.2.1 Revenue by product and traffic area

2021

EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallo-cated	Total	Share, % of revenue by product
Passenger revenue	75.3	38.6	243.6	60.3	3.0	**420.8**	50.2
Ancillary and retail revenue	9.7	1.8	10.7	2.5	19.4	**44.1**	5.3
Cargo	236.3	49.8	35.9	0.2	12.6	**334.7**	39.9
Travel services	1.5	0.0	35.8	1.3	0.0	**38.7**	4.6
Total	**322.8**	**90.2**	**326.0**	**64.4**	**35.0**	**838.4**	
Share, % of revenue by traffic area	38.5	10.8	38.9	7.7	4.2		

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

Despite the gradual increase seen in passenger demand during the second half of 2021, the passenger revenue, ancillary and retail revenue as well as travel services decreased from the comparison period due to the COVID-19 related travel restrictions. The cargo revenue nearly doubled due to the increased demand for air cargo resulting from the COVID-19 pandemic and challenges in the global logistic chains. The Group's total revenue remained at the prior year level.

2020

EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallo-cated	Total	Share, % of revenue by product
Passenger revenue	186.0	26.4	244.6	69.1	1.9	**528.1**	63.7
Ancillary and retail revenue	18.5	1.4	9.4	2.4	30.6	**62.3**	7.5
Cargo	145.8	11.1	22.0	0.3	-1.5	**177.7**	21.4
Travel services	19.0	8.1	33.8	0.5	-0.2	**61.1**	7.4
Total	**369.3**	**47.0**	**309.8**	**72.4**	**30.8**	**829.2**	
Share, % of revenue by traffic area	44.5	5.7	37.4	8.7	3.7		

1.2.2 Revenue by currency

EUR mill.	2021	2020
EUR	387.3	456.0
JPY	76.0	61.4
CNY	57.5	50.0
KRW	39.8	27.1
USD	38.1	29.5
SEK	29.5	27.0
Other currencies	210.2	178.3
Total	**838.4**	**829.2**

The hedging policies against foreign exhange rate fluctuations are described in note 3.5 Management of financial risks.

1.2.3 Receivables related to revenue

EUR mill.	2021	2020
Trade receivables	68.2	37.4
Accrued income	42.7	20.1
Total	**110.9**	**57.5**

Most of the accrued income represents contract assets, for which Finnair has met the performance requirement prior to receiving payment from customers and these have not yet been recognized as trade receivables. Contract assets mainly include accrued income related to cargo sales and receivables from airlines involved in the Siberian Joint Business on flights between Europe and Japan, and the Atlantic Joint Business on flights between Europe and North America.

The increase in revenue related receivables at the end of 2021 results from the increase in passenger and cargo demand and the related revenues which took place during the second half of the year. The fair value of trade receivables does not materially differ from balance sheet value.

	2021			2020		
Aging analysis of trade receivables	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.
Not overdue	67.7	0.7%	0.5	33.0	0.3%	0.1
Overdue less than 60 days	0.1	5.9%	0.0	-0.2	0.2%	0.0
Overdue more than 60 days	0.4	1.4%	0.0	4.6	0.8%	0.0
Total	**68.2**	**0.7%**	**0.5**	**37.4**	**0.3%**	**0.1**

During the financial year, the Group recognised credit losses in total of 1.5 million euros (0.0). The uncertainty caused by the COVID-19 pandemic has not resulted in increased credit risk because of the diversified customer base. The maximum exposure to credit risk at the reporting date equals to the total carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2021	2020
EUR	19.3	15.3
THB	11.4	1.9
KRW	5.2	3.4
JPY	5.0	5.7
NOK	4.4	2.1
USD	4.3	1.6
CNY	4.1	3.7
HKD	3.7	2.2
SEK	2.8	0.9
Other currencies	7.9	0.7
Total	**68.2**	**37.4**

1.2.4 Deferred income and advances received

EUR mill.	2021	2020
Deferred revenue on ticket sales	202.7	55.7
Loyalty program Finnair Plus	55.1	51.9
Advances received for tour operations	15.2	3.4
Other items	18.1	22.5
Total	**291.1**	**133.6**

Most of the deferred income and advances received represents contract liabilities, for which payments have been received from customers before the performance obligation is discharged by Finnair.

Deferred income and advances received includes prepaid flight tickets and package tours for which the departure date is in the future. The Finnair Plus liability is related to Finnair's customer loyalty program, and equals the fair value of the accumulated, unused Finnair Plus points. Other items mainly include gift voucher liabilities and liabilities to airlines involved in the Siberian Joint Business on flights between Europe and Japan, and the Atlantic Joint Business on flights between Europe and North America.

Deferred revenue on ticket sales and advances received for tour operations increased significantly during the second half of 2021 as a result of the partial lifting of travel restrictions and the gradual increase in passenger demand. The debt balance related to the Finnair Plus loyalty program increased as the expiry of points was further prolonged for the benefit of customers, who have not been able to use earned points in a normal manner during COVID-19 pandemic.

i = Content of the section
A = Accounting principles

1.3 Operating expenses

i The operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide a 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. Also accrued expenses, such as liabilities related to jet fuel and traffic charges, are presented in this section. In addition, items related to employee benefits are presented at the end of this section in a separate note 1.3.8. Employee benefits. It includes the different forms of benefits received by Finnair employees, including share-based payments and pensions, their effect on staff costs and balance sheet as well as information on management remuneration. i

Although Finnair was able to significantly reduce its variable costs during 2021 as a result of its cost savings program, the Group's operating expenses remained on the prior year level due to significant non-recurring items in the comparison period 2020 which had costs decreasing effect of 130.8 million euro.

Finnair continued significant cost adjustment initiatives due to the effects of COVID-19 pandemic on Finnair's operations, such as temporary layoffs and certain amendments to the collective labour agreement relating to a curtailment of occupational disability pensions. These are presented more detailed in note 1.3.8.

Changes in depreciation and impairment are presented in note 2.3.

1.3.1 Operating expenses by currency

EUR mill.	2021	2020
EUR	930.6	754.8
USD	364.0	498.7
Other currencies	60.8	89.4
Total	**1,355.3**	**1,343.0**

The hedging policies against foreign exchange rate fluctuations are described in note 3.5 Management of financial risks.

1.3.2 Passenger and handling services

EUR mill.	2021	2020
Ground and cargo handling expenses	93.6	80.9
Expenses for tour operations	21.5	27.8
Catering expenses	9.5	21.2
Other passenger services	23.4	38.7
Total	**148.0**	**168.6**

Passenger and handling costs reduced as a result of the lower passenger traffic volumes.

1.3.3 Property, IT and other expenses

EUR mill.	2021	2020
IT expenses	55.1	69.4
Property expenses	15.9	18.4
Other expenses	28.7	23.8
Total	**99.7**	**111.6**

Property, IT and other expenses mainly consist of fixed costs, where significant cost savings were also achieved.

Audit fees

EUR mill.	2021	2020
Auditor's fees	0.3	0.5
Tax advising		0.1
Other fees	0.0	0.2
Total	**0.3**	**0.8**

The auditor's fees of KPMG Oy Ab included fees of 332 thousand euro (519) for audit and 15 thousand euro (3) for auditor's statements. Non-audit services to entities of Finnair Group were 1 thousand euro (285), which included relocation services as well as during the comparison period capital markets services.

1.3.4 Inventories and other current assets

EUR mill.	2021	2020
Inventories	21.0	22.9
Receivables from sublease contracts	8.0	14.2
Aircraft materials and overhaul	7.8	7.4
Capacity rent receivables	6.7	7.1
Jet fuels	3.4	2.8
VAT receivables	1.2	0.9
Interest and other financial items	1.1	5.3
Other items	6.6	7.6
Total	**55.8**	**68.1**

1.3.5 Other liabilities

EUR mill.	2021	2020
Jet fuel and traffic charges	49.8	15.6
Passenger and handling services	29.6	15.4
Interest and other financial items	15.7	5.8
Aircraft materials and overhaul	10.0	4.9
Sales, marketing and distribution cost accruals	7.3	4.3
Other items	15.8	13.7
Total	**128.1**	**59.8**

Other liabilities increased significantly as a result of the increased air traffic when the travel restrictions were lifted. It mainly includes liabilities relating to variable operating expenses such as jet fuel and traffic charges, passenger and handling services as well as aircraft materials and overhaul for which the amounts are largely correlated with the actual operational volumes.

1.3.6 Provisions

A Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event, the fulfilment of the payment obligation is probable, and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as 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.

In most cases, 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

A = Accounting principles
! = Critical accounting estimates

settle the difference in cash to the lessor. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance, engine life limited part, landing gear, auxiliary power unit and other material maintenance provisions. The provision is defined as a 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 of 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 changes in exchange rates of fleet overhauls.

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease. Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost, but these are recognised according to the principles presented above.

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

! Maintenance reserves of the fleet

The measurement of aircraft maintenance provisions requires management judgement especially related to the timing of maintenance events and the 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, the market price development of maintenance costs and the actual condition of the aircraft at the time of the maintenance event. The ultimate duration of the COVID-19 pandemic may have an impact on the level of future maintenance expenses, which could cause the actual outcome to differ from the estimates currently made. !

EUR mill.	Aircraft maintenance provision	Other provisions	2021	Aircraft maintenance provision	Other provisions	2020
Provision at the beginning of period	162.8	13.0	175.8	166.3	3.1	169.4
Provision for the period	32.0	1.9	33.9	25.4	27.2	52.6
Provision used	-12.7	-9.0	-21.8	-18.3	-6.7	-25.0
Provision reversed	-1.3	-2.1	-3.4	-1.3	-10.6	-11.9
Provision for right-of-use assets redelivery	2.2		2.2	2.1		2.1
Unwinding of discount	1.4		1.4	0.9		0.9
Exchange rate differences	11.7		11.7	-12.2		-12.2
Total	**195.9**	**3.8**	**199.8**	**162.8**	**13.0**	**175.8**
Of which non-current	184.6	1.4	186.0	153.6	2.2	155.8
Of which current	11.3	2.5	13.8	9.2	10.8	20.0
Total	**195.9**	**3.8**	**199.8**	**162.8**	**13.0**	**175.8**

Non-current aircraft maintenance provisions are expected to be used by 2033. Items related to restructuring actions due to COVID-19 impacts included in other provisions were mainly used by the end of 2021.

On balance sheet, non-current provisions and other liabilities 200.7 million euro (161.1) includes, in addition to provisions, other non-current liabilities 14.7 million euro (5.2), which mainly consist of long-term incentives for the Executive Board and other personnel as well as received lease deposits.

1.3.7 Items affecting comparability

Finnair uses alternative performance measures in its internal reporting to the chief operative decision maker, or Finnair Executive Board. The figures are referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures, which Finnair uses to describe its business and financial performance development between periods. The alternative performance measures do not replace IFRS indicators, but shall be read in conjunction with key figures in accordance with IFRS financial statements.

Unrealised exchange rate differences of mainly in US dollars denominated aircraft maintenance provisions and unrealised fair value changes of derivatives where hedge accounting is not applied are excluded from comparable operating result. These exchange rate and fair value effects are included in the comparable operating result only when they will realize. In addition, gains and losses on aircraft and other transactions, certain changes in defined benefit pension plans and restructuring costs are not included in the comparable operating result.

In the table below, 'Reported' corresponds to the presentation of consolidated income statement adopted on 1 January 2021. Items affecting comparability previously individually indentified on the income statement have been included in those line items in the income statement to which they belong by their nature. 'Comparable' corresponds to the presentation of consolidated income statement previously used, which presented items affecting comparability, 'Comparable EBITDA' and 'Comparable operating result'.

	2021			2020		
EUR mill.	Reported	Items affecting compara-bility	Comparable	Reported	Items affecting compara-bility	Comparable
Revenue	**838.4**		**838.4**	**829.2**		**829.2**
Other operating income	62.5	-23.3	39.2	49.3	-0.9	48.4
Operating expenses						
Staff and other crew related costs	-229.3	-19.5	-248.9	-163.9	-119.7	-283.5
Fuel costs	-211.4	0.0	-211.4	-232.8	0.2	-232.7
Capacity rents	-71.3		-71.3	-89.3		-89.3
Aircraft materials and overhaul	-117.2	25.5	-91.7	-92.5	-12.2	-104.7
Traffic charges	-120.4		-120.4	-112.4		-112.4
Sales, marketing and distribution costs	-38.1		-38.1	-28.2		-28.2
Passenger and handling services	-148.0		-148.0	-168.6		-168.6
Property, IT and other expenses	-99.7	2.9	-96.8	-111.6	1.9	-109.7
EBITDA	**-**		**-149.0**	**-**		**-251.5**
Depreciation and impairment	-319.8		-319.8	-343.8		-343.8
Operating result	**-454.4**	**-14.4**	**-468.9**	**-464.5**	**-130.8**	**-595.3**

Items affecting comparability of 23.3 million euro (0.9) in other operating income mainly consist of the gain on the sale and leaseback of four A350 aircraft and the sale of Suomen Ilmailuopisto Oy. Items affecting the comparability of -25.5 million euro (12.2) in aircraft materials and overhaul include maintenance provisions related to the sale and leaseback arrangement of four A350 aircraft in addition to unrealised exchange rate differences.

Staff and other crew related costs include items affecting the Group's result positively by 19.5 million euro (119.7). This mainly consists of amendments made to the collective labour agreement relating to a curtailment of occupational disability pensions and withdrawn pilots' early retirement announcements. In 2020, these costs included a 132.8 million euro positive one-off effect relating to amendments made to Finnair's pension fund terms and pilots' early retirement announcements as well as termination benefit costs of 13.1 million euro.

A = Accounting principles

1.3.8 Employee benefits

1.3.8.1 Employee benefit expenses and share-based payments

A Share-based payments

Finnair provides a number of share-based compensation plans for its employees, under which the Group receives services from employees as consideration for share-based payments. Regarding share-based incentive plans for key personnel, 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. Share-based payments that are settled net of taxes are considered in their entirety as equity-settled share-based payment transactions. The reward is 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. Income tax paid to tax authorities on behalf of employee is measured based on the market price of the Finnair share at the delivery date and recognised as a decrease in equity. If the reward includes the portion settled in cash, it is accounted for as a cash-settled transaction. 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 1.3.8.2 Pensions. A

Staff and other crew related costs

EUR mill.	2021	2020
Wages and salaries	185.8	231.9
Defined contribution schemes	30.1	35.4
Defined benefit schemes	-6.6	-120.3
Pension expenses total	23.4	-84.9
Other social expenses	0.6	-12.8
Salaries, pension and social costs	**209.9**	**134.1**
Operative staff related costs	8.3	15.8
Leased and outsourced crew	7.2	6.6
Other personnel related costs	3.9	7.3
Total	**229.3**	**163.9**

At 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 excluding social security costs recognised for 2021 were 5.8 million euro. Short-term incentives for the financial year 2020 were cancelled due to the implementation of the savings program resulting from the pandemic.

In 2020, Finnair established a new long-term Rebuild incentive program for the personnel. As part of the program, employee can earn a cash reward equaling to one month base salary, when the targets set by the Board of Directors are met. A maximum of two months' base salary can be paid when targets are exceeded. The possible reward is paid during third quarter 2023. The program is available to those employee groups which have agreed to actions related to staff cost savings. In 2021, the cost recognised for the Rebuild incentive established for personnel was 3.8 million euro (2.2) excluding social security costs. The performance criteria are the same as those of the Rebuild incentive plan established for the Executive Board, which is described in the section Share-based payments of this note.

Staff and other crew related costs include one-off items which had a positive 19.5 million euro (119.7) impact on the Group's result. This mainly consists of amendmends made to the collective labour agreement relating to a curtailment of occupational disability pensions and withdrawn pilots' early retirement announcements. In 2020, the one-off items included a 132.8 million euro positive effect relating to amendments made to Finnair's pension fund terms and pilots' early retirement announcements as well as termination benefit costs of 13.1 million euro.

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 2021 and 2020, no profit was allocated to the fund because the set performance criteria were not met.

Liabilities related to employee benefits

EUR mill.	2021	2020
Holiday payments	47.0	54.6
Other employee related accrued expenses	27.4	16.1
Liabilities related to employee benefits	**74.4**	**70.7**

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs and remunerations. Other non-current liabilities include the Rebuild incentives of 7.8 million euro. In addition, restructuring provisions related to termination benefits (see note 1.3.6 Provisions) amounted to 1.1 million euro (8.1).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	President and CEO Topi Manner	Executive Board	Total 2021	President and CEO Topi Manner	Executive Board	Total 2020
Fixed pay	736	1,817	2,553	725	1,865	2,590
Short-term incentives					7	7
Fringe benefits	21	129	150	15	99	114
Share-based payments	469	941	1,409	132	568	700
Pensions (statutory)*	120	310	430	109	301	410
Pensions (voluntary, defined contribution)		20	20		47	47
Total	**1,346**	**3,217**	**4,563**	**981**	**2,887**	**3,868**

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

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 the 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.

During 2020, the CEO and Executive Board voluntarily cut their base salaries for a temporary period and during 2021, they were not paid holiday bonus.

In conjunction with the rights offering in 2020, the EU commission set restrictions to CEO and Executive Board remuneration covering years 2020-2022. The restrictions cover variable compensation payouts and any changes to fixed compensation during the years 2020-2022. As a result, the Board of Directors decided to cancel the 2018-2020, 2019-2021 and 2020-2022 LTI plans as well as the 2020 and 2021 STI plan for the CEO and Executive Board. A new share-based long-term Rebuild incentive program was established for the CEO and Executive Board for the period 7/2020-6/2023.

During 2021, the voluntary pension plans of one member of the Executive Board have been arranged through a Finnish pension insurance company. At the end of 2020 only one member of the Executive Board had this voluntary pension plan. The retirement age for this members of the Executive Board is 63 years. The plan is a defined contribution plan.

More information on share-based payment schemes can be found later in this note and in a separate Remuneration report as well as on company website.

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2021	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2020
Board of Directors	**372,233**	**277,260**	**94,800**	**173**	**406,238**
Alahuhta-Kasko Tiina	41,100	29,100	12,000		
Barrington Colm	43,410	31,410	12,000		
Brewer Montie	42,900	29,100	13,800		
Du Mengmeng, until 17 March 2021	9,375	6,375	3,000		
Erlund Jukka	41,610	31,410	10,200		
Jakosuo-Jansson Hannele, from 17 March 2021 onwards	33,525	24,525	9,000		
Karvinen Jouko	68,228	60,255	7,800	173	
Kjellberg Henrik	41,100	29,100	12,000		
Strandberg Maija	41,100	29,100	12,000		
Tuominen Jaana, until 17 March 2021	9,885	6,885	3,000		

The remuneration of the Board of Directors is presented on an accrual basis. 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. These tickets constitute taxable income in Finland and are reported as fringe benefits in the table above.

During 2020 the Board of Directors voluntarily cut their annual remunerations for a temporary period, until the Annual General Meeting 2021.

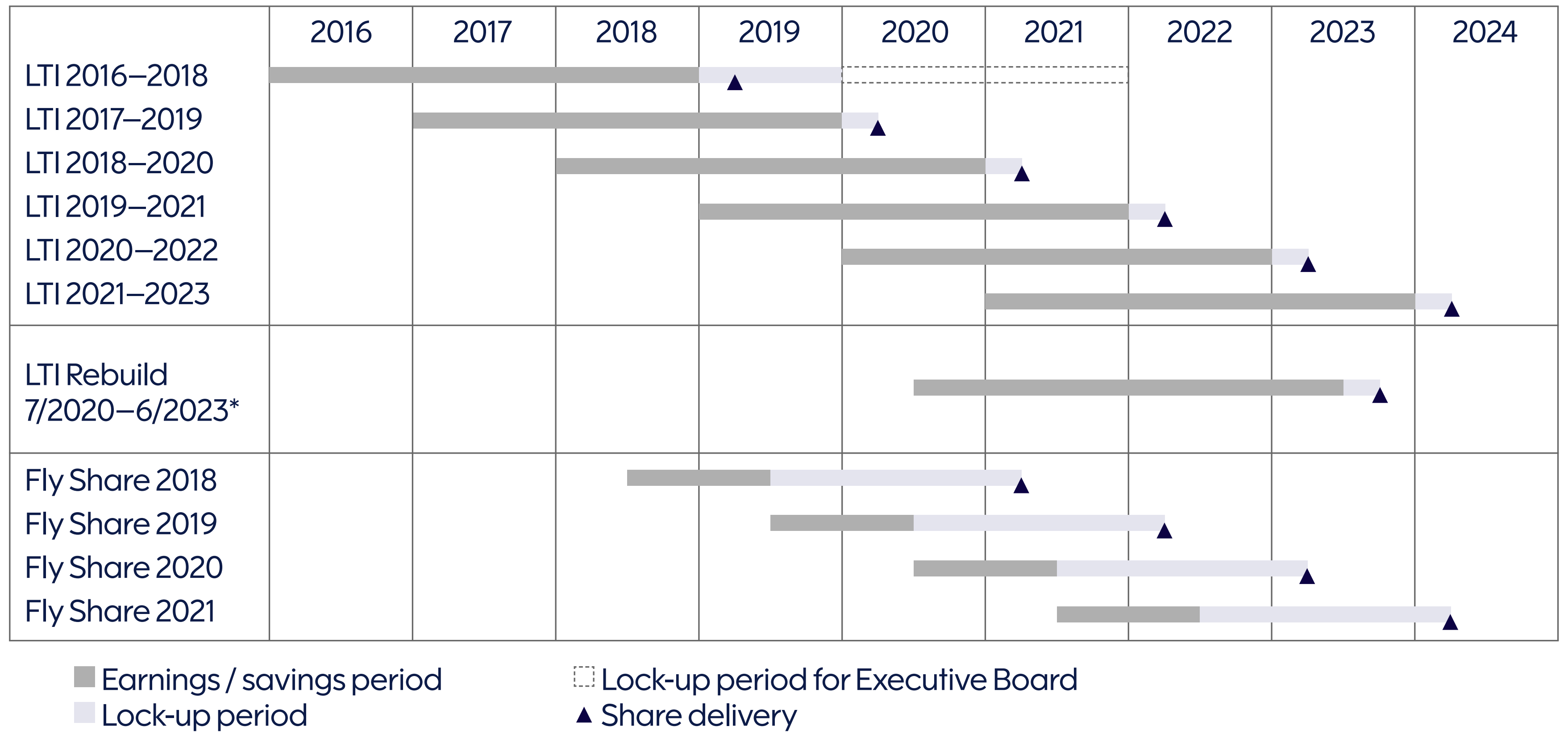
Share-based payments

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 report.

Performance share plan for key personnel (LTI)

Finnair's share-based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement, and the commencement of each new plan is subject to a separate decision made by Finnair's Board of Directors. The purpose of these plans is to encourage the management to work to increase long-term shareholder value. The Finnish Government's guidance regarding the remuneration of executive management and key individuals have been taken into consideration when designing the plans.

Finnair share-based payment plans



* Total incentive rewards cannot exceed 120% of annual base salary in any year, possible exceeding amount is deferred from 2023 to following years.

In all ongoing LTI plans, the members of Finnair's Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the 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, except for the new Rebuild incentive where the performance period ends in June 2023 and the reward is delivered in the same year.

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. The performance criteria of the plan for 2018-2020 were met at 22% level while the target was at 100% and the maximum earning level at 200%. In the comparison period, the performance criteria applied to the 2017-2019 plan was met at 194% level.

The expense recognised for 2021 amounted to 1.7 million euros (0.6). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 5.3 million euros (6.0). The cost related to share-based payments is recognised in staff and other crew related costs and unrestricted equity funds, except the cash-settled portion of the Rebuild incentive plan in liabilities related to employee benefits.

Rebuild incentive plan 7/2020-6/2023

In 2020, a new Rebuild incentive plan for CEO and Executive Board was launched. The program contains a three-year performance period (7/2020–6/2023) and it is designed to contain only this one plan. The potential share rewards will be delivered to the participants in a pre-determined proportion of shares and cash after the end of the performance period and the rewards are at the participants' free disposal after delivery. If the combined value of incentive rewards in 2023 exceeds 120% of executive's annual salary, the exceeding part is deferred to coming years so that the combined incentive payout in any year does not exceed 120% of the executive's annual base salary. The total expense for the plan is recognised over the vesting period, which is three years. The grant date is at the beginning of performance period and the compensation is measured in shares.

The payout opportunity is defined in the beginning of each plan in relation to the participants annual base salary. 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 plans will be a total of 180% of the participant's 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 a total of 360% of the participant's annual base salary.

The amount corresponding to tax payable at the time of payment is first deducted from the gross reward defined as shares. The net reward is delivered in a combination of cash and shares in a proportion decided by the Board of Directors.

The performance criteria are set for the whole 3-year period as well as for three 12-month mid-term periods:

- 7/2020–6/2021: comparable EBITDA, gearing, Lost Time Injury Frequency and CO_2 emissions (measured through fuel efficiency) as well as
- 7/2021–6/2022: comparable EBIT, revenue, employee retention and CO_2 emissions (measured through fuel efficiency).

The criteria for the whole 3-year period, is cash flow from operating activities which functions as a multiplier (0-2) for the whole program. This means that the threshold level needs to be reached in order for any reward to be paid.

Incentive plans commencing from 2017 onwards

In 2017, a new LTI arrangement was launched and there are three plans ongoing (2019–2021, 2020–2022 and 2021–2023). In the revised structure the annually commencing performance share plans retain the three-year performance period like before. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the participants' free disposal after delivery. In conjunction with the rights offering in 2020, according to the restrictions set by EU commission, the Board of Directors decided to cancel the 2018–2020, 2019–2021 and 2020–2022 LTI plans for the CEO and Executive Board. The total expense for the plans is recognised over the vesting period, which is three years. The grant date is at the beginning of performance period and the compensation is measured in shares.

The payout opportunity is defined as a fixed share amount in the beginning of each plan in relation to the participants annual base salary. Therefore, changes in the share price during the performance period impacts the value of the payout opportunity. 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 plans will be 20% of the participant's 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 maximum level for incentives for other key personnel is 20–50% of the person's annual base salary. As a result of the rights issue in 2020, the share allocations for the ongoing 2018–2020, 2019–2021 and 2020–2022 plans were adjusted 5.5-fold in order for the earning opportunities to retain their value.

The maximum combined value of all variable compensation (including both short- and long-term incentives) paid to an individual participant in any given calendar year may not exceed 120% of the participant's annual gross 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 plans are:

- 2018–2020 plan: earnings per share (EPS, 50% weight) and revenue growth (50% weight),
- 2019–2021 plan: earnings per share (EPS, 50% weight), revenue growth (16.7% weight) and unit cost with constant currencies and fuel price (CASK, 33.3% weight),
- 2020–2022 plan: earnings per share (EPS, 50% weight) and unit cost with constant currencies and fuel price (CASK, 50% weight) as well as
- 2021–2023 plan: earnings per share (EPS, 45% weight), unit cost with constant currencies and fuel price (CASK, 45% weight) and fuel efficiency (10% weight).

Incentive plan commenced in 2016

The restriction period of three years is ongoing for the 2016–2018 plan of the Executive Board, during which the participant may not sell or transfer the shares received as a reward. The total expense for the plan is recognised over the vesting period, which is six years. The compensation was measured during performance period in cash, and only after performance period at grant date translated into shares.

The payout opportunity was defined as a fixed euro amount in the beginning of plan in relation to the participants annual base salary. If the performance criteria set for the plan were 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 plans was 30% of his or her annual base salary. If the performance criteria set for the plan were met at the maximum level, the incentive paid in Finnair shares was 60% of the participant's annual base salary. The performance criteria applied to the plan 2016–2018 were Return on Capital Employed (ROCE, 50% weight) and Total Shareholder Return (TSR, 50% weight).

	2015–2017	2016–2018	2018–2020	2019–2021	2020–2022	Rebuild 2020–2023	2021–2023	Total
Grant date	17 Dec 2014	10 Feb 2016	15 Feb 2018	14 Feb 2019	7 Feb 2020	9 Oct 2020	26 Jan 2021	
Grant price, euros*	1.3196	1.1970	1.4272	1.1914	1.0478	0.3948	0.6250	
Number of persons at the end of the reporting year	0	1	0	26	42	8	63	
Expenses recognised for the financial year, LTI's total (million euros)	0.0	0.0	0.0	0.1	0.0	1.2	0.4	1.7
of which share-settled (net of taxes)	0.0	0.0	0.0	0.1	0.0	0.8	0.4	1.3
of which cash-settled						0.4		0.4
Liability related to LTI's total						0.6		0.6
Shares granted, million shares**	0.2	0.3	0.1***	0.8***	1.3***	17.3	7.1	27.0

* Grant price until plan granted on 7 February 2020 has been adjusted by a bonus element included in the rights issue in 2020.
** At the end of the performance period of 2015–2017 and 2016–2018 plans, the vested euros were translated into shares, and granted and delivered. In the other plans shares are earned during vesting period, from the beginning of the program.
*** As a result of the rights issue in 2020, the share allocations for the ongoing 2018–2020, 2019–2021 and 2020–2022 plans were adjusted 5.5-fold in order for the earning opportunities to retain their value. These plans were cancelled for the CEO and Executive Board.

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. The 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% and the minimum 2% of each participant's gross base salary per month. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair's interim reports.

Finnair awards 110 bonus shares (was 20 prior the share issue in 2020) 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 number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the shares at the time of payment. The cost related to additional shares delivered is recognised as expense during vesting period.

A = Accounting principles
! = Critical accounting estimates

The expense recognised for FlyShare employee share saving plans in 2021 amounted to 1.3 million euros (1.3). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 1.0 million euros (0.7). The cost related to employee share saving plans is recognised in staff and other crew related costs and unrestricted equity funds.

1.3.8.2 Pensions

A Defined benefit and defined contribution plans
Pension plans are classified as defined benefit and defined contribution plans. Payments made into defined contribution pension plans are recognised in the income statement in the period to which the payment applies. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year and it is recognised as staff and other crew related costs. 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. If fair value of plan assets is higher than present value of funded obligations, the net amount is presented as pension assets in the Group's balance sheet. A

! Pension obligations
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 at 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. CEO has no supplementary pension plan. The supplementary defined contribution pension plan of one member of the Executive Board is arranged in a pension insurance company. The retirement age for this member is 63 years.

Other supplementary pension cover of the Group's domestic companies has been arranged mainly in the Finnair Pension Fund, in which the pension schemes are defined benefit plans. These pension plans cover old age supplementary pensions and disability pensions exceeding the pension cover under the Employment Pensions Act. The survivors' pensions under the supplementary pension cover applies on a limited basis to pensioners who have retired on 1 January 2005 at the latest, as well as to recipients of benefits previously in accordance with Finnair Plc's survivor's pension rules who transferred to the pension fund on 31 December 2015. The Pension Fund's old age and occupational disability pension scheme has been closed to other employees since 1 February 1992 and to pilots since 1 January 2010. After this, pilots have only been covered by the occupational disability pension scheme if they have not switched to another work offered by the employer. The pension fund as a whole has been closed on 31 May 2021.

Old age pensions of pilots recruited in 2015 or later are defined contribution schemes arranged in a life insurance company. Supplementary pension cover has also vested pension right on a limited basis and the retirement age of the pension fund's vested pension is tied to a change in the retirement age under the Employment Pensions Act that came into force in 2017 or an event under disability pension cover under the Employment Pensions Act. Beginning from 2021, the earnings or supplementary pensions payable on which the pension fund's defined benefit supplementary pension cover is based are not adjusted by the pension index increment. The supplementary pension liability of the pension fund is fully covered in accordance with Finnish legislation. In addition, approximately 500 Finnair pilots have a separate defined contribution supplementary pension arranged in a life insurance company in addition to the pension fund's defined benefit old age pension cover, if the pilot continues to work as pilot over the age of 55 years and retires from his/her job.

Exposure to most significant risks

Volatility of plan assets: Some of the plan assets are invested in equities which causes volatility but are 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 the life expectancy rate results in an increase of plan obligations.

Defined benefit pension plans

EUR mill.	2021	2020
Items recognised in the income statement		
Current service costs	8.3	12.5
Past service cost	-1.8	17.9
Amendments	0.0	-150.7
Settlements and curtailments	-13.1	
Service cost total, recognised in staff costs	**-6.6**	**-120.3**
Net interest expenses and foreign exchange differences	-0.2	0.6
Total included in the income statement	**-6.8**	**-119.7**
Amounts recognised through other comprehensive income		
Experience adjustment on plan obligation	5.4	-4.2
Changes in financial actuarial assumptions	-17.0	22.5
Changes in demographic actuarial assumptions	0.2	
Net return on plan assets	-31.6	-5.2
Amounts recognised through other comprehensive income total	**-43.0**	**13.1**
Number of persons involved, pension fund	4,364	4,448
Number of persons involved, other defined benefit plans	52	159

Items recognised in the balance sheet

EUR mill.	2021		2020	
	Pension assets	Pension obligations	Pension assets	Pension obligations
Present value of funded obligations	-359.8	-1.4	-397.8	-7.7
Fair value of plan assets	440.7	0.7	429.6	6.2
Pension assets (+) / pension obligations (-) in the balance sheet	**80.9**	**-0.7**	**31.8**	**-1.5**

Pension assets 80.9 million euro (31.8) includes 78.9 million euro (31.0) related to defined benefit plans insured through the pension fund and 2.0 million euro (0.9) related to other defined benefit plans. Pension obligations includes 0.7 million euro (1.5) related to other defined benefit plans. The change during 2021 mainly is due to net return on plan assets, the amendments made to the collective labour agreement relating to a curtailment of occupational disability pensions and withdrawn pilots' early retirement announcements.

Changes in pension obligations

EUR mill.	2021	2020
Fair value of pension obligations at 1 January	405.5	523.2
Current service costs	7.7	12.0
Past service cost	-1.8	17.9
Settlements and curtailments	-13.2	
Amendments	-0.1	-150.7
Interest expenses and foreign exchange differences	1.6	3.8
Expense recognised in income statement	**-5.9**	**-117.0**
Changes in actuarial assumptions	-16.8	22.5
Experience adjustment on plan obligation	5.4	-4.2
Remeasurements recognised through OCI	**-11.4**	**18.3**
Benefits paid	-27.1	-19.0
Net present value of pension obligations	**361.2**	**405.5**

Changes in plan assets

EUR mill.	2021	2020
Fair value of plan assets at 1 January	435.8	446.1
Administration expenses	-0.6	-0.5
Settlements and curtailments	-0.2	
Amendments	-0.1	
Interest income and foreign exchange differences	1.7	3.2
Items recognised through profit and loss	**0.9**	**2.7**
Acturial gain (loss) on plan assets	31.6	5.2
Items recognised through OCI	**31.6**	**5.2**
Contributions paid	0.1	0.8
Benefits paid	-27.1	-19.0
Fair value of plan assets at 31 December	**441.4**	**435.8**

Plan assets are comprised as follows

%	2021	2020
Listed shares	17.8	18.8
Debt instruments	55.1	56.6
Property	23.0	20.0
Other	4.1	4.6
Total	**100.0**	**100.0**

Plan assets of the pension fund include Finnair Plc shares with a fair value of 0.9 million euros (1.1) and buildings used by the Group with a fair value of 12.8 million euros (18.2).

Defined benefit plans: principal actuarial assumptions

%	2021	2020
Discount rate %	0.74%	0.25%
Annual rate of future salary increases %	1.80%	1.60%
Future pension increases %	0.00%	0.00%
Estimated remaining years of service	8	8

Sensitivity analysis

The sensitivity analysis describes the effect of a change in actuarial assumptions on the net defined benefit obligation. The analyses are based on the change in the 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%	-8.8	-2.5%	9.2	2.6%
Annual rate of future salary increases %	0.25%	2.3	0.7%	-2.3	-0.6%
Life expectancy at birth	1 year	8.8	2.5 %		

According to Finnish legislation, the pension fund needs to be fully funded. Finnair does not expect to pay contributions to the pension fund in 2022. The duration of defined benefit obligation is 10 years. The duration is calculated by using a discount rate of 0.74%.

i = Content of the section
A = Accounting principles

2 Fleet and other fixed assets and leasing arrangements

i Fleet and other fixed assets and leasing arrangements includes notes particularly related to the aircraft fleet. Notes related to the aircraft operated by the Group are combined in this section so that the general view of the fleet is easier to understand. In addition to owned aircraft, the notes cover leased aircraft under different kinds of aircraft lease arrangements. i

The assets owned and leased by Finnair consist mostly of aircraft operated by Finnair and Norra. In 2021, the number of owned aircraft was 41 (45) and leased 43 (38). As at the end of 2021, four narrow-body aircraft were recognised as assets held for sale.

Fleet

Fleet in Finnair balance sheet

EUR mill.	2021	2020	Change
Advances paid for aircraft	127.7	117.7	10.1
Owned aircraft	818.6	1,322.5	-504.0
Right-of-use fleet	1 025.3	772.5	252,8
Fleet total	**1 971.6**	**2,212.7**	**-241,2**
Fleet sublease receivables	**10.0**	**33.7**	**-23.7**
Fleet lease liabilities	**1,204.6**	**854.0**	**350.6**
Depreciation for the period of owned aircraft	-155.7	-184.1	28.3
Depreciation for the period of right-of-use fleet	-123.2	-107.2	-16.0
Impairment for the period related to owned aircraft	-1.5	-8.2	6.7
Assets held for sale (fleet)	18.5		18.5

During 2021, Finnair executed several aircraft financing transactions as part of its refinancing plan resulting from the COVID-19 pandemic. The most significant transactions comprised four sale and leaseback arrangements of the A350 aircraft which decreased the number of the owned aircraft and increased the number of the Finnair's right-of-use fleet. In addition, Finnair's right-of-use fleet increased due to a lease financing arrangement of one A350 aircraft, where Finnair assigned the purchase right of the aircraft to a third party and leased it back for its own operation. Further details on these transactions is presented in notes 2.1-2.3 and 3.3.

The number of aircraft operated by Finnair increased with one A350 aircraft during 2021. However, due to the continuing COVID-19 pandemic, not all fleets were used in its full capacity. As at the balance sheet date, 71 out of Finnair's 80 aircraft recognised in fixed assets were kept at Helsinki-Vantaa airport and maintained in such a condition that they are flight-ready. Three wide-body aircraft and 6 narrow-body aircraft were not actively used in the operations and were temporarily stored. This represents approximately 11% or 82.4 million euro of the year-end carrying value of the total fleet. All temporarily stored aircraft are expected to be used in their full capacity within next two to three years.

2.1 Fleet and other fixed asset

A Fleet and other fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment loss if applicable. Fleet includes aircraft and aircraft prepayments. The acquisition cost of aircraft is allocated to the aircraft frame, cabin components, engines and maintenace components as separate assets. Maintenance components include heavy maintenance, C-checks, APU (auxiliary power unit) restorations, landing gear overhauls and thrust reversers of aircraft frames, as well as performance restoration and maintenance of life limited parts of engines. Aircraft frames and engines are depreciated over the useful life of the aircraft. The maintenance components are depreciated during the maintenance cycle. Cabin components are depreciated over their expected useful life. Significant modifications of owned or leased aircraft are capitalised as separate items and depreciated over their expected useful life, which in the case of leased aircraft cannot exceed the lease period. Replaced components are derecognised from the balance sheet.

Advance payments for aircraft are recorded as fleet fixed 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. Hedging gains or losses related to the fair value changes of firm, USD nominated purchase commitments for aircraft are recognised in advance payments. Advance payments, realised foreign exchange hedges and capitalised interests are recognised as part of the aircraft acquisition cost once the aircraft is delivered and taken to commercial use.

Other fixed assets include rotable aircraft spare parts, other fixed assets and their prepayments. Other fixed assets are depreciated during their expected useful life.

Intangible assets mainly include computer software and connection fees. Connection fees are not depreciated. Gains and losses on disposal of tangible and intangible assets are included in other operating income and expenses.

Useful life and residual value

Depreciation of fleet and other fixed assets is based on the following expected economic lifetimes:

- New 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 %
  - Turboprop aircraft (ATR fleet), over 20 years to a residual value of 10 %
- Heavy maintenance, C-checks, APU and landing gear restorations and thrust reversers of aircraft frame, as well as performance maintenance and life limited parts of the engines, on a straight-line basis during the maintenance period
- Cabin components, over 7–20 years
- Rotable spare parts and components, over 15–20 years to a residual value of 10 %
- Buildings, over 10–50 years from the time of acquisition to a residual value of 10 %
- Other tangible assets, over 3–15 years
- Computer software, over 3–8 years

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.

As part of the investment optimizations resulting from the COVID-19 pandemic, the useful life of Finnair's current Airbus A320 fleet was prolonged. As a result, the depreciation period and the residual values of the existing A320 fleet's aircraft and engines was extended from 20 years to a period of 25-29 years with 0% residual value. The change decreased the depreciations of 2021 by 4.7 million euro. The decrease in 2022 is approximately 10 million euro.

Assets held for sale
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, a sale is considered highly probable and expected to take place within the next twelve months. Assets classified as held for sale are stated at the lower of the carrying amount or fair value less cost to sell. Assets classified as held for sale are no longer depreciated.

Impairment
The Group reviews its fleet and other fixed assets for indication of impairment on each balance sheet date. Impairment loss is recognized if an asset's recoverable amount is below its carrying amount. The recoverable amount is determined as the higher of the asset's fair value less costs to sell or its value in use. The recoverable amount is defined for a cash generating unit, and the need for impairment is evaluated at the cash generating unit level. The value in use is based on the present value of the expected net future cash flows obtainable from the asset or cash-generating unit. Individual assets are excluded from the cash generating unit if they no longer are held for service or are intended to be sold, and are tested for impairment based on their fair value less costs to sell. Impairment testing, including the critical accounting estimates and sources of uncertainty inherent in the calculations, is described in more detail in note 2.3. A

Fleet 2021

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2021	2,358.7	117.7	2,476.4
Additions	13.7	55.6	69.3
Disposals	-425.2		-425.2
Currency hedging of aircraft acquisitions		-22.6	-22.6
Reclassifications	-1.3	-22.9	-24.2
Transfer to assets held for sale	-196.5		
Acquisition cost 31 Dec 2021	**1,749.4**	**127.7**	**1,877.1**
Accumulated depreciation and impairment 1 Jan 2021	-1,036.1		-1,036.1
Disposals	84.5		84.5
Transfer to assets held for sale	178.0		178.0
Depreciation for the financial year	-155.7		-155.7
Impairment for the financial year	-1.5		-1.5
Accumulated depreciation and impairment 31 Dec 2021	**-930.8**		**-930.8**
Book value 31 Dec 2021	**818.6**	**127.7**	**946.3**

During 2021, Finnair executed four sale and leaseback transactions of A350 aircraft which are shown as disposals of own aircraft. Additionally, four A321 aircraft with a total book value of 18.5 million euro were transferred to assets held for sale. Impairment for the financial year is presented in more detail in the note 2.3 Depreciation and impairment. Currency hedging of aircraft acquisitions is described in the notes 3.5 Management of financial risks and 3.8 Derivatives.

Fleet 2020

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2020	2,460.7	117.8	2,578.5
Additions	244.4	47.0	291.4
Disposals	-306.5		-306.5
Currency hedging of aircraft acquisitions		32.4	32.4
Reclassifications*	-40.0	-79.5	-119.4
Acquisition cost 31 Dec 2020	**2,358.7**	**117.7**	**2,476.4**
Accumulated depreciation and impairment 1 Jan 2020	-1,045.2		-1,045.2
Disposals	86.2		86.2
Reclassifications*	115.2		115.2
Depreciation for the financial year	-184.1		-184.1
Impairment for the financial year	-8.2		-8.2
Accumulated depreciation and impairment 31 Dec 2020	**-1,036.1**		**-1,036.1**
Book value 31 Dec 2020	**1,322.6**	**117.7**	**1,440.3**

* The presentation of fixed asset note has been clarified and for the comparison period the adjustment is included in the reclassifications of fixed assets.

Other fixed assets 2021

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2021	33.9	75.6	116.0	55.3	7.2	288.0
Additions	1.4		4.5	1.3	0.2	7.4
Disposals	-0.9	-1.1	-4.9	-4.0		-10.8
Reclassifications	0.0		3.9	-4.8	-6.6	-7.6
Transfer to assets held for sale	-0.3		-0.1			-0.3
Acquisition cost 31 Dec 2021	**34.2**	**74.5**	**119.5**	**47.8**	**0.8**	**276.7**
Accumulated depreciation and impairment 1 Jan 2021	-17.3	-9.8	-33.4	-42.3		-102.8
Disposals	0.6	0.6	0.2	4.0		5.4
Reclassifications				3.9		3.9
Depreciation for the financial year	-2.5	-1.6	-8.7	-8.1		-21.0
Accumulated depreciation and impairment 31 Dec 2021	**-19.2**	**-10.8**	**-41.9**	**-42.5**	**0.0**	**-114.4**
Book value 31 Dec 2021	**15.0**	**63.7**	**77.6**	**5.2**	**0.8**	**162.3**

In addition to the aircraft rotable parts included in the other fixed assets, Finnair's inventories include non-rotable aircraft parts amounting to 16.9 million euro (19.2).

A = Accounting principles

A = Accounting principles

Other fixed assets 2020

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2020	50.1	75.6	96.8	51.6	7.1	281.2
Additions	1.7		17.3	2.8	4.7	26.4
Disposals	-0.4		-3.0	-0.4		-3.8
Reclassifications*	-17.5		4.9	1.3	-4.5	-15.8
Acquisition cost 31 Dec 2020	**33.9**	**75.6**	**116.0**	**55.3**	**7.2**	**288.0**
Accumulated depreciation and impairment 1 Jan 2020	-33.4	-8.2	-28.5	-32.8		-102.9
Disposals	0.3		4.9	0.5		5.7
Reclassifications*	18.6	0.0	-0.3	-0.1		18.2
Depreciation for the financial year	-2.8	-1.6	-9.5	-9.9		-23.8
Accumulated depreciation and impairment 31 Dec 2020	**-17.3**	**-9.8**	**-33.4**	**-42.3**	**0.0**	**-102.8**
Book value 31 Dec 2020	**16.7**	**65.8**	**82.6**	**13.0**	**7.2**	**185.3**

* The presentation of fixed asset note has been clarified and for the comparison period the adjustment is included in the reclassifications of fixed assets.

Capitalised borrowing costs

	Aircraft		Advances		Total	
EUR mill.	2021	2020	2021	2020	2021	2020
Book value 1 Jan	18.6	17.6	2.8	4.3	21.4	21.9
Additions			1.4	3.3	1.4	3.3
Disposals	-10.6	-2.9			-10.6	-2.9
Reclassifications		4.8	-1.5	-4.8	-1.5	0.0
Depreciation	0.8	-0.9			0.8	-0.9
Book value 31 Dec	**8.8**	**18.6**	**2.7**	**2.8**	**11.5**	**21.4**

In 2021 borrowing costs of 1.4 million euro (3.3) were capitalised in tangible assets related to the Airbus A350 investment program. Finnair uses the effective interest rate to calculate the capitalised borrowing costs, that represents the costs of the loans used to finance the investment. The average yearly interest rate in 2021 was 3.66% (4.29%). The general borrowings used to fund the acquisition of capital assets are included in the calculation of the capitalisation rate.

Assets and liabilities held for sale

During 2021 Finnair transferred four A321 aircraft to assets held for sale with a total balance sheet value of 18.5 million euro. Impairment of 1.5 million euro was recognised in the profit and loss in connection with the reclassification. In addition, the assets held for sale include spare parts held for sale totaling to 0.2 million euro.

Pledged assets and other restrictions on fixed assets

Finnair does not have fixed assets pledged as a security for bank loans. Fleet assets include three A350 aircraft financed with JOLCO-loans and two owned A330 aircraft and one A350 aircraft where the legal title is transferred to Finnair after loans are repaid. More details on these arrangements are presented in the note 3.3. Financial liabilities.

Investment commitments

Investment commitments as at the end of the year totalled 355.3 million euro (429) and it includes firm aircraft orders, other aircraft related investments as well as committed maintenance investments. The amount of the total commitments fluctuates between the order and the delivery date of the aircraft mainly due to EUR/USD exchange rate changes and escalation clauses included in airline purchase agreements. The exact amount of the commitments in relation to each aircraft is only known at the time of the delivery.

2.2 Leasing arrangements

A The Group as lessee

Finnair assesses whether a contract that relates to tangible assets is, or contains, a lease in accordance with the IFRS 16. Lease agreements for tangible assets, where the contract conveys the right to use an identified asset for a period of time in exchange for consideration, are classified as leases.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both periods covered by an option to extend the lease if Finnair is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if Finnair is reasonably certain not to exercise the option.

The lease recognition requirements are not applied to short-term leases, where at the commencement date, the lease term is 12 months or less and does not contain a purchase option. Finnair considers the lease period to be the period that is enforceable. Hence, for contracts where the contract term is non-fixed and Finnair has the right to terminate the contract without the permission from the other party with no more than an insignificant penalty and there are no other indications that the contract is enforceable, Finnair classifies these contracts as short-term. The lease recognition requirements are also not applied to leases that are not material to Finnair.

For short-term leases and immaterial leases to which these exemptions are applied, the lease payments are recognised as an expense on either a straight-line basis over the lease term, or on another systematic basis if that basis is more representative of the pattern of Finnair's benefit.

At the commencement date of a lease, Finnair recognises both a right-of-use asset and a lease liability.

The lease liability is the present value of future lease payments. At Finnair, lease payments for aircraft leases typically contain typically payments that depend on interest rates and indices, that are included in the measurement of the lease payments included in the measurement of the lease liability, using the interest or index rate at the commencement date of the lease.

The right-of-use asset is measured at cost, comprising
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by Finnair; and
- an estimate of costs to be incurred by Finnair in restoring the assets to the condition required by the terms and conditions of the lease.

In most cases, Finnair 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.

The maintenance costs can be divided into two main groups:
1) costs that are incurred independent of the usage of the aircraft / leasing period and
2) costs that are incurred dependent on the usage of the aircraft / leasing period

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease.

Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost.

Finnair remeasures the lease liability when there is a lease modification that changes the scope of a lease or the consideration for the lease, that was not part of the original terms and conditions of the lease, including changes in lease payments resulting from a change in indices and rates used in variable aircraft lease payments. The amount of the remeasurement of the lease liability is generally recognised as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining measurement is recognised in profit or loss.

After initial recognition, right-of-use assets are measured at cost less any accumulated depreciations and accumulated impairment losses. The assets are depreciated with a straight-line method from the commencement date to the shorter of end of useful life of the right-of-use asset and the end of lease term. However, if the lease transfers ownership of the asset to Finnair by the end of lease term or if the cost of the right-of-use asset reflects that Finnair will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of useful life of the asset.

At Finnair aircraft lease contracts contain the interest rate implicit in the lease, even if the aircraft lease agreements do not clearly define the interest rate implicit in the lease. Since the fair values of the aircraft are provided publicly by third parties, Finnair is able to calculate the implicit interest rate for each qualifying aircraft operating lease. The rate implicit in the lease is defined as the rate that causes the sum of the present value of the lease payments and the present value of the residual value of the underlying asset at the end of the lease to equal the fair value of the underlying asset. The implicit interest rate is determined by each aircraft lease contract separately.

For other lease contracts at Finnair, an implicit interest rate cannot be usually determined. The incremental borrowing rate is therefore used and it is determined by each class of assets separately, based on management estimate.

Aircraft lease contracts are usually denominated in foreign currency (US dollars) and the foreign currency lease liabilities are revalued at each balance sheet date to the spot rate. The lease payments (lease payments made) are accounted for as repayments of the lease liability and as interest expense.

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 leased under operating lease 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.

Agreements, where the Group is the lessor, are accounted for as finance leases, when a substantial part of the risks and rewards of ownership are transferred to the lessee. Finnair recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment of the lease.

Finnair subleases aircraft and buildings as well as ground equipment if needed, which are classified either as finance leases or operating leases based on the individual contract terms.

At the commencement date, for the subleases, a net investment (lease receivable), equaling to the present value of lease payments and the present value of the unguaranteed residual value, is recognised. The proportion of the right-of-use asset subleased is derecognised from the balance sheet and the difference between the right-of-use asset and the net investment is recognised in the profit or loss, in other operating income and expenses. Subsequently, the lease payments received are accounted for as repayments of the lease receivable and as interest income.

Sale and leaseback

In sale and leaseback transactions, where Finnair sells and then leases back aircraft, Finnair measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Group. Accordingly, Finnair recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

Impairment

The Group reviews its leased assets for indication of impairment on each balance sheet date. Impairment loss is recognized if the recoverable amount is below its carrying amount. The recoverable amount is defined for a cash generating unit, and the need for impairment is evaluated at the cash generating unit level. The recoverable amount is determined as 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 present value of the expected net future cash flows obtainable from the asset or cash-generating unit. Individual assets are excluded from the cash generating unit if they no longer are held for service or are intended to be sold, and are tested for impairment based on their fair value less costs to sell. Impairment testing, including the critical accounting estimates and sources of uncertainty inherent in the calculations, is described in more detail in note 2.3. A

! Leasing arrangements

Determining the interest rate and lease term used in discounting the lease payments, estimating the redelivery obligations of aircraft leases and the classification of sublease agreements to operating and financial leases require management discretion in interpretation and application of accounting standards.

The COVID-19 pandemic did not have a significant impact on the terms of the leasing arrangements of the Group, neither did it significantly increase the amount of discretion related to abovementioned critical accounting estimates and sources of uncertainty. The pandemic did not, for example, have significant impact on the estimated lease terms as extension options are usually not considered in the initial lease term determination. Additionally, the impact of contracts terminated early during the period was not significant. The carrying value of the right-of-use assets are tested for impairment as part of cash generating unit at the balance sheet date. More details is presented in the note 2.3. !

Right-of-use assets 2021

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2021	772.5	133.8	11.2	917.5
Additions	346.9	1.4	32.2	380.6
Changes in contracts	29.0	1.0	-4.7	25.3
Depreciation for the financial year	-123.2	-13.2	-5.3	-141.6
Book value 31 Dec 2021	**1,025.3**	**123.0**	**33.4**	**1,181.7**

Additions to right-of-use assets in 2021 are mainly related to the four sale and leaseback arrangements of A350 aircraft and one leased A350 aircraft which were all part of the Group's refinancing plan in response to the pandemic. The changes in contracts relate to changes either in the scope, or consideration, of leases.

Right-of-use assets 2020

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2020	736.4	124.0	17.1	877.5
Additions	167.5	2.6	3.3	173.3
Changes in contracts	-24.1	21.5	-3.0	-5.7
Disposals	-0.1	0.1	0.0	0.0
Depreciation for the financial year	-107.2	-14.3	-6.2	-127.7
Book value 31 Dec 2020	**772.5**	**133.8**	**11.2**	**917.5**

Lease liabilities

	Aircraft		Buildings and land		Other equipment	
EUR mill.	2021	2020	2021	2020	2021	2020
less than one year	157.2	118.5	12.6	12.7	7.0	4.4
1–5 years	602.7	495.1	43.1	49.9	19.9	7.1
more than 5 years	444.6	240.4	86.8	88.1	6.8	
Total	**1,204.6**	**854.0**	**142.6**	**150.8**	**33.8**	**11.5**

The Group leases aircraft, premises and other fixed assets, for which the lease liability is recorded on the balance sheet. The lease agreements have different terms of renewal and include index-linked terms and conditions. The Group was operating 34 leased aircraft at the end of the year with lease agreements of different tenors.

Lease liabilities related to aircraft increased significantly during the financial year 2021 due to the aircraft transactions implemented as part of the refinancing program, including the sale and leaseback of four A350 aircraft and one leased A350 aircraft.

The leased aircraft, that Finnair is subleasing to other operators and which are classified as finance leases are shown in the table below.

A = Accounting principles
! = Critical accounting estimates

Finance lease receivables, Group as lessor

	Aircraft		Buildings and land	
EUR mill.	2021	2020	2021	2020
less than 12 months	7.6	14.2	0.4	
13-24 months	2.4	15.2	0.3	
25-36 months		4.3	0.3	
37-48 months			0.3	
49-60 months			0.0	
more than 60 months			0.1	
Total	**10.0**	**33.7**	**1.4**	**0.0**

Subleases mainly include sublease arrangements of 6 aircraft that are classified as finance leases. Due to contract modifications, some of the sublease contracts classified earlier as finance leases, have been classified as operating leases.

Leasing arrangements in profit and loss

EUR mill.	2021	2020
Depreciation expense of right-of-use assets	-141.6	-127.7
Interest expense on lease liabilities	-62.7	-58.1
Interest income on sublease receivables	1.6	2.8
Exchange rate changes of lease liabilities	-75.5	68.5
Hedging result of lease liabilities	16.3	-36.1
Short-term wet leases	-6.5	-6.3
Short-term office rents	-3.2	-4.0
Variable purchase traffic and cargo capacity rents	-65.0	-83.0
Gains and losses on sale and leaseback transactions	14.4	-4.4
Total	**-322.2**	**-248.3**

Operating expenses include costs related to short-term and capacity based rental agreements, that are not material for the Group or do not contain a lease according to IFRS 16, and are therefore not recognised in the balance sheet. In the income statement, the short-term wet leases and variable purchase traffic and cargo capacity rents are included in capacity rents and the short-term office rents are included in property, IT and other expenses. Gains related to sale and leaseback transactions are recorded in other operating income in profit and loss. Total cash outflow relating to leases was -284.2 million euro (-284.5).

Off-balance sheet lease commitments, Group as lessee

	Premises rents		Other rents	
EUR mill.	2021	2020	2021	2020
less than one year	2.3	2.5	1.5	1.1
1–5 years	6.3	6.3	0.9	0.6
more than 5 years	6.9	8.5	-	0.0
Total	**15.5**	**17.3**	**2.4**	**1.8**

Off-balance sheet lease commitments are short-term lease agreements and other lease agreements for which the underlying asset is of low value or contracts that do not contain a lease according to IFRS 16. Therefore, these contracts are not recognised as right-of-use assets and lease liabilities in the balance sheet. The most significant item in the premises rents is the right-to-use a test cell, which is excluded from the lease liabilty on the basis that it is not for the exclusive use of Finnair. Other rents include IT equipment leases, that are not material.

Off-balance sheet lease receivables, Group as lessor

	Aircraft		Buildings and land	
EUR mill.	2021	2020	2021	2020
less than 12 months	19.4	13.2	1.8	1.5
13-24 months	15.4	13.2	1.8	1.5
25-36 months	6.2	9.2	1.8	1.5
37-48 months	6.2		1.8	1.5
49-60 months	6.2		1.5	1.5
more than 60 months	1.6		2.0	3.6
Total	**55.1**	**35.6**	**10.8**	**11.0**

The Group has leased 15 owned aircraft as well as premises with irrevocable lease agreements. Additionally, Finnair has subleased 6 aircraft classified as operating leases. These agreements have different terms of renewal and other index-linked terms and conditions.

2.3 Depreciation and impairment

A Depreciation
Depreciation of assets is determined based on their expected useful life or maintenance cycle and residual value. The depreciation for all assets is calculated using straight-line method. The depreciation is started when the asset is available for use. Depreciation is ceased when the asset is either classified as held for sale or derecognised. The useful life and residual value for assets are described in more detail in the note 2.1. A

EUR mill.	2021	2020
Amortisation of intangible assets	7.6	9.9
Depreciation of own fleet	155.7	184.1
Depreciation of right-of-use fleet	123.2	107.2
Depreciation of other tangible assets	12.9	13.9
Depreciation of other right-of-use assets	18.5	20.5
Amortisation and depreciation	**317.8**	**335.6**
Impairment	2.0	8.2
Impairment total	**2.0**	**8.2**
Total depreciation and impairment in income statement	**319.8**	**343.8**

Depreciation and impairment include both planned depreciations on fixed assets as well as impairment. The depreciation of own fleet decreased and the depreciation of right-of-use fleet increased in 2021 mainly as a result of the four A350 sale and leaseback transactions. The impairment recognized in 2021 relates mainly to the revaluation and reclassification of the four A321 aircraft to assets held for sale.

A = Accounting principles

A = Accounting principles
! = Critical accounting estimates

Impairment testing

A Impairment testing
The Group reviews its fleet, other fixed assets and other non-current assets for indication of impairment on each balance sheet date. The recoverable amount of an asset or a cash generating unit is determined as the higher of value in use and the fair value less cost to sell. Impairment loss is recognized if an asset's recoverable amount is below its carrying amount. The recoverable amount is defined for the cash generating unit, and the impairment is evaluated at the cash generating unit level. A

! Impairment testing of the fleet and other fixed assets
Finnair applies the value in use model as its primary method for determining the recoverable amount of the assets. The preparation of the calculations used for impairment testing requires significant management judgement and the use of management estimates. These estimates are based on budgets and forecasts, which already inherently contain some degree of uncertainty. The level of uncertainty has remained high in 2021 as a result of the continued COVID-19 pandemic, where the impact of the pandemic on the pace of the passenger demand recovery and Finnair's revenues is not known in advance. In addition, the price of fuel is subject to higher than average uncertainty, which is further increased by the possibility of an escalation of the geopolitical situation in Eastern Europe. Thus the actual outcome may differ from the current management estimates and assumptions made.

The main factors requiring significant management judgement in impairment testing include the ultimate duration of the pandemic and the speed of demand recovery, unit revenue development and the cost of jet fuel. Further, the value in use calculation is sensitive to changes in the EBITDA margin, terminal growth rate and discount rate. The key assumptions used and the related sensitivities are described in more detail below.

In order to consider the increased uncertainty in its estimates and assumptions caused by the COVID-19 pandemic, the management has considered three different forecast scenarios incorporating plausible variations of the expected pace of the recovery and unit revenue development based on its best estimate at the time. These scenarios, as well as the main identified uncertainties, are discussed in more detail in the beginning of the notes, in the section Board's assessment of Finnair as a going concern. In order to consider the possibility of various outcomes also in its impairment testing performed at the year-end 2021, Finnair is applying the expected cash flow approach which incorporates expectations about all three forecast scenarios instead of relying on just a single, most likely, cash flow estimate. The determination of the probabilities used for each of the senarios requires the use of significant management judgement and is based on the management's best estimate at the time. The expected cash flow approach used in Finnair's year-end impairment testing is described in more detail below in this note. !

During the fiscal year 2021, Finnair has reviewed quarterly whether indications for impairment exist. Finnair considers various adverse economic and business implications resulting from the COVID-19 pandemic as indications of possible impairment and therefore, impairment testing has been carried out as at the balance sheet date. Such indicators include the unprecedented global market disruption, the negative impacts of the pandemic on the Group's own operating environment as well as the adverse impact of the currently extremely low passenger demand on the Group's financial performance and low capacity utilization rates.

The impairment review is carried out at the level of a cash-generating unit ('CGU'). Finnair is a network carrier with highly integrated fleet operations and it considers all its fleet (including right-of-use fleet) and other closely related assets as one CGU. The intangible assets with indefinite useful life, including goodwill, have been identified to belong to the aircraft CGU for impairment testing purposes. At year-end 2021, the amount other intangible assets with indefinite useful life in Finnair's balance sheet totaled to 1.4 million euro (1.7). The Group had no goodwill at the end of year 2021 (0.5 million euro). Assets that are held for sale are excluded from CGU and reviewed separately for impairment. The cash generating unit has been tested for impairment using the value in use model based on which the recoverable amount of the CGU exceeds its carrying value at the balance sheet date. The recoverable amount of the CGU as at 31.12.2021 was 2,748.6 million euros (2,897.3) based on expected cash flow approach as described below, and the carrying value of the assets was 2,155.8 million euros (2,498.3).

The value in use measurement is based on a discounted cash flow model where the cash flow projections are based on the Group's strategy and the latest, updated management forecast covering a four year period. The cash flows beyond the four-year period are projected to increase in line with the Group's strategy and the management's long-term growth assumptions. In order to consider the uncertainty caused by the current COVID-19 pandemic and the future outlook, Finnair is utilizing the expected cash flow approach which is using multiple, probability-weighted cash flow projections based on the three different forecast scenarios prepared by the management. The scenarios and probabilities allocated to each scenario have been reviewed and approved by the Board of Directors. When determining the probabilities, the management has reflected on the uncertainty caused by the duration of the COVID-19 pandemic and the uncertainty related to the speed of recovery. The optimistic scenario, in which the annual capacity is expected to reach 87% of the pre-covid 2019 levels in 2022 (measured in annual available seat kilometres), is considered to have a probability weight of 5%. The base case scenario, which expects Finnair to be able to operate around 83% of its 2019 capacity in 2022, is considered to have a probability of 60%. The pessimistic scenario, which has a probability of 35%, is assumed to reach 75% of the 2019 operational volumes in 2022. The business is expected to return to the pre-covid levels of 2019 in 2023 under all but the pessimistic scenario, in which the 2023 annual operational capacity is expected to reach 98% of the pre-pandemic levels.

In connection with the financial statements 2021, the demand and revenue are expected to recover somewhat slower during 2022 than what was estimated at the time of the preparation of the 2020 financial statements, which is caused by the prolonged impacts of the COVID-19 pandemic on travel restrictions.

Key assumptions used in impairment review

	Dec 31, 2021	Dec 31, 2020
Discount rate (post-tax long-term weighted average cost of capital), %	7.7	8.2
Discount rate (pre-tax, derived from the long-term weighted average cost of capital), %	8.8	9.3
Long-term growth rate, %	2.8	2.4
Fuel cost range per ton (USD)	768-864	540-610

Key assumptions used in the impairment review are presented in the table above. The assumptions are the same for all scenarios.

The discount rate used is based on the weighted average cost of capital (WACC), which reflects the market assessment of the time value of money and the risks specific to Finnair's business. Both pre-tax and post-tax discount rates are presented above. The increased uncertainty related to the COVID-19 pandemic is considered through the multiple scenarios and the expected cash flow approach used in impairment testing rather than in the discount rate.

EBITDA and estimated business growth are based on management's best assessment of the speed of recovery from the current COVID-19 pandemic as well as the future market demand and environment, which are benchmarked against external information sources, such as long-term average growth estimates for industry.

Fuel price is based on the hedge-weighted fuel price based on the forward curve, estimated fuel consumption based on planned flights and the historical data of fuel consumption for each aircraft type.

Sensitivities of the key assumptions

The calculations used in impairment testing require significant use of management estimates and assumptions. The Group has prepared a sensitivity analysis to reflect, how the results of the impairment test would react to changes in the key assumptions. The sensitivity analysis considers changes in one assumption at a time, whereby the other assumptions are kept unchanged. The results of the sensitivity analysis reflect the sensitivity of the recoverable amount based on expected cash flow model. The uncertainty related to the future pace of the recovery of the business is taken into account in the calculation by using multiple forecast scenarios and the expected cash flow approach in impairment testing.

The table below shows the changes required to decrease the difference between the recoverable amount and the carrying value of the assets to zero.

	Dec 31, 2021	Dec 31, 2020
EBITDA margin %	-1.1 %-p	-1.0%-p
Discount rate %	+1.4 %-p	+0.9 %-p
Terminal growth rate %	-1.5 %-p	-1.0 %-p
Fuel cost, % change in cost level	+4 %	15 %

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.	2021	2020
Financial income from discontinued hedges	11.6	32.5
Interest income on leases	1.6	2.8
Gains on investment instruments held at FVPL	-0.4	3.3
Interest from assets held at amortised cost	0.0	0.0
Other interest income	0.0	0.0
Other financial income	0.0	0.0
Dividend income	0.0	0.0
Financial income total	**12.8**	**38.7**
Financial expenses for discontinued hedges	-5.2	-168.3
Interest on leases	-62.7	-58.1
Other financial expenses	-24.2	-19.3
Interest expenses for liabilities measured at amortised cost	-25.7	-9.5
Financial expenses total	**-117.8**	**-255.2**
Foreign exchange gains and losses	-22.5	26.6
Financial expenses, net	**-127.5**	**-189.9**

In the effectiveness testing of the Group's hedge accounting, both cash flow and fair value hedging were found to be effective at year end 2021. Thus, as in the comparison year 2020, no inefficiency is included in the financial items for 2021. The COVID-19 pandemic has continued to have a negative impact on Finnair's business during the years 2020 and 2021; as a result, Finnair has discontinued the application of hedge accounting to the majority of its hedges related to jet fuel price risk and foreign exchange risk during the year 2020. The discontinued hedges are shown in profit and loss instead of other compherensive income. The remaining discontinued hedges matured during the last quarter of 2021. 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 2021, foreign exchange gains and losses recognised in financial expenses consist of a net realised exchange gain of 22.2 million euro and a net unrealised exchange loss of 44.9 million euro. In the financial year 2021, Finnair recognized an expense of 5.2 million euro from discountinued hedges and a gain of 11.6 million euro. During the year 2021, 1.4 million euros of interest expense was capitalised in connection with the A350 investment program (3.3) and due to one A350 leasing arrangement, 1.5 million euros of capitalised interest cost was written down resulting in an increase in interest costs amounting to 0.1 million euros. More information about the capitalised interest can be found in note 2.1 Fleet and other fixed assets.

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

3.2 Financial assets

A Financial assets
In the Group, financial assets have been classified into the following categories according to the IFRS 9 standard "Financial Instruments": amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment, or by applying a fair value option. All purchases and sales of financial assets are recognised on the trade date.

Financial assets at fair value through profit and loss include such assets as investments in bonds and money market funds. 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.

Investments in debt securities 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. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value.

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
Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. More information on the credit loss provision on trade receivables can be found in the note 1.2.3. Receivables related to revenue.

The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under 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.

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

i = Content of the section
A = Accounting principles

A = Accounting principles

3.2.1 Other current financial assets

EUR mill.	2021	2020
Commercial paper, certificates and bonds	19.0	
Money market funds	512.4	358.3
Total	**531.4**	**358.3**
Ratings of counterparties		
Better than A		
A		
BBB	5.0	
BB		
Unrated	526.4	358.3
Total	**531.4**	**358.3**

As of 31 December 2021, investments in instruments issued by unrated counterparties mostly include investments in money market funds (EUR 512.4 million euro).

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.	2021	2020
Cash and bank deposits	734.3	465.3
Total	**734.3**	**465.3**

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
Finnair Group's financial liabilities are classified into two different classes: amortised cost and fair value through profit and loss. 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.	2021	2020
Loans from financial institutions, non-current	299.7	599.0
JOLCO loans and other	289.4	312.2
Bonds	397.2	199.8
Lease liabilities	1,204.1	880.6
Interest-bearing liabilities total	**2,190.3**	**1,991.6**
Non-interest-bearing liabilities	**6.3**	**5.2**
Total	**2,196.6**	**1,996.8**

Finnair's interest-bearing liabilities continued to increase during the financial year 2021 as a result of the financing transactions carried out by the Group in response to the continuing COVID-19 pandemic. The most significant financing transactions during 2021 were the issuance of a 400 million euro bond during the second quarter of 2021, and the completion of two leasing transactions: one sale and leaseback for four of its Airbus A350 aircraft worth over 400 million dollars and one lease financing arrangement for one Airbus A350 aircraft worth over 100 million dollars during the years 2021 - 2022. Non-interest-bearing liabilities mainly include leases and maintenance reserves related to the aircraft leased to other airlines.

The Group's lease liabilities include five new lease agreements for A350 aircraft as a result of the completion of four sale- and leaseback transactions and one lease arrangement transaction during the financial year. JOLCO loans and other include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft and Export Credit Support for one A350 and two A330 aircraft. Export credit support is a debt arrangement to finance aircraft. The transactions are treated as loans and owned aircraft in Finnair's accounting. Non-interest-bearing liabilities mainly include leases and maintenance reserves related to the aircraft leased to other airlines.

Current interest-bearing liabilities

EUR mill.	2021	2020
Loans from financial institutions, current	299.8	
JOLCO loans and other	43.1	51.5
Bonds	98.9	
Lease liabilities	176.9	135.6
Total	**618.6**	**187.2**

JOLCO loans and other include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft and Export Credit Support for one A350 and two A330 aircraft. The transactions are treated as loans and owned aircraft in Finnair's accounting.

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 January 2021	**51.5**	**1,111.0**	**135.6**	**880.6**	**2,178.7**
Repayments	0.0	-154.9		-146.8	-301.6
Acquisitions		400.0	2.5	437.0	839.5
Decreases				-2.8	-2.8
Foreign exchange adjustments		21.2	10.4	64.5	96.1
Reclassification between short-term and long-term liabilities	390.0	-390.0	28.4	-28.4	0.0
Other non-cash movements		-1.1			-1.1
Total liabilities from financing activities, 31 December 2021	**441.5**	**986.2**	**176.9**	**1,204.1**	**2,808.9**

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 January 2020	**43.5**	**477.3**	**140.4**	**913.6**	**1,574.8**
Repayments	-174.9	-43.1		-134.9	-353.0
Additions	175.0	697.8	3.1	170.1	1,046.0
Decreases				-4.1	-4.1
Foreign exchange adjustments		-20.7	-9.8	-58.3	-88.8
Reclassification between short-term and long-term liabilities	8.0	-8.0	3.9	-3.9	0.0
Other non-cash movements		7.7	-2.0	-1.9	3.8
Total liabilities from financing activities, 31 December 2020	**51.5**	**1,111.0**	**135.6**	**880.6**	**2,178.7**

Maturity dates of interest-bearing financial liabilities 31 Dec 2021 EUR mill.	2022	2023	2024	2025	2026	Later	Total
JOLCO loans and other, fixed interest				28.1	14.0		42.1
JOLCO loans and other, variable interest	43.1	38.2	39.4	83.8	31.1	57.9	293.5
Loans from financial institutions, variable interest	300.0	300.0					600.0
Bonds, fixed interest	98.9			400.0			498.9
Lease liabilities, fixed interest	133.8	135.9	137.5	138.4	95.4	416.7	1,057.7
Lease liabilities, variable interest	43.0	44.6	46.5	40.6	26.8	121.6	323.3
Interest-bearing financial liabilities total	**618.9**	**518.7**	**223.4**	**690.9**	**167.3**	**596.2**	**2,815.5**
Payments from currency derivatives	490.2						490.2
Income from currency derivatives	-506.2	-1.9	-3.9				-512.0
Commodity derivatives	-3.8	-0.1					-3.9
Trade payables and other liabilities	181.5						181.5
Interest payments	104.8	91.0	70.8	57.1	33.5	107.8	465.1
Total	**885.4**	**607.8**	**290.4**	**748.0**	**200.8**	**704.0**	**3,436.4**

Maturity dates of interest-bearing financial liabilities 31 Dec 2020 EUR mill.	2021	2022	2023	2024	2025	Later	Total
JOLCO loans and other, fixed interest					28.9	14.5	43.4
JOLCO loans and other, variable interest	51.5	40.9	35.3	36.4	77.4	82.2	323.7
Loans from financial institutions, variable interest		300.0	300.0				600.0
Bonds, fixed interest		200.0					200.0
Lease liabilities, fixed interest	96.4	102.3	95.0	92.9	137.3	147.1	671.1
Lease liabilities, variable interest	39.2	41.5	43.8	46.0	35.3	139.3	345.1
Interest-bearing financial liabilities total	**187.2**	**684.7**	**474.1**	**175.2**	**278.9**	**383.1**	**2,183.3**
Payments from currency derivatives	865.9	36.3					902.2
Income from currency derivatives	-826.3	-33.2					-859.5
Commodity derivatives	44.4	0.2					44.6
Trade payables and other liabilities	84.5						84.5
Interest payments	65.3	63.5	50.1	32.3	41.8	61.2	314.3
Total	**421.0**	**751.6**	**524.2**	**207.5**	**320.8**	**444.3**	**2,669.4**

The interest rate re-fixing period is three months for variable interest loans and six months for variable interest lease liabilities. The bonds maturing do not include the amortised cost of 43 thousand euros paid in 2017 and due in 2022 and 2.8 million paid in 2021 and due on 2025. JOLCO loans do not include the amortised cost of 3.1 million euros paid in 2016 and due in 2025 and loans from financial institutions do not include 0.6 million euros paid as arrangement fees on the pension premium loan in 2020. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the amortised costs. The COVID-19 pandemic has continued to impact Finnair's business and that has also increased the interest bearing liabilities in 2021 in comparison to 2020. The increase mainly consists of the issued 400 million bond and aircraft related sale and leaseback agreements. Also, Finnair has a 600 million euros of pension premium loan maturing during the next two years. The loan matures in two 300 million euro instalments. The first instalment is due during the last quarter of 2022 and the second one is due during the second quarter of 2023.

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

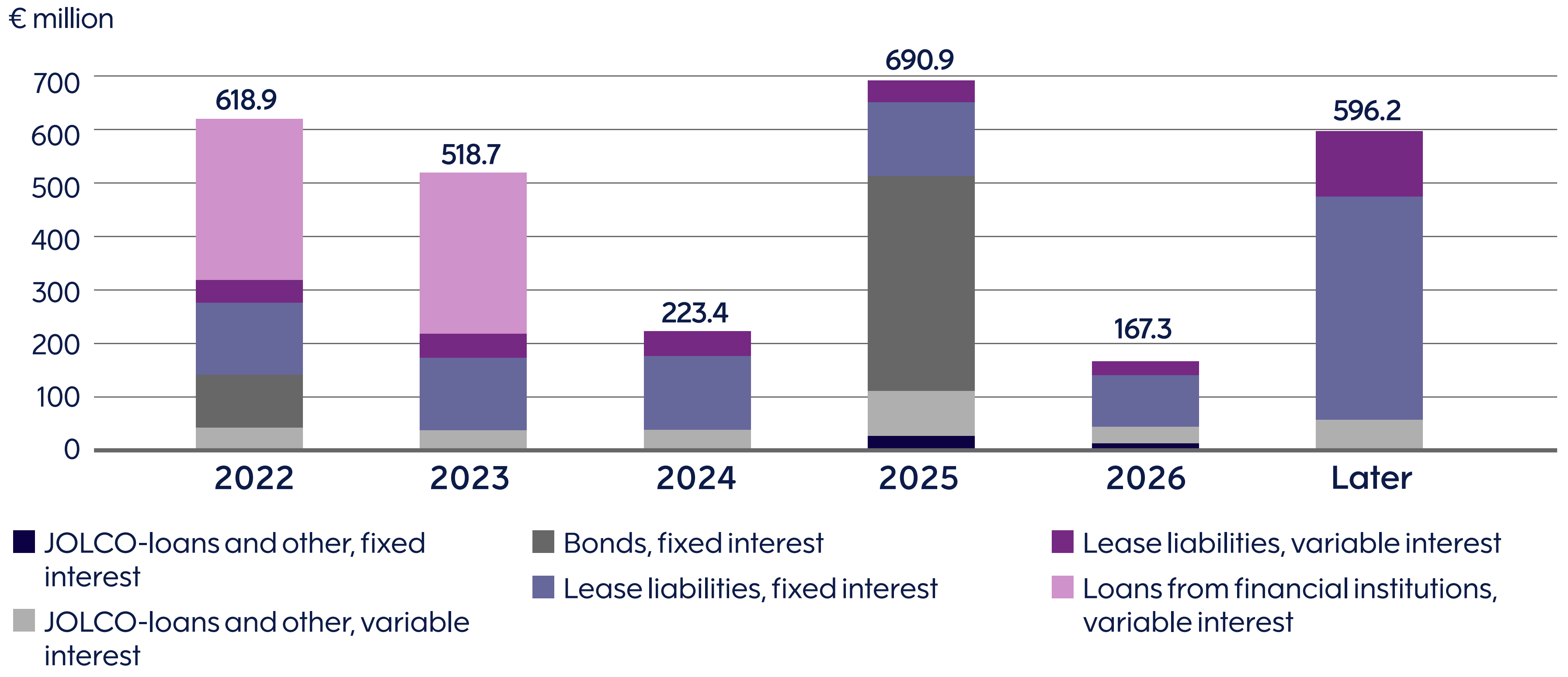
EUR mill.	2021	2020
EUR	1,291.6	994.5
USD	1,468.1	1,126.8
JPY	49.2	57.3
HKD	0.0	0.2
SGD	0.1	0.0
INR	0.0	0.0
	2,808.9	**2,178.7**

The weighted average effective interest rate on interest-bearing liabilities was 3.8% (3.3%).

Interest rate re-fixing period of interest-bearing liabilities

	2021	2020
Up to 6 months	21.0%	24.6%
6–12 months	10.7%	0.1%
1–5 years	38.5%	46.5%
More than 5 years	29.9%	28.9%
Total	**100.0%**	**100.0%**

Maturity dates of interest-bearing financial liabilities



State aid relating to Finnair's refinancing

State aid in pension premium loan and rights offering

The European Commission has concluded that the State of Finland's guarantee of Finnair's pension premium loan up to EUR 540 million, which was approved by the European Commission on 18 May 2020, and the State of Finland's participation in the rights offering are so closely linked that they must be regarded as an overall transaction that constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. Under the Commission's decision, the Company has agreed to certain conditions following the offering, which include, among other things, a ban on acquisitions, restricting the Company from acquiring a stake of more than 10 per cent in competitors or other operators in the same line of business, including upstream or downstream operations for a period of three years from the offering.

As a result of the restrictions based on the Commissions decision, the remuneration of each member of Finnair's management will not go beyond the fixed part of his/her remuneration on 31 December 2019. For persons becoming members of the management on or after the rights issue, the applicable limit of the remuneration for such new member will be benchmarked to the remuneration of comparable managerial positions and areas of responsibility in Finnair applied on 31 December 2019. Finnair will not pay bonuses and other variable or comparable remuneration elements during the three fiscal years 2020–2022 to the members of the management.

Further, Finnair is committed to publishing information about the use of the aid received within 12 months from the date of the offering and thereafter periodically every 12 months, for a period of three years. In particular, this should include information on how the company's use of the aid received supports its activities in line with EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050.

State aid in hybrid loan

Finnair and the State of Finland signed an agreement in 17 March 2021 for a hybrid loan of a maximum of 400 million euros to support Finnair. The decision was made by the Plenary Session of the Government on 18 February 2021. The arrangement has the approval of the EU Commission's competition authority in line with the European Union's state aid rules. Of the credit limit, approximately 350 million euros can be used by Finnair based on the state aid decision made by the Commission on 12 March 2021. Finnair is able to access the funds, if its cash or equity position would drop below the limits to be defined in the facility's terms and conditions. The EU Commission's competition authority approved the remaining, ca. 50-million-euro share of the hybrid loan facility on 10 February 2022. Therefore, as disclosed also in the note 5.4 Events after the closing date, the whole 400 million euro hybrid loan facility is at the company's disposal according to the terms and conditions of the facility.

3.4 Contingent liabilities

EUR mill.	2021	2020
Guarantees on behalf of group companies	51.0	32.1
Total	**51.0**	**32.1**

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, 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 the risk management policy and risk management have been centralized to the parent company's treasury department.

For the management of foreign exchange, interest rate and jet fuel the company uses different derivative instruments, such as forward contracts, swaps and options. At inception, derivatives are designated as hedges of highly probable cash flows (cash flow hedges), hedges of firm orders (hedges of the fair value of firm commitments) or as financial derivatives where the hedging relationship does not qualify for hedge accounting (economic hedges). Finnair Group implements cash flow hedging through foreign exchange hedging of highly probable forecasted sales and costs denominated in foreign currencies and jet fuel price risk, in accordance with the hedge accounting principles of IFRS 9. 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 one year. The risk management policy states that hedging must be increased during each quarter of the year, so that the hedge ratio is maximum of 50 per cent, with target ratio being 25 per cent per quarter. 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.

The hedges of jet fuel consumption are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. During 2021, Finnair has hedged the jet fuel price risk in its entirety, without separating it into underlying risk components, such as crude oil price risk. However, Finnair has used proxy hedging for certain layer components of its jet fuel consumption, as described below.

In the hedging of jet fuel price risk, Finnair Group designates layer components of its jet fuel consumption as hedged items. The layer components are defined as jet fuel consumption linked to different jet fuel price benchmarks. The first layer is defined as jet fuel purchases based on the Jet Fuel CIF Cargoes NWE index, with consumption linked to other price benchmarks, notably Cargoes FOB Singapore, representing other layers. Since the Jet Fuel CIF Cargoes NWE index is used as the underlying of all jet fuel derivatives, they are designated as proxy hedges for consumption based on other price benchmarks. Therefore, ineffectiveness may arise if the correlation between the NWE index and the price benchmark for the underlying consumption is not high enough for the fair value changes in the hedged item and the hedging instrument to be exactly offsetting. Any ineffectiveness resulting from overhedging or insufficient correlation is recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls.

Update in financial risk management

The COVID-19 pandemic has continued to impact Finnair's business and therefore Finnair's hedging operations regarding foreign currency and jet fuel price risk during the years 2021 and 2020. The decrease in demand due to the COVID-19 pandemic meant that the amount of underlying risk was significantly lower than the forecasted amounts forcing Finnair to discontinue applying hedge accounting to the majority of its hedges in foreign currency and jet fuel. Updated risk management principles mainly concern the hedging horizon and hedging limits in jet fuel and foreign currency. The hedging horizon was lowered permanently from 24 months to 12 months for jet fuel and foreign currency and the lower bound of the hedging limits for jet fuel and foreign currency was lowered to zero. The higher bound of the hedging limit is set to 50% throughout the hedging horizon for jet fuel and foreign currency, while keeping the target level at 25%. Additionally, the balance sheet hedging limit was lowered to 0%, with the target level remaining at 50%.

Timing of the notional and hedged price	Hedged price $/tonne	Notional amount (tonnes)	Maturity Under 1 year	1 to 2 years
31 December 2021				
Jet fuel consumption priced with NWE index	625.0	68,000	66,000	2,000
Jet fuel consumption priced with SING index				
31 December 2020				
Jet fuel consumption priced with NWE index	527.7	237,423	227,423	10,000
Jet fuel consumption priced with SING index	609.8	2,577	2,577	

The average hedged price of the instruments hedging highly probable jet fuel purchases is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 625.0 US dollars per tonne for NWE consumption. Options excluded from hedge accounting are excluded.

At the end of the financial year, Finnair had hedged 8 per cent of its forecasted fuel purchases for the first six months of 2022 and 3 per cent of the purchases for the second half of the year. In the financial year 2021, fuel used in flight operations accounted for approximately one quarter of Group's turnover. At the end of the financial year, the forecast for 2022 is approximately 29 per cent of the Group's turnover. 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 59 million euro. On the closing date – taking hedging into account – a 10 per cent rise in the market price if jet fuel lowers the operating profit by around 57 million euro.

The COVID-19 pandemic continued to impact Finnair's business during the financial year 2021 and therefore Finnair's hedging operations regarding foreign currencies and jet fuel price risk. During the year 2021 all discontinued hedging relationships have matured and are no longer visible in Finnair's balance sheet and Finnair restarted its hedging operations in the last quarter of 2021.

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 purchases, aircraft lease liabilities, acquisition and divestment of aircraft, aircraft maintenance, overflight royalties and foreign currency revenue. About 46 per cent of the Group's revenue is denominated in euros. The most important foreign revenue currencies are the Japanese yen (9 per cent, percentage of revenue), the Chinese yuan (7 per cent), the US dollar (5 per cent) and the Swedish krona (4 per cent). Approximately 30 per cent Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 25 per cent of all operating costs. The most significant US dollar-denominated expense is fuel costs. 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 sales denominated in a number of different currencies and dollar-denominated expenses. Forecasted jet fuel purchases, aircraft materials and overhaul expenses and traffic charges form a group of similar items that are hedged with the same hedging instrument. The purpose of currency risk hedging – for cash flow exposure – is to reduce the volatility of cash flows and the 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 contracts are timed to mature when the cash flows from operating expenses are expected to be settled. 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 and the Hong Kong dollar. For both of these, the hedging horizon is one year, which is divided into four three-month periods. The maximum hedging ratio for the whole period is 50% and the minimum is 0% while maintaining the target hedging ratio at 25%.

The investment position includes all 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 IFRS 9 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 0–100% of net positions with target set in 50% in foreign currency denominated financial assets and financial liabilities exceeding 10 MEUR.

At the end of the financial year, Finnair had a hedge level for net operating cash flows of 9 per cent in the USD-basket and 2 per cent in JPY for the coming 12 months. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 12-month result of around 70 million euro and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on 12-month of around 21 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 67 million euro and a 10 per cent weakening of the Japanese yen weakens the result by around 21 million euro. In the above numbers, the USD-basket risk includes the Hong Kong dollar, which historical correlation with the US dollar is high. The hedge levels for balance sheet position at the end of the financial year were 57 per cent for USD and 94 per cent for Japanese yen. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the result of around 146 million euro and a 10 per cent strengthening of the Japanese yen against the euro has a negative impact of around 6 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 64 million euro and a 10 per cent strengthening of the Japanese yen weakens the result by around 0.3 million euro.

Timing of the notional EUR mill. 31 December 2021	Notional amount (gross)	Maturity Less than 1 year	1 to 2 years	2 to 4 years
USD	724.7	570.5	67.8	86.4
JPY	54.9	54.9		

Cross-currency interest rate swaps are included in the nominal amount calculation.

Foreign exchange P&L exposure EUR mill. 31 December 2021	JPY	USD-basket
Net forecasted operating cash flows, next 24m	546.8	-1,461.8
Net operating cash flow hedges, next 24m	-5.0	57.0
Weighted average exchange rate of hedging instruments against the euro	121.09	1.14
Foreign exchange exposure from operating cash flows after hedging, next 24m	**541.9**	**-1,404.8**

The average exchange rate of the instruments hedging highly probable forecasted sales and purchases denominated in foreign currencies is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 1.14 for USD contracts and 119.60 for JPY instruments.

Foreign exchange balance sheet exposure EUR mill. 31 December 2021	JPY	USD
Net balance sheet items	-53.0	-1,134.0
Net hedges of balance sheet items	49.9	500.5
Weighted average exchange rate of hedging instruments against the euro	130.26	1.17
Foreign exchange exposure from balance sheet items after hedging	**-3.1**	**-633.5**

Foreign exchange investment exposure EUR mill. 31 December 2021	USD
Net investment position	-273.9
Net hedges of investment position	162.9
Weighted average exchange rate of hedging instruments against the euro	1.20
Foreign exchange exposure from investment position after hedging	**-111.0**

Foreign exchange P&L exposure EUR mill. 31 December 2020	JPY	USD-basket
Net forecasted operating cash flows, next 24m	474.8	-1,411.8
Net operating cash flow hedges, next 24m	-75.8	273.2
Weighted average exchange rate of hedging instruments against the euro	120.24	1.14
Foreign exchange exposure from operating cash flows after hedging, next 24m	**399.1**	**-1,138.6**

Foreign exchange balance sheet exposure EUR mill. 31 December 2020	JPY	USD
Net balance sheet items	-63.3	-943.6
Net hedges of balance sheet items	57.6	509.0
Weighted average exchange rate of hedging instruments against the euro	126.83	1.18
Foreign exchange exposure from balance sheet items after hedging	**-5.7**	**-434.6**

Foreign exchange investment exposure EUR mill. 31 December 2020	USD
Net investment position	-335.5
Net hedges of investment position	180.4
Weighted average exchange rate of hedging instruments against the euro	1.14
Foreign exchange exposure from investment position after hedging	**-155.1**

Interest rate risk

Interest rate risk means the cash flow, financial performance and balance sheet 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 36–72 months. On the closing date, the investment portfolio's interest rate re-fixing period was approximately 1 month and approximately 53 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 11.9 million euros and the interest expenses of the loan portfolio by approximately 3.3 million euros. The situation as of December 31 2020 is a reasonable representation of the conditions throughout the year given the current market environment.

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.

Timing of the notional and hedged price range EUR mill. 31 December 2020	Notional amount (gross)	Maturity Less than 1 year	 1 to 2 years	 2 to 4 years
Interest rate derivatives	280.3	126.0	67.8	86.4

Cross-currency interest rate swaps are included in the nominal amount calculation. Finnair has not entered into any interest rate derivatives on which it is paying a fixed rate.

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 the 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. Changes in the fair value of Group loans arises 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 1.2.3 and derivatives presented in note 3.8.

Liquidity risk

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

The COVID-19 pandemic has not had a direct impact on the basic principles of Finnair's liquidity risk management. However, due to the continued uncertainty in 2021 Finnair executed several financing transactions in order to secure liquidity levels. The most significant financing transactions during year 2021 were issuing a 400 million euro bond during the second quarter of 2021, completing a sale and leaseback arrangement for four of its Airbus A350 aircraft worth over 400 million dollars and completing a lease financing arrangement for one Airbus A350 aircraft worth over 100 million dollars during the years 2021–2022. Additionally, the State of Finland and Finnair agreed on a hybrid loan of maximum 400 million euros to support Finnair. The arrangement has the approval of the EU Commission's competition authority in line with the European Union's state aid rules. Of the credit limit, approximately 350 million euros can be used by Finnair if the conditions defined in the facility's terms and conditions are met. The EU Commission's competition authority approved on 10 February 2022 the remaining approximately 50-million-euro share of the hybrid loan facility. Therefore the whole 400 million euro hybrid loan facility is at the company's disposal according to the terms and conditions of the facility.

The Group's cash funds were 1265.7 million euro at the end of financial year 2021. Finnair Plc has a domestic commercial paper program of 200 million euro, which was not in use as of the closing date. Finnair announced on the last quarter of 2021 that it has retired its undrawn revolving credit facility of 175 million euros on 4 October 2021. The credit facility included a financial covenant based on adjusted gearing. As the facility is now retired the financial covenant is no longer in force.

Capital management

The aim of Finnair's capital management is to secure access to the capital markets at all times despite the volatile business environment, as well as to support future business development. Through maintaining an 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 dividends during an economic cycle.

The COVID-19 pandemic still impacts Finnair's business and therefore the balance sheet and capital structure. In order to mitigate possible future impacts the State of Finland and Finnair agreed on a hybrid loan of maximum 400 million euros to support Finnair. The arrangement has the approval of the EU Commission's competition authority in line with the European Union's state aid rules. Of the credit limit, approximately 350 million euros can be used by Finnair if the conditions defined in the facility's terms and conditions are met. The EU Commission's competition authority approved on 10 February 2022 the remaining approximately 50-million-euro share of the hybrid loan facility. Therefore the whole 400 million euro hybrid loan facility is at the company's disposal according to the terms and conditions of the facility. The development of the Group's capital structure is continuously monitored using the adjusted gearing ratio. 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 2021 was 321.8 per cent (153.2).

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the reserve would have been 2.6 million euro (6.6) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 2.6 million euro (6.6). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 3.3 million euro (9.9) and a 10 per cent stronger dollar would have had a positive impact of 3.3 million euro (5.2). In terms of Japanese yen, a 10 per cent stronger yen would have had a negative impact of 0.5 million euro (5.1), and a 10 per cent weaker level would have increased the balance of the fair value reserve by 0.5 million euro (5.1). The effect of change in interests to the fair value reserve in own equity is not material. 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	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2021				
Financial assets				
Receivables			3.3	3.3
Other financial assets		531.4		531.4
Trade receivables and other receivables			166.7	166.7
Derivatives	13.7	12.4		26.1
Cash and cash equivalents			734.3	734.3
Book value total	**13.7**	**543.8**	**904.3**	**1,461.8**
Fair value total	**13.7**	**543.8**	**904.3**	**1,461.8**
Financial liabilities				
Interest-bearing liabilities			1,427.9	1,427.9
Lease liabilities			1,381.0	1,381.0
Derivatives	0.3	0.1		0.4
Trade payables and other liabilities			181.5	181.5
Book value total	**0.3**	**0.1**	**2,990.4**	**2,990.9**
Fair value total	**0.3**	**0.1**	**2,999.5**	**2,999.9**

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2020				
Financial assets				
Receivables			3.1	3.1
Other financial assets		358.3		358.3
Trade receivables and other receivables			125.7	125.7
Derivatives	7.4	5.0		12.4
Cash and cash equivalents			465.3	465.3
Book value total	**7.4**	**363.3**	**594.1**	**964.9**
Fair value total	**7.4**	**363.3**	**594.1**	**964.9**
Financial liabilities				
Interest-bearing liabilities			1,162.5	1,162.5
Lease liabilities			1,016.2	1,016.2
Derivatives	46.1	53.6		99.7
Trade payables and other liabilities			84.5	84.5
Book value total	**46.1**	**53.6**	**2,263.2**	**2,362.9**
Fair value total	**46.1**	**53.6**	**2,261.1**	**2,360.7**

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 and 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, excluding bonds, is 219.9 million euro, and the book value is equivalent to the fair value, because the discount effect is not significant. The issued bond makes the most significant part of the loans valued at amortised cost. The senior bond maturing in 2022 was quoted at 99.729 and the senior bond maturing in 2025 was quoted at 101.154, which explains the difference between book value and fair value. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

A = Accounting principles

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 2021	Level 1	Level 2
Assets			
Financial assets at fair value			
Securities held for trading	531.4	512.4	19.0
Derivatives			
Currency and interest rate swaps and options	12.3		12.3
Currency derivatives	9.7		9.7
- of which in fair value hedge accounting	8.8		8.8
- of which in cash flow hedge accounting	0.8		0.8
Commodity derivatives	4.1		4.1
- of which in cash flow hedge accounting	4.1		4.1
Total	**557.5**	**512.4**	**45.1**
Liabilities			
Financial liabilities at fair value			
Derivatives			
Currency derivatives	0.2		0.2
- of which in cash flow hedge accounting	0.1		0.1
Commodity derivatives	0.2		0.2
- of which in cash flow hedge accounting	0.2		0.2
Total	**0.4**		**0.4**

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.

On the other hand, the fair values of Level 3 instruments are based on asset or liability input data that is not based on observable market information (unobservable inputs). The fair values are based on confirmations supplied by counterparties, based on generally accepted valuation models.

3.7 Offsetting financial assets and liabilities

EUR mill.	2021	2020
Derivative assets gross amounts	26.1	12.4
Amounts of financial assets presented in the balance sheet	**26.1**	**12.4**
Enforceable master netting agreement	-0.4	-11.8
Derivative assets net amount	**25.7**	**0.6**

EUR mill.	2021	2020
Derivative liabilities gross amounts	-0.4	-99.7
Amounts of financial liabilities presented in the balance sheet	**-0.4**	**-99.7**
Enforceable master netting agreement	0.4	11.8
Derivative liabilites net amount	**0.0**	**-87.9**

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 currency, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Group's balance sheet items, foreign currency denominated purchase agreements, anticipated foreign currency denominated purchases and sales as well as future jet fuel purchases. It is the Group's policy not to enter into derivative financial contracts for speculative purposes.

The derivatives are initially recognised as well as 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 cross-currency interest rate 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 nature of the risk being hedged. At inception, derivative contracts are designated as hedges of future cash flows, hedges of the fair value of recognised assets or liabilities and binding purchase contracts (cash flow hedges or fair value

A = Accounting principles
! = Critical accounting estimates

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 economic relationship and the hedge ratio 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 past and prospective 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 foreign currency risk of lease payments and the foreign currency risk of highly probable future sales and costs denominated in foreign currencies. The IFRS fair value hedge accounting principles are applied to the hedging of foreign exchange and interest rate risk of aircraft.

The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in comprehensive income and presented within equity in the fair value reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. 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 a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the consolidated income statement.

The effectiveness of hedging is tested on a quarterly basis. The effective portion of the 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, and in order to hedge the fixed interest rate bond. 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 in profit and loss.

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 amortized 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. Unrealised gains and losses on derivatives hedging jet fuel, which are designated as cash flow hedges and fulfil the requirements of IFRS hedge accounting, are recognised in the hedging reserve within 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 as a result the IFRS hedge accounting criteria are not fulfilled, the fair value changes and the accrued gains and losses reported in shareholders' equity are transferred to the items affecting comparability in the income statement. 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.

For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument as the hedging instrument and the hedged item are expected to move in opposite directions because of the same underlying exposure. This is true for all hedge relationships except for the SING consumption hedged with NWE hedges (as described in section 3.5). In that case, the underlying is different, but the underlying hedged item (SING) and the hedge (NWE) have a historical correlation of 0.99. Therefore, it can be classified as a relationship where the underlying and the hedge are economically closely related. Ineffectiveness on fuel derivatives can also arise from timing differences on the notional amount between the hedged instrument and hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying fuel consumption forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100% of its exposure, the risk of overhedging is insignificant. Finnair has established a hedge ratio of 1:1 for hedging relationships.

Finnair uses forward contracts and options to hedge its exposure to foreign currency denominated cash flows. The hedges of cash flows denominated in foreign currencies are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. Unrealised gains and losses on hedges of forecasted cash flows qualifying for hedge accounting are recognised in the hedging reserve in OCI, while the change in the fair value of such hedges 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. The change in fair value recognised in the hedging reserve in equity is transferred to the income statement when the hedged transaction is realised. Forward points are included in the hedging instrument and in the hedge relationship. Potential sources of ineffectiveness include changes in the timing of the hedged item, significant changes in the credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying cash flow forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100% of its exposure, the risk of overhedging is insignificant. Realised profit or loss on derivatives hedging JPY-denominated operating cash flows is presented in revenue, realised profit or loss on derivatives hedging a group of similar USD costs is proportionally recognised in corresponding expense lines, while profit or loss on derivatives hedging cash flows denominated in other currencies is presented in Other expenses.

The hedge ratio is defined as the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting. With currency hedging, the hedge ratio is typically 1:1. For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument as there is an expectation that the value of the hedging instrument and the value of the hedged item would move in opposite directions because of the common underlying exposure.

Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in financial income and expenses in the income statement. 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 the realised result of hedges of assets held for sale are recognised in Items affecting comparability.

Cost of hedging

At Finnair, the time value of an option is excluded from the designation of a financial instrument and accounted for as a cost of hedging. Upon initial recognition, Finnair defers any paid premium in the cost of hedging reserve within other comprehensive income. The fair value changes of the time value are recognised in the cost of hedging reserve within other comprehensive income. The premium will be transferred to the consolidated income statement in the same period that the underlying transaction affects the consolidated income statement for transaction-related hedges. As of 31 December 2021, Finnair has deferred premiums only on transaction-related hedges.

Impact of COVID-19 to hedge accounting and derivatives

Due to the COVID-19 pandemic impacts on Finnair's underlying business during 2020 and 2021, the hedging operations regarding foreign exchange currencies and jet fuel price risk were impacted. Much lower demand as a result of the COVID-19 pandemic during the year 2020 meant that the amount of underlying risk was significantly reduced from forecasted amounts forcing Finnair to discontinue hedge accounting on the majority of its hedges in foreign exchange and jet fuel that were under hedge accounting. The last discontinued hedging relationships matured during the last quarter of 2021 and the realized gains or losses are shown in financial income and expenses. In the last quarter of 2021 Finnair restarted its hedging program in foreign exchange as well as jet fuel according to the revised risk management policy. More information about the revised risk management policy can be found in note 3.5. A

! Critical accounting estimates and sources of uncertainty

Finnair accounts for its cash flow hedges of forecasted foreign currency denominated purchases and sales and future jet fuel purchases in accordance with the IFRS 9. Under the hedge accounting principles, a forecast transaction can be designated as a hedged item only if that transaction is considered as highly probable. The evaluation of probability is based on the management forecasts about the future level of Finnair's operations and cash flows. Such forecasts require the use of management judgement and assumptions, which inherently contain some degree of uncertainty that is further increased due to the COVID-19-pandemic. Should the expected circumstances or outcome change in the future, the management would need to reassess whether a hedged forecast transaction is still highly likely to occur. This could be the case if, for example, the expected recovery and thus the expected jet fuel consumption levels would not realize as expected. Should the forecast transaction no longer be highly probable, it would no longer qualify as an eligible hedged item and hedge accounting would need to be discontinued. Should it no longer be expected to occur at all, the balance of the cash flow hedge reserve included in other comprehensive income would need to be reclassified to profit or loss. !

	2021				2020			
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								
Operational cash flow hedging (forward contracts)	57.4	0.8	-0.1	0.7	268.4	4.2	-13.1	-8.8
Operational cash flow hedging, bought options	4.5	0.0		0.0	80.5	0.0		0.0
Operational cash flow hedging, sold options	4.3		0.0	0.0	74.3		-1.9	-1.9
Fair value hedging of aircraft acquisitions	162.9	8.8		8.8	180.4		-13.8	-13.8
Hedge accounting items total	**229.2**	**9.6**	**-0.1**	**9.5**	**603.7**	**4.3**	**-28.8**	**-24.5**
Operational cash flow hedging (forward contracts)					173.9	4.1	-3.1	1.0
Operational cash flow hedging, bought options					20.3	0.1		0.1
Operational cash flow hedging, sold options					20.3	0.0	-0.1	-0.0
Balance sheet hedging (forward contracts)	270.1	0.1	-0.1	0.0	267.1	0.1	-0.5	-0.4
Items outside hedge accounting total	**270.1**	**0.1**	**-0.1**	**0.0**	**481.6**	**4.4**	**-3.7**	**0.7**
Currency derivatives total	**499.3**	**9.7**	**-0.2**	**9.5**	**1,085.3**	**8.6**	**-32.5**	**-23.8**
Commodity derivatives								
Jet fuel forward contracts, tonnes	68,000	4.1	-0.2	3.9	240,000	3.2	-17.3	-14.2
Hedge accounting items total		**4.1**	**-0.2**	**3.9**		**3.2**	**-17.3**	**-14.2**
Jet fuel forward contracts, tonnes					336,000	0.6	-31.1	-30.5
Items outside hedge accounting total						**0.6**	**-31.1**	**-30.5**
Commodity derivatives total		**4.1**	**-0.2**	**3.9**		**3.8**	**-48.4**	**-44.6**
Cross currency interest rate swaps	280.3	12.3		12.3	286.0		-18.8	-18.8
Items outside hedge accounting total	**280.3**	**12.3**		**12.3**	**286.0**	**0.0**	**-18.8**	**-18.8**
Interest rate derivatives total	**280.3**	**12.3**		**12.3**	**286.0**	**0.0**	**-18.8**	**-18.8**
Derivatives total *		**26.1**	**-0.4**	**25.7**		**12.4**	**-99.7**	**-87.2**

* Positive (negative) fair value of hedging instruments as of 31.12.2021 is presented in the statement of financial position in the item derivative financial instruments within current assets (derivative financial instruments within current liabilities). Uncertainty and discontinued hedging relationships due to the COVID-19 pandemic have impacted the amount of hedging Finnair has done during the last two years. During the last quarter of 2021 Finnair restarted its hedging program under the revised risk management policy.

Hedged items in hedge relationships

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months	Changes in fair value of the hedging instrument used for calculating hedge ineffectiveness, previous 12 months
31 December 2021	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Jet fuel price risk							
- Forecasted jet fuel purchases						-321.9	28.3
Foreign exchange risk							
- Forecasted sales and purchases						-91.8	10.7
Fair value hedges							
Foreign exchange risk							
- Aircraft acquisitions	-8.8		-8.8		Non-current assets	-25.6	3.5

Ratings of derivative counterparties

EUR mill.	2021	2020
Better than A	9.1	-18.9
A	16.6	-54.1
BBB		-14.2
Total	**25.7**	**-87.2**

Derivatives realised through profit and loss

EUR mill.		2021	2020
Jet fuel hedging	Fuel costs	7.6	-73.5
Hedging of lease payments	Financial expenses		1.7
Operational cash flow hedging	Fuel costs	-4.2	12.1
Operational cash flow hedging	Aircraft materials and overhaul	-0.2	2.1
Operational cash flow hedging	Traffic charges	-1.0	4.0
Operational cash flow hedging	Revenue	2.4	-1.8
Expenses of hedge accounting items total		**4.5**	**-55.4**
Discontinued Jet fuel hedging	Financial expenses	-26.5	-111.8
Balance sheet hedging	Financial expenses	15.5	-40.3
Discontinued foreign currency hedging	Financial expenses	3.4	-5.4
Cross-currency interest rate swaps	Financial expenses	2.3	1.9
Expenses of items outside hedge accounting total		**-5.3**	**-155.6**

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.

The rights issue proceeds from 2020 less the transaction costs has been recognized 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, cost of hedging 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 approved 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. Finnair is not required to redeem the hybrid bond at any time and they are not redeemable on demand of the holders of the hybrid bond. Interest expenses are debited from retained earnings on cash basis net of tax. In the calculation of earnings per share, interest expenses for the hybrid bond are included in the earnings for the financial year. A

The financial year 2021 remained highly challenging for the global aviation industry and was the second annual reporting period severely impacted by the Covid-19 pandemic. The continued losses resulting from the COVID-19 pandemic also had an impact on the consolidated balance sheet where the Group's equity declined to 475.5 million euro (896.6). Despite the challenging times during the COVID-19 pandemic Finnair is determined to continue on its long-term strategic path despite the adjustments made related to the COVID-19 pandemic, and aims to ensure that the Company remains a competitive airline company in the future. The company's management believes that air traffic will, upon expiration of the COVID-19 pandemic related travel restrictions, still be a growth business, in which Finnair targets sustainable, profitable growth, supported by a strategy based on a competitive geographical advantage and strong ownership structure.

Number of shares	2021	2020
Number of outstanding shares in the beginning of the financial year	1,407,230,605	127,583,802
Share issue		1,279,265,150
Purchase of own shares	-1,800,000	
Shares granted from the share-bonus scheme 2018–2020	36,903	
Shares granted from the share-bonus scheme 2017–2019		269,774
Shares granted from FlyShare employee share savings plans	512,624	111,879
Number of outstanding shares at the end of the financial year	**1,405,980,132**	**1,407,230,605**
Own shares held by the parent company	1,421,133	170,660
Total number of shares at the end of the financial year	**1,407,401,265**	**1,407,401,265**

Finnair Plc's share capital, paid in its entirety and registered in the trade register, was at 75,442,904.30 euros at the end of 2020 and 2021. The shares have no nominal value. During the year 2021, Finnair transferred a total of 512,624 shares to FlyShare participants and a total of 36,903 shares to participants in Finnair's share-based incentive scheme 2018-2020.

Group's hedging reserve and other OCI items

EUR mill.	2021	Amounts reclassified to profit or loss	Unrealised gains and losses recognised in OCI	Discontinued hedges reclassified to financial expenses	Change in accounting principles	2020	Line item affected in profit or loss because of the reclassification
Jet fuel price hedging	3.9	-7.6	29.6	-4.0		-14.2	Fuel costs
Operating cash flow hedging	0.7	3.1	10.3	-2.4		-10.2	Revenue and cost lines*
Hedging of interest related to future lease payments	-4.3	0.7				-5.0	Lease payments for aircraft
The actuarial gains and losses of defined benefit plan	20.5		43.0			-22.5	
Cost of hedging reserve	0.0		0.4			-0.4	
Tax effect	-4.2		-14.6			10.5	
Total	**16.6**	**-3.8**	**68.7**	**-6.4**	**0.0**	**-41.8**	

*Forward and option contracts hedging forecasted sales and purchases denominated in foreign currencies are hedges of a group of similar hedged items, and the amounts reclassified from OCI to P&L are proportionally allocated to different cost lines based on the realised cost amounts. Amounts reclassified to revenue and different cost lines are specified in the table "Derivatives realised through profit or loss" in section 3.8.

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2022	2023	2024	2025	2026	Later	Total
Jet fuel price hedging	3.8	0.1					3.9
Operating cash flow hedging	0.7						0.7
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-4.3
The actuarial gains and losses of defined benefit plan	20.5						20.5
Cost of hedging reserve	0.0						0.0
Tax effect	-4.9	0.1	0.1	0.1	0.1	0.1	-4.2
Total	**19.4**	**-0.5**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**16.6**

A = Accounting principles

Hybrid bond

Shareholders' equity (after equity belonging to the owners) includes a 200 million euro hybrid bond that was issued during the third quarter of 2020. The hybrid bond coupon is fixed at 10.25 per cent per year for the first three years, and thereafter fixed, at 15.25 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 three years and on every interest payment date thereafter. The overall hybrid bond net position recognised in equity is 198 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.

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, as well as transaction costs of the new hybrid bond issued and premium paid, when a hybrid bond is redeemed. When calculating the earnings per share adjusted for dilution, the weighted average of the number of shares takes into account the diluting effect resulting the conversion into shares all potentially diluting shares. Finnair has not granted any options.

EUR mill.	2021	2020
Result for the financial year, EUR mill.	-464.5	-523.2
Hybrid bond interest, EUR mill.	-20.5	-17.9
Premium paid related to redemption of the hybrid bond issued in 2020	0.0	-1.3
Transaction costs of the hybrid bond issued in 2020	0.0	-2.7
Tax effect	4.1	4.4
Adjusted result for the financial year	**-480.9**	**-540.7**
Weighted average number of shares, mill. Pcs	1,406.1	1,052.0
Basic earnings per share, EUR	-0.34	-0.51
Diluted earnings per share, EUR	-0.34	-0.51
Effect of own shares, EUR	0.00	0.00

Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2021. In accordance with the proposal of the Board of Directors, the Annual General Meeting on 17 March 2021 resolved that no dividend be paid based on the balance sheet adopted for the year 2020.

Finnair Plc's distributable equity

EUR mill.	2021
Retained earnings at the end of financial year	-391.7
Unrestricted equity	772.4
Result for the financial year	-307.0
Distributable equity total	**73.7**

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, 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, the consolidation method and classification of ownership interests depend on whether Group has power to control or jointly control the entity or if it has significant influence or other interests in the entity. When Group has the power to control the entity, it is consolidated as a 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 the power to control, an entity is accounted for by using the 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.

4.2 Subsidiaries

A Consolidation principles of subsidiaries

Finnair Plc's consolidated financial statements include the parent company Finnair Plc and all of 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 acquirer'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

i = Content of the section
A = Accounting principles

A = Accounting principles

Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
Finnair Cargo Oy, Finland	100.0	Balticport Oü, Estonia	100.0
Finnair Aircraft Finance Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Technical Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Suomi	100.0
Finnair Engine Services Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Finnair Kitchen Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Kiinteistö Oy Lentokonehuolto, Finland	100.0	FTS Financial Services Oy, Finland	100.0
Northport Oy, Finland	100.0	Finnair Business Services Oü, Estonia	100.0

4.3 Acquisitions and disposals

During 2021, Finnair sold its 49.5% share of Suomen Ilmailuopisto Oy to the city of Pori and to the Government of Finland. The transaction had no material effect on Finnair's profitability. There were no business acquisitions or disposals during 2020.

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 rights 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 recognized 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.	2021	2020
At the beginning of the financial year	2.5	2.5
Disposals	-2.4	
At the end of the financial year	**0.0**	**2.5**

During 2021, Finnair sold its 49.5% share of Suomen Ilmailuopisto Oy. There were no changes in 2020. 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 31 Dec 2021

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/Loss	Holding %
Nordic Regional Airlines AB	Sweden	98.0	97.3	70.3	2.1	40.00

Information on the Group's associates and joint ventures 31 Dec 2020

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/Loss	Holding %
Nordic Regional Airlines AB	Sweden	103.2	104.7	86.6	-2.0	40.00
Suomen Ilmailuopisto Oy*	Finland	19.9	1.3	9.3	0.4	49.50

* The presented figures have been adjusted according to the final and audited financial statements of 2020.

The result of associated companies and joint ventures for 2021 was 2.1 (-1.6) million euros, of which Finnair's share was 0.0 (0.0) million euros.

Nordic Regional Airlines AB

Nordic Regional Airlines AB (Norra) operates mainly purchased traffic for Finnair. The owners (Finnair 40% and Danish Air Transport 60%) have joint control over the entity. In the balance sheet of Finnair, Norra has been classified as a joint venture.

4.5 Related party transactions

Related parties of the 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.

The State of Finland which has control over Finnair owns 55.9% (55.9%) of Finnair's shares. During financial year 2020 the State of Finland participated in the rights issue in proportion to its holding by 286.1 million euro and guaranteed Finnair's pension premium loan up to 540 million euro. The European Commission concluded that these transactions, in combination, constituted state aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. The conditions relating to the state aid approval are described in the note 3.3. All the transactions with other government owned companies and other related parties are on arm's length basis, and are on similar terms than transactions carried out with independent parties.

The following transactions have taken place with associated companies, joint ventures and Finnair pension fund:

EUR mill.	2021	2020
Sales of goods and services		
Associates and joint ventures	18.2	28.4
Pension fund	0.1	0.4
Employee benefits		
Pension fund	-7.4	-121.5
CEO and Executive Board	4.6	3.9
The Board of Directors	0.4	0.4
Purchases of goods and services		
Associates and joint ventures	73.0	88.2
Pension fund	2.0	1.9
Financial income and expenses		
Associates and joint ventures	1.6	2.8
Pension fund	0.1	-0.6
Receivables		
Non-current receivables from associates and joint ventures	2.4	19.6
Non-current receivables from pension fund	78.9	31.0
Current receivables from associates and joint ventures	14.5	15.9
Liabilities		
Non-current liabilities to associates and joint ventures	2.8	3.6
Current liabilities to associates and joint ventures	3.3	2.1

Employee benefits and non-current receivables from pension fund are related to defined benefit pension plans in Finnair pension fund. These are described more detailed in the note 1.3.8.2. Management remuneration is presented in note 1.3.8. Management has not been granted any loans and there have 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 2021 and 2020 Finnair did not pay any contributions to the fund. Pension asset was 78.9 million euros (31.0) at the end of the financial year.

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 and depreciation, right-of-use assets, lease liabilities and tax losses. Deferred tax is recognised for foreign subsidiaries' undistributed earnings only when related tax effects are probable.

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

! **Deferred taxes**

Recognition of deferred tax asset is based on management estimates and require the use of management judgement in order to assess whether there will be sufficient taxable profits flowing to the company in the future. The expectations used in the calculation are based on the latest management forecasts at the reporting date and use assumptions that are consistent with those used elsewhere in the financial statements. Due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the management has considered alternative forecast scenarios that have been sensitised to reflect plausible variations relating to the expected pace of the recovery of the Finnair business. The scenarios have been discussed in more detail early in the beginning of the notes section under Board's assessment of Finnair as a going concern. Finnair expects to be able to use the tax losses in advance of 10 years expiry date under all of the forecast scenarios. !

Income taxes

EUR mill.	2021	2020
Taxes for the financial year		
Current tax		
Adjustments recognised for current tax of prior periods		-3.4
Deferred taxes	117.6	134.5
Total	**117.6**	**131.1**

In 2020, Finnair Aircraft Finance Oy recognized an adjustment for prior year deferred taxes, which caused additional payable taxes of 3.4 million euro relating to the financial year 2019.

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

The reconciliation of income taxes to theoretical tax cost calculated at Finnish tax rate

EUR mill.	2021	2020
Result before taxes	-581.9	-654.4
Taxes calculated using the Finnish tax rate 20%	116.4	130.9
Different tax rates of foreign subsidiaries	0.0	0.1
Tax-exempt income	1.3	0.3
Non-deductible expenses	-0.2	-0.2
Adjustments recognised for taxes of prior periods	0.1	0.1
Income taxes total	**117.6**	**131.1**
Effective tax rate	-20.2 %	-20.0%

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 IAS 12 standard. The deferred tax assets and liabilities are shown net on the balance sheet.

Changes in deferred taxes during 2021:

EUR mill.	2020	Recognised in the income statement	Recognised in shareholders' equity	2021
Deferred tax assets and liabilities				
Confirmed losses	141.5	71.0	4.1	216.6
Defined benefit pension plans	-6.2	-1.4	-8.6	-16.1
Property, plant and equipment	-83.9	15.7		-68.2
Leases	17.1	25.7		42.8
Valuation of derivatives at fair value	6.0		-6.0	-0.1
Other temporary differences	10.3	6.5		16.9
Total	**84.8**	**117.6**	**-10.5**	**191.9**

Finnair's taxable result continued to be highly negative in year 2021 as a result of the impact of the COVID-19 pandemic on its operations and financial performance and the Group has recognized a deferred tax asset of 191.9 million euro. The amount of confirmed tax losses after the 2020 taxable result totals to 706 million euros, which will expire in 2030. The estimated amount of confirmed tax losses for the 2021 taxable result totals to approximately 376 million euros, which will expire in 2031. Finnair expects that these can be used against its future taxable results. The assessment is based on Finnair's latest management forecasts that consider different plausible scenarios relating to the expected pace of the recovery. Finnair would be able to use the tax losses in advance of the 10 years expiry date under all of the forecast scenarios. This is based on both the expected future profits and allowed tax planning methods available to Finnair. In 2020, Finnair recognized a deferred tax asset balance of 84.8 million euro.

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 2020:

EUR mill.	2019	Recognised in the income statement	Recognised in shareholders' equity	2020
Deferred tax assets and liabilities				
Confirmed losses	0.0	135.6	5.9	141.5
Defined benefit pension plans	15.3	-24.1	2.6	-6.2
Property, plant and equipment	-116.4	32.5		-83.9
Leases	30.7	-13.6		17.1
Valuation of derivatives at fair value	0.0		6.0	6.0
Other temporary differences	6.1	4.2		10.3
Total	**-64.3**	**134.5**	**14.5**	**84.8**

5.2 Disputes and litigation

Finnair reports only cases of which the interest is material and that are not insured. As of 31 December 2021 there were no such disputes pending.

5.3 Events after the closing date

The increased uncertainty related to the COVID-19 pandemic is still evolving and will have a significant impact on Finnair's operating environment also after the review period. In addition, the price of fuel is subject to higher than average uncertainty at the time of the publication of the financial statements, which is further increased by the intensified geopolitical situation in Eastern Europe. The escalation and prolongation of the geopolitical situation in Eastern Europe could have a strongly negative effect not only on the price of fuel, but also on the usage of airspace, routings and costs of Finnair's flights to Asia.

Finnair announced on 17 March 2021 that the company and the State of Finland had signed an agreement on a hybrid loan of maximum 400 million euros to support Finnair. The company also stated that of this credit limit, approximately 350 million euros can be used by Finnair based on the state aid decision made by the European Commission on 12 March 2021 and that the remaining approximately 50-million-euro share will be brought to approval by the Commission at a later stage. Finnair announced on 17 February 2022, that the Commission has approved the remaining 50-million-euro share. The company is able to access the funds, if its cash or equity position would drop below the limits to be defined in the facility's terms and conditions.

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2021	2020
Revenue	6.2	**814.5**	**791.9**
Other operating income	6.3	66.6	84.1
Operating income		**881.1**	**876.0**
Materials and services	6.4	547.0	574.3
Staff expenses	6.5	163.1	183.7
Depreciation and reduction in value	6.6	15.8	18.4
Other operating expenses	6.7	761.7	812.2
Operating expenses		**1,487.5**	**1,588.6**
Operating profit/loss		**-606.5**	**-712.6**
Financial income and expenses	6.8	-24.9	-189.8
Profit/loss before appropriations and taxes		**-631.4**	**-902.4**
Appropriations	6.9	245.9	194.6
Income taxes	6.10	78.5	141.8
Profit/loss for the financial year		**-307.0**	**-566.0**

Finnair Plc balance sheet

EUR mill.	Note	2021	2020
ASSETS			
Non-current assets			
Intangible assets	6.11	27.1	35.3
Tangible assets	6.12	88.7	93.5
Investments			
Holdings in group undertakings		653.6	640.6
Participating interests		0.0	2.5
Other shares and similar rights of ownership		0.4	0.4
Loan and other receivables	6.14	1.8	218.2
Total investments	6.13	**655.8**	**861.6**
Deferred tax assets	6.15	220.0	147.4
Total non-current assets		**991.7**	**1,137.9**
Current assets			
Current receivables	6.16	627.6	303.5
Marketable securities	6.17	531.4	358.3
Cash and bank equivalents	6.18	734.1	464.2
Total current assets		**1,893.1**	**1,126.0**
TOTAL ASSETS		**2,884.8**	**2,263.9**
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		772.4	772.0
Legal reserve		147.7	147.7
Hedging reserve		3.7	-19.8
Retained earnings		-391.7	175.5
Profit/loss for the financial year		-307.0	-566.0
Total equity	6.19	**325.2**	**609.5**
Accumulated appropriations	6.20	19.5	21.0
Provisions	6.21	182.4	155.9
Liabilities			
Non-current liabilities	6.22	914.4	1,002.1
Current liabilities	6.23	1,443.3	475.3
Total liabilities		**2,357.7**	**1,477.4**
EQUITY AND LIABILITIES TOTAL		**2,884.8**	**2,263.9**

Finnair Plc cash flow statement

EUR mill.	2021	2020
Cash flow from operating activities		
Result before appropriations	-631.4	-902.4
Depreciation	15.8	18.4
Other non-cash transactions	19.5	-5.6
Financial income and expenses	30.8	189.8
Changes in working capital	183.1	-512.0
Interest and other financial expenses paid	-82.1	-199.9
Received interest and other financial income	17.1	39.1
Income taxes paid		-3.0
Cash flow from operating activities	**-447.4**	**-1,375.6**
Cash flow from investing activities		
Investments in intangible and tangible assets	-6.0	-23.9
Proceeds from sales of tangible assets	3.1	
Change in loan and other receivables	12.9	180.6
Investments in subsidiaries	-13.0	
Proceeds from sales of associates and joint ventures	8.3	
Received dividends	0.0	0.0
Cash flow from investing activities	**5.2**	**156.7**
Cash flow from financing activities		
Purchase of own shares	-1.1	
Proceeds from loans	400.0	775.0
Loan repayments and changes	296.6	-229.8
Proceed from share issues		511.7
Proceeds from hybrid bond		200.0
Hybrid bond repayments		-200.0
Received and given group contributions	189.6	34.1
Cash flow from financing activities	**885.1**	**1,091.0**
Change in cash flows	**443.0**	**-127.9**
Change in liquid funds		
Liquid funds, at beginning	822.5	950.4
Change in cash flows	443.0	-127.9
Liquid funds, at end	**1,265.5**	**822.5**

Notes to Finnair Plc financial statements

6.1 Accounting principles

General

Finnair Plc is the parent company of the Finnair Group, domiciled in Helsinki, Finland. Financial statements have been prepared in accordance with accounting principles required by Finnish law.

Foreign currency items

Transactions denominated in foreign currencies are translated into functional currency by using the exchange rates prevailing on the date of the transaction. Receivables and liabilities on the balance sheet 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 group level, except for Finnair Aircraft Finance that has hedged its own exposures. 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 recognized 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 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 recognized 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 economic relationship and the hedge ratio 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 past and prospective 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 items current assets and current liabilities.

Finnair implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the foreign currency risk of foreign currency denominated purchases and sales, the price risk of jet fuel purchases 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: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the contractual cash flows of the investment. 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 assets and liabilities. Investments in debt securities 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. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Derecognition of financial assets takes place when Finnair has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the company.

Finnair recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under 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.

Fixed assets and depreciation

- Buildings, 10–50 years from the time of acquisition to a residual value of 10%.
- Other tangible assets, over 3–15 years

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 is shown as accumulated appropriations in the balance sheet and the 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.	2021	2020
Revenue by division		
	814.5	**791.9**
Passenger revenue	440.1	561.4
Ancillary services	39.7	52.8
Cargo revenue	334.8	178.6
Distribution of turnover by market areas based on flight routes, % of turnover		
Finland	8%	9%
Europe	37%	36%
Other countries	55%	55%
Total	**100%**	**100%**

6.3 Other operating income

EUR mill.	2021	2020
Aircraft lease income	20.6	28.0
Other rental income	20.0	23.5
Other income	25.9	32.6
Total	**66.6**	**84.1**

6.4 Materials and services

EUR mill.	2021	2020
Materials and supplies		
Ground handling and catering expenses	117.3	116.6
Fuel costs	211.4	232.7
Aircraft materials and overhaul	179.8	165.6
IT expenses	10.8	11.5
Other items	27.7	48.0
Total	**547.0**	**574.3**

6.5 Staff costs

EUR mill.	2021	2020
Wages and salaries	139.8	168.9
Pension expenses	22.7	27.3
Other social expenses	0.5	-12.5
Total	**163.1**	**183.7**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.3	1.0
Board of Directors	0.4	0.4
Personnel on average	4,248	4,852

6.6 Planned depreciation and amortisation

EUR mill.	2021	2020
On other long-term expenditure	11.5	13.4
On buildings	1.0	1.0
On other equipment	3.3	4.0
Total	**15.8**	**18.4**

6.7 Other operating expenses

EUR mill.	2021	2020
Lease payments for aircraft	418.1	442.6
Other rents for aircraft capacity	71.4	89.2
Office and other rents	27.8	29.9
Traffic charges	120.4	112.4
Sales and marketing expenses	33.7	24.5
Other expenses	90.4	113.6
Total	**761.7**	**812.2**

Audit fees in other expenses

EUR mill.	2021	2020
Authorised Public Accountants	**KPMG**	**KPMG**
Auditor's fees	0.1	0.4
Tax advising		0.1
Other fees	0.1	0.1
Total	**0.2**	**0.6**

6.8 Financial income and expenses

EUR mill.	2021	2020
Dividend income		
From other companies	0.0	0.0
Total	**0.0**	**0.0**
Interest income		
From group companies	5.5	7.0
From other companies		
Net gains on debt instruments held mandatorily at FVPL	-0.4	3.3
Other interest income	0.0	0.1
Total	**5.0**	**10.4**
Gains on disposal of shares	5.9	
Interest expenses		
To other companies	-46.0	-28.5
Total	**-46.0**	**-28.5**
Other financial income		
Financial income from discontinued hedges	11.6	32.0
Total	**11.6**	**32.0**
Other financial expenses		
Financial expenses for discontinued hedges	-5.2	-168.3
Other	-19.1	-31.1
Total	**-24.3**	**-199.4**
Exchange gains and losses	22.9	-4.3
Financial income and expenses total	**-24.9**	**-189.8**

6.9 Appropriations

EUR mill.	2021	2020
Change in depreciation difference	1.5	5.0
Received group contribution	244.3	189.6
Total	**245.9**	**194.6**

6.10 Income taxes

EUR mill.	2021	2020
Income tax for the financial year	70.8	138.2
Change in deferred taxes	7.6	3.6
Total	**78.5**	**141.8**

6.11 Intangible assets

EUR mill.	2021	2020
Other long-term expenditure		
Acquisition cost 1 January	85.4	77.8
Additions	4.6	7.9
Disposals	-3.9	-0.3
Reclassification	-1.2	
Acquisition cost 31 December	**84.9**	**85.4**
Accumulated depreciation 1 January	-50.1	-37.0
Disposals	3.6	0.3
Depreciation and reduction in value	-11.3	-13.4
Accumulated depreciation 31 December	**-57.7**	**-50.1**
Book value 31 December	**27.1**	**35.3**
Intangible assets Total 31 December	**27.1**	**35.3**

6.12 Tangible assets

Tangible assets 2021

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.3	54.5	7.2	116.7
Additions			7.9	0.2	8.1
Reclassification		0.9			0.9
Disposals	0.0	-1.1	-2.4	-6.6	-10.2
Acquisition cost 31 December	**0.7**	**54.2**	**59.9**	**0.8**	**115.6**
Accumulated depreciation 1 January		-6.3	-17.0		-23.2
Disposals		0.6	0.0		0.6
Depreciation and reduction in value		-1.0	-3.3		-4.3
Accumulated depreciation 31 December		**-6.7**	**-20.2**		**-26.9**
Book value 31 December	**0.7**	**47.5**	**39.7**	**0.8**	**88.7**
The share of machines and equipment in the book value of tangible assets 31 December			42.3 %		

Tangible assets 2020

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.3	43.6	5.1	103.8
Additions			13.9	6.6	20.5
Disposals			-3.1	-4.5	-7.6
Acquisition cost 31 December	**0.7**	**54.3**	**54.5**	**7.2**	**116.7**
Accumulated depreciation 1 January		-5.2	-16.0		-21.3
Disposals			1.6		1.6
Depreciation and reduction in value		-1.0	-2.5		-3.5
Accumulated depreciation 31 December		**-6.3**	**-17.0**		**-23.2**
Book value 31 December	**0.7**	**48.1**	**37.5**	**7.2**	**93.5**
The share of machines and equipment in the book value of tangible assets 31 December			39.9%		

6.13 Investments

EUR mill.	2021	2020
Group companies		
Acquisition cost 1 January	640.6	440.6
Additions	13.0	200.0
Book value 31 December	**653.6**	**640.6**
Associates and joint ventures		
Acquisition cost 1 January	2.5	2.5
Disposals	-2.4	
Book value 31 December	**0.0**	**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 %
Nordic Regional Airlines AB, Sweden	40.00

Group companies	Share of parent company %		Share of parent company %
Finnair Cargo Oy, Finland	100.00	Kiinteistö Oy Lentokonehuolto, Finland	100.00
Finnair Aircraft Finance Oy, Finland	100.00	Amadeus Finland Oy, Finland	95.00
Northport Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.00
Finnair Technical Services Oy, Finland	100.00	FTS Financial Services Oy, Finland	100.00
Finnair Engine Services Oy, Finland	100.00	Finnair Business Services OÜ, Estonia	100.00
Finnair Kitchen Oy, Finland	100.00		

On 1 July 2021, Finnair Plc sold its 49.5% share of Suomen Ilmailuopisto Oy to the city of Pori and to the Government of Finland. On 16 December 2021 Finnair Plc increased its investments to Oy Aurinkomatkat - Suntours Ltd Ab, Finland by 9,000,000 euro and to Finnair Kitchen Oy, Finland by 4,000,000 euro.

6.14 Non-current loan and other receivables

EUR mill.	2021	2020
From group companies		216.7
From other companies	1.8	1.5
Total	**1.8**	**218.2**

6.15 Deferred tax assets

EUR mill.	2021	2020
Deferred tax assets 1 January	147.4	0.0
From result for the financial year	70.8	138.2
From temporary differences	7.6	3.6
From valuation of derivates at fair value	-5.9	5.8
Offset against deferred tax liabilities		-0.1
Deferred tax assets 31 December	**220.0**	**147.4**

6.16 Current receivables

EUR mill.	2021	2020
Short-term receivables from group companies		
Trade receivables	11.3	7.5
Group contribution receivable	244.3	189.6
Accrued income and prepaid expenses	1.6	1.5
Other receivables	229.0	8.5
Total	**486.2**	**207.1**
Short-term receivables from associates and joint ventures		
Trade receivables	0.0	0.1
Prepaid expenses	6.7	7.2
Total	**6.8**	**7.3**
Short-term receivables from others		
Trade receivables	65.6	32.6
Prepaid expenses	60.6	40.8
Derivative financial instruments	4.9	12.4
Other receivables	3.6	3.3
Total	**134.7**	**89.0**
Short-term receivables total	**627.6**	**303.5**

Accrued income and prepaid expenses	2021	2020
Sales accruals	40.3	18.9
Employee related deferred charges and receivables	1.6	1.7
Other prepaid expenses	27.0	28.9
Accrued income and prepaid expenses total	**68.9**	**239.1**

6.17 Investments

EUR mill.	2021	2020
Short-term investments at fair value	531.4	358.3

6.18 Cash and bank equivalents

EUR mill.	2021	2020
Funds in group bank accounts and deposits maturing in three months	734.1	464.2

6.19 Shareholder's equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1.1.2021	**75.4**	**24.7**	**147.7**	**-19.8**	**772.0**	**-390.5**	**609.5**
Change in fair value of equity instruments				23.5			23.5
Share-based payments					0.4		0.4
Purchase of own shares						-1.1	-1.1
Result for the financial year						-307.0	-307.0
Equity 31.12.2021	**75.4**	**24.7**	**147.7**	**3.7**	**772.4**	**-698.7**	**325.2**

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1.1.2020	**75.4**	**24.7**	**147.7**	**3.3**	**258.7**	**175.5**	**685.3**
Change in fair value of equity instruments				-23.1			-23.1
Share issue					511.7		511.7
Share-based payments					1.6		1.6
Result for the financial year						-566.0	-566.0
Equity 31.12.2020	**75.4**	**24.7**	**147.7**	**-19.8**	**772.0**	**-390.5**	**609.5**

Distributable equity

EUR mill.	2021	2020
Hedging reserve		-19.8
Unrestricted equity funds	772.4	772.0
Retained earnings	-391.7	175.5
Profit/loss for the financial year	-307.0	-566.0
Total	**73.7**	**361.7**

Share and dividends information is available in Financial statements in group note 3.9.

6.20 Accumulated appropriations

EUR mill.	2021	2020
Accumulated depreciation difference 1 January	21.0	26.0
Change in depreciation difference	-1.5	-5.0
Accumulated depreciation difference 31 December	**19.5**	**21.0**
Accumulated appropriations total	**19.5**	**21.0**

6.21 Provisions

EUR mill.	2021	2020
Provisions 1 January	155.9	157.0
Provision for the period	34.5	36.4
Provision used	-19.7	-25.2
Exhange rate differences	11.7	-12.2
Provisions 31 December	**182.4**	**155.9**
Of which long-term	170.3	141.7
Of which short-term	12.1	14.2
Total	**182.4**	**155.9**

Long-term aircraft maintenance provisions are expected to be used by 2033.

6.22 Non-current liabilities

EUR mill.	2021	2020
Loans from financial institutions	300.0	600.0
Bonds	400.0	200.0
Hybrid loan	200.0	200.0
Other liabilities	14.4	2.1
Total	**914.4**	**1,002.1**
Maturity of interest-bearing liabilities		
1–5 years	700.0	800.0
after 5 years	200.0	200.0
Total	**900.0**	**1,000.0**

Finnair Plc issued on 19.05.2021 a senior unsecured bond of EUR 400 million. The 4-year Bond matures on 19 May 2025, it carries a fixed annual interest of 4.250 per cent.

6.23 Current liabilities

EUR mill.	2021	2020
Current liabilities to group companies		
Trade payables	22.0	22.5
Accruals and deferred income	16.0	8.8
Group bank account liabilities	504.9	107.2
Total	**542.9**	**138.5**
Current liabilities to associates and joint ventures		
Trade payables	0.1	0.0
Accruals and deferred income	1.5	0.3
Total	**1.5**	**0.3**
Current liabilities to others		
Loans from financial institutions	398.9	
Trade payables	45.7	23.8
Accruals and deferred income	448.4	308.5
Other liabilities	5.9	4.2
Total	**898.9**	**336.5**
Current liabilities total	**1,443.3**	**475.3**
Accruals and deferred income		
Unflown air transport revenues	202.6	55.7
Jet fuels and traffic charges	49.8	15.6
Holiday payment liability	38.6	44.0
Loyalty program Finnair Plus	55.2	52.0
Derivative financial instruments	0.3	66.6
Other items	119.4	83.8
Total	**465.9**	**317.6**

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2021	2020
Guarantees and contingent liabilities		
On behalf of group companies	51.0	32.1
Total	**51.0**	**32.1**
Aircraft lease payments		
Within one year	364.8	367.8
After one year and not later than 5 years	1,173.0	1,215.8
Later than 5 years	648.0	507.0
Total	**2,185.9**	**2,090.7**
Parent company has leased the aircraft fleet from the fully owned subsidiary.		
Other lease payments		
Within one year	29.0	27.5
After one year and not later than 5 years	70.6	87.0
Later than 5 years	159.6	162.4
Total	**259.1**	**276.9**
Pension obligations		
Total obligation of pension fund	333.3	345.9
Non-mandatory benefit covered	-333.3	-345.9
Total	**0.0**	**0.0**

6.25 Derivatives

	2021				2020			
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								
Operational cash flow hedging (forward contracts)	57.4	0.8	-0.1	0.7	268.4	4.2	-13.1	-8.8
Operational cash flow hedging, bought options	4.5	0.0		0.0	80.5	0.0		0.0
Operational cash flow hedging, sold options	4.3		0.0	0.0	74.3		-1.9	-1.9
Hedge accounting items total	**66.3**	**0.8**	**-0.1**	**0.7**	**423.3**	**4.3**	**-15.0**	**-10.7**
Operational cash flow hedging (forward contracts)					173.9	4.1	-3.1	1.0
Operational cash flow hedging, bought options					20.3	0.1		0.1
Operational cash flow hedging, sold options					20.3	0.0	-0.1	0.0
Balance sheet hedging (forward contracts)					5.7	0.0		0.0
Items outside hedge accounting total					**220.4**	**4.3**	**-3.2**	**1.1**
Currency derivatives total	**66.3**	**0.8**	**-0.1**	**0.7**	**643.5**	**8.5**	**-18.1**	**-9.6**
Commodity derivatives								
Jet fuel forward contracts, tonnes	68,000	4.1	-0.2	3.9	240,000	3.2	-17.3	-14.2
Bought options, jet fuel, tonnes								
Sold options, jet fuel, tonnes								
Hedge accounting items total		**4.1**	**-0.2**	**3.9**		**3.2**	**-17.3**	**-14.2**
Jet fuel forward contracts, tonnes					336,000	0.6	-31.1	-30.5
Items outside hedge accounting total						**0.6**	**-31.1**	**-30.5**
Commodity derivatives total		**3.9**	**4.1**	**-0.2**		**3.8**	**-48.4**	**-44.6**
Derivatives total*		**4.9**	**-0.3**	**4.6**		**12.4**	**-66.6**	**-54.2**

* Positive (negative) fair value of hedging instruments on 31 Dec 2021 is presented in the statement of financial position in the item derivative assets within current assets (derivative liabilities within current liabilities).

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

EUR mill.	31 Dec 2021	Level 1	Level 2
Financial assets at fair value			
Securities held for trading	531.4	512.4	19.0
Derivatives			
Currency derivatives	0.8		0.8
- of which in cash flow hedge accounting	0.8		0.8
Commodity derivatives	4.1		4.1
- of which in cash flow hedge accounting	4.1		4.1
Total	**536.3**	**512.4**	**23.9**
Financial liabilities at fair value			
Derivatives			
Currency derivatives	0.1		
- of which in cash flow hedge accounting	0.1		
Commodity derivatives	0.2		
- of which in cash flow hedge accounting	0.2		
Total	**0.3**		

6.27 Fuel price risk in flight operations

Timing of the notional and hedged price

			Maturity	
31 December 2021	Hedged price $/tonne	Notional amount (tonnes)	Under 1 year	1 to 2 years
Jet fuel consumption priced with NWE index	625.0	68,000	66,000	2,000

Foreign exchange risk

			Maturity	
Timing of the notional EUR mill. 31 December 2021	Average exchange rate of hedging instruments against the euro	Notional amount (gross)	Less than 1 year	1 to 2 years
USD	1.14	61.3	61.3	
JPY	121.09	5.0	5.0	

Cross-currency interest rate swaps are included in the nominal amount calculation.

Board of directors' proposal on the dividend

Finnair Plc's distributable equity on 31 December 2021 amounts to 73,709,760.76 euros, of which the net result for the financial year 2021 is -307,023,080.56 euros.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid based on the balance sheet to be adopted for the financial year, which ended on 31 December 2021, and the result be retained in the equity.

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

Helsinki, 16 February 2022
The Board of Directors of Finnair Plc

Jouko Karvinen

Tiina Alahuhta-Kasko

Colm Barrington

Montie Brewer

Jukka Erlund

Hannele Jakosuo-Jansson

Henrik Kjellberg

Maija Strandberg

Topi Manner
President and CEO of Finnair Plc

Auditor's report

(This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.)

To the Annual General Meeting of Finnair Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Finnair Plc (business identity code 0108023-3) for the year ended 31 December, 2021. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 1.3.3 to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the 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. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

The key audit matter	How the matter was addressed in the audit
Financial position and funding arrangements (Refer to Accounting principles for consolidated financial statements and Notes 3.3 and 3.5)	
Resulting from the prolonged COVID-19 pandemic the Group has incurred a net loss of € 464 million decreasing the equity to € 476 million. Liquid funds amounted to € 1,150 million and the interest-bearing liabilities were € 2,809 million. Finnair continued adjusting its operations and executing its extensive financing programme. As disclosed in the accounting principles to the financial statements due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the Board of Directors have reviewed three different scenarios prepared by the management. According to the assessment of the Board of Directors Finnair will be able to meet its obligations under all three scenarios as they fall due at least 12 months after the date of the issuance of the financial statements.	With the involvement of KPMG valuation and IFRS specialists, we assessed the terms of the financing agreements and the impacts on classification and recognition in relation to accounting principles and accounting standards applied in the consolidated financial statements. We obtained an understanding of the financial forecasting process. We analysed, among others, cash flow forecasts based on different scenarios, the reliability of the data underlying the forecasts and whether effective implementation of management plans is reasonable. We challenged the appropriateness of key assumptions used in the cash flow forecasts that require significant management judgement. We evaluated the sensitivity calculations prepared by the management to test the headroom for the Group to be able to conduct its adjusted business operations. In addition, we assessed the appropriateness of the disclosures provided on the financing arrangements and financial position.

The key audit matter	How the matter was addressed in the audit
Fleet valuation (Refer to Accounting principles for consolidated financial statements and Note 2)	
The Group has own aircraft and right of use aircraft with total carrying value of € 1,972 million representing 49 % of total consolidated assets. The aircraft-related depreciation charge was € 279 million. As a result of the COVID-19 pandemic, part of the aircraft fleet has been grounded and several aircraft refinancing transactions were executed as part of investment optimization. The evaluation of the expected useful life of the components of the aircraft, the expected residual value, impairment of existing aircraft and assessment of whether onerous contract exists related to the future committed aircraft purchases requires a significant degree of management judgement. The valuation of the fleet is considered as a key audit matter due to the significance to the Group's consolidated statement of financial position, due to management judgement and inherent uncertainty increased by pandemic involved in forecasting future cash flows.	We assessed the reasonableness of assumptions made for useful lives, components and residual values regarding owned and leased aircraft and reconciled these assumptions against carrying values of aircraft components and associated depreciation recorded in the income statement. Our audit procedures, with the involvement of KPMG valuation specialists, included testing the integrity of the calculations and the technical model. We have challenged the assumptions used in impairment testing and their reasonableness by reconciling against external industry market data, scenarios approved by the Board of Directors and our own views. Furthermore, we considered the potential impact of uncertainties related to COVID-19 on the assumptions within management's cash flow estimates. We performed our own sensitivity analyses over the key assumptions used. We assessed the appropriateness of the related disclosures.
Deferred passenger revenue (Refer to Accounting principles for consolidated financial statements and Note 1.2.4)	
The deferred passenger revenue amounted to € 291 million. Passenger ticket sale is presented as deferred income in the consolidated statement of financial position from the point of sale until the flight is flown and the sale is recognized as revenue. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused. The points earned in the customer loyalty program are measured at fair value and recognised as a decrease of revenue and debt at the time when the points-earning event is recognised as revenue or when the points expire. COVID-19 pandemic has increased the level of uncertainty about the expected customer behaviour. Large volumes of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss. The recording process is complex, which gives rise to inherent risk of error, in determining the amount and timing of the revenue recognition. Timing and accuracy in the recording of passenger revenue is therefore determined as a key audit matter in our audit of the consolidated financial statements.	We obtained an understanding of revenue recognition process. We used data analytics tools for identifying revenue flows and risks in revenue recognition of ticket sales and focused our audit on key risks identified. Further, we used data analyses in testing deferred revenue of unflown tickets. We evaluated the design and tested the operating effectiveness of key controls over revenue recognition. We tested the mathematical accuracy and input data of the calculation used to recognize revenues from the breakage model. We also analysed the assumptions used in the revenue recognition of the customer loyalty program. We tested a sample of passenger revenue recognized as well as a sample of unused tickets in the deferred revenue.

The key audit matter	How the matter was addressed in the audit
Aircraft maintenance provision (Refer to Accounting principles for consolidated financial statements and Note 1.3.6)	
The Group operates aircrafts which are owned or held under lease agreement. The Group is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance, engine life limited part and other material maintenance provisions amounting to € 196 million. The measurement of aircraft maintenance provisions 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 realise, the market price development of maintenance costs and the actual condition of the aircraft at the time of the maintenance event. We identified aircraft maintenance provision as a key audit matter due to the inherently complex model and management judgement incorporated in the assumptions used in the calculation.	We obtained an understanding of the process by which the lease agreements are analysed and recorded in the maintenance model and by which the variable factors within the provision are estimated. We evaluated the appropriateness of the maintenance provision model and challenged the key assumptions used such as expected timing and cost of maintenance checks. We obtained and inspected a sample of asset lease agreements to evaluate the completeness of the restoration and return liabilities for obligations at the redelivery at the end of the lease. We tested the input data and mathematical accuracy of the calculations as well as recalculated the maintenance provision by using data analysis tools. In addition, we performed retrospective analysis on the accuracy of the provision.
Defined benefit pension plans (Refer to Accounting principles for consolidated financial statements and Note 1.3.8.2)	
The liability recognised in the balance sheet in respect of defined benefit 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 pension asset amounted to € 81 million. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and based on actuarial assumptions. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality bonds with consistent maturities. The plan assets are valued at fair value involving 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.	With the assistance of KPMG pension specialist, we assessed the appropriateness of the actuarial assumptions used in calculating the defined benefit pension obligation. We assessed the appropriateness of the valuation methods, estimates and judgements used by management to value the assets. We tested the valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at closing date. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price and publicly available information on similar investments and compared that to the management valuation. In addition, we assessed the appropriateness of the related disclosures.

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of 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 parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is 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 the financial statements.

As part of an audit in accordance with 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 so that the financial statements give a true and fair view.

— 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 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

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on May 29, 2020, and our appointment represents a total period of uninterrupted engagement of two years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. 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 and 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors of the parent company and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 16 February 2022

KPMG OY AB

KIRSI JANTUNEN
Authorized Public Accountant, KHT