FINNAIR

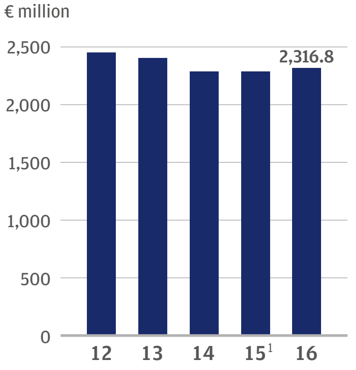
FINANCIAL STATEMENTS
1 JAN–31 DEC 2016

KEY FIGURES

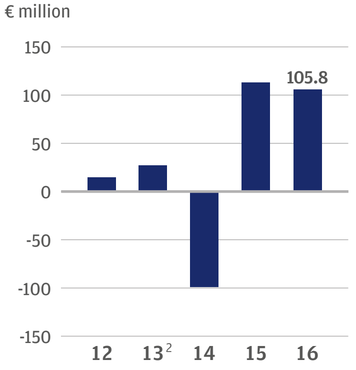
[1] Revenue from non-core businesses is reclassified from revenue to other operating income. Comparative periods have been restated accordingly from the beginning of 2015 onwards.

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

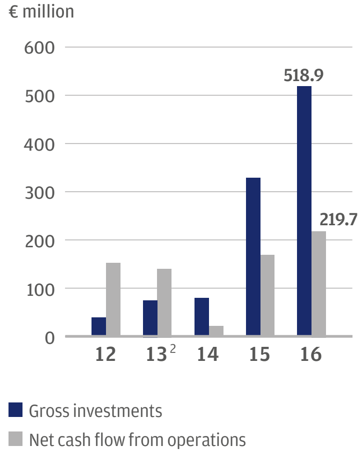
Revenue



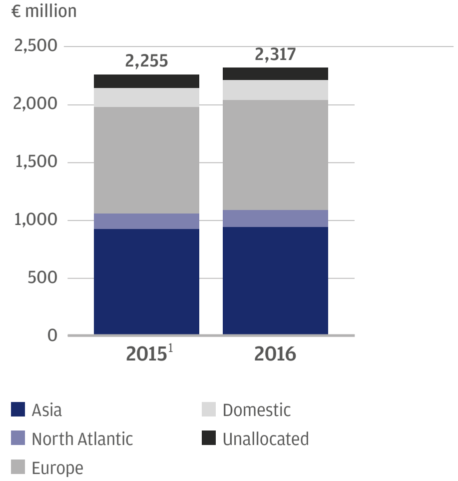
Result before taxes



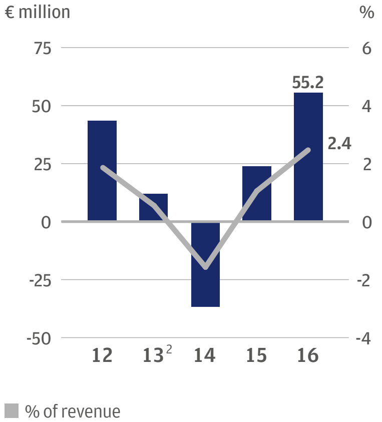
Capital expenditure and net cash flow from operations



Revenue by traffic area

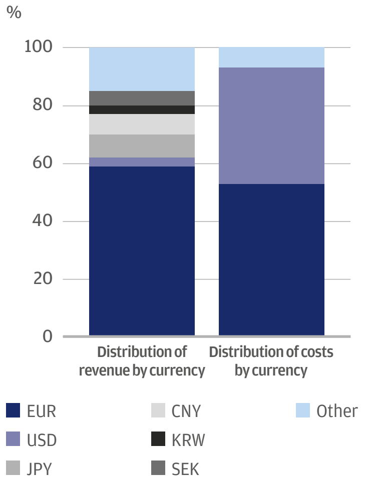


Comparable operating result*

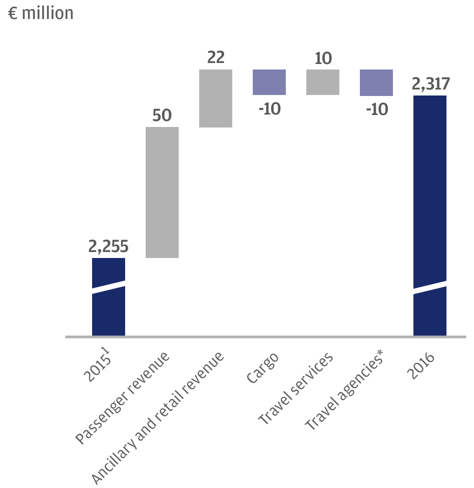


* Comparable operating result excluding changes in the fair values of derivates and in the value of foreign currency denominated fleet maintenance reserves and items affecting comparability.

Distribution of revenue and costs by currency in 2016

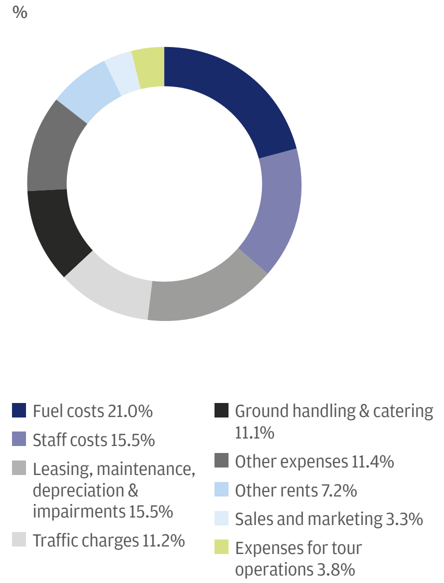


Revenue by product



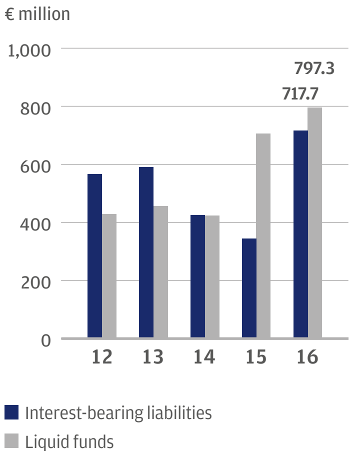
* Revenue of travel agencies has decreased due to sale of subsidiaries in 2015 and 2016. After October 2016 Finnair does not have any travel agency operations after these disposals.

Distribution of operating expenses € 2,337.1 million

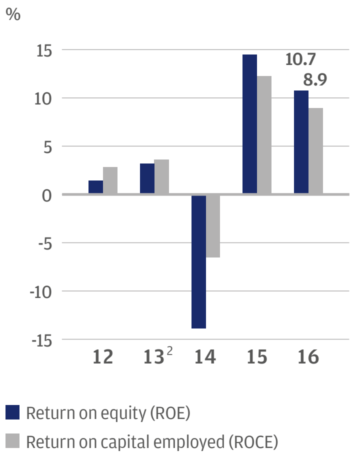


[2] Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls.

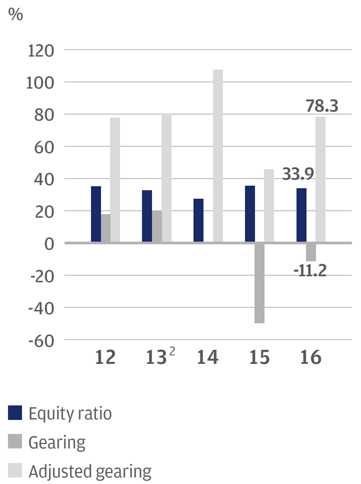
Interest-bearing liabilities and liquid funds



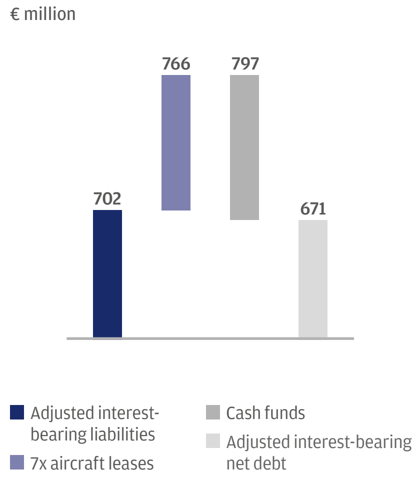
Return on equity (ROE) and return on capital employed (ROCE)



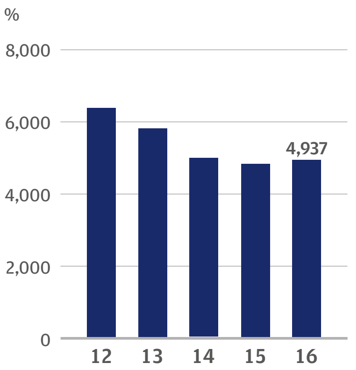
Equity ratio, gearing and adjusted gearing



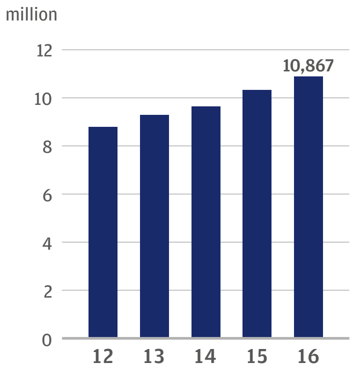
Composition of adjusted interest-bearing net debt



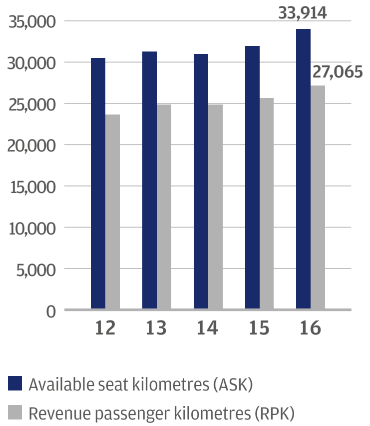
Number of persons employed by Finnair at year-end



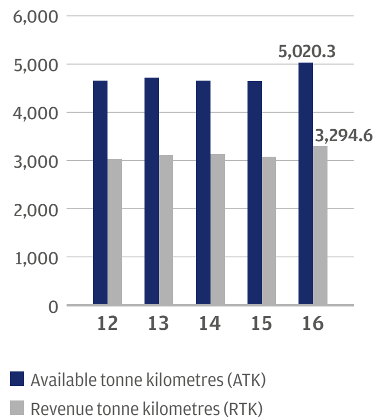
Number of passengers



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



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



THE REPORT OF THE BOARD OF DIRECTORS 2016

Business environment

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

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

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

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

The declining trend in the price of jet fuel that began in autumn 2014 ended in the spring and has since turned upwards. The dollar price of jet fuel was still 19.4 per cent lower in the year 2016 than in the comparison period. The US Dollar, the most significant expense currency after the euro, appreciated by 0.2 per cent against the euro year-on-year and is at a significantly stronger level than in 2014. In regards to key income currencies, the Japanese yen, which has been appreciating since autumn 2015, weakened towards the end of the year. However the Japanese yen was still 11.7 per cent stronger against the euro than in the comparison period. The Chinese yuan depreciated by 5.2 per cent year-on-year. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected one-for-one in its result.

Strategic objectives and strategy implementation

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

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

Significant events in the review period

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

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

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

Financial performance

Revenue in January–December 2016

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

Revenue by product

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

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

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

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

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

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

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

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

Cost development and result January–December 2016

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

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

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

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

Balance sheet on 31 December 2016

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

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

Cash flow and financial position

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

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

The company's liquidity was strong in the review period. The Group's cash funds at year-end amounted to 797.3 million euros (31 Dec 2015: 708.2). In addition to the cash funds on the balance sheet, the Group has the option of re-borrowing employment pension fund reserves worth approximately 430 million euros from its employment pension insurance company. Using these reserves requires a bank guarantee. Finnair has an entirely unused 175-million-euro syndicated credit facility, which is intended as reserve funding and was signed in June as the previous corresponding agreement matured. The new arrangement has a maturity of three years with two optional one-year extensions. Finnair prepaid all of its bank debt, approximately 67 million euros in he autumn and redeemed the outstanding principal of its hybrid bond issued in 2012, amounting to 38.3 million euros.

Finnair has a 200-million-euro short-term commercial paper program, which was unused at the end of the review period. Net cash flow from financing in January–December amounted to 200.5 million euros (18.1). Financial expenses were -11.5 million euros (-9.7) and financial income stood at 1.0 million euros (1.3).

Capital expenditure

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

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

Finnair will add seating capacity to its current Airbus narrow-body aircraft in 2017–2018 by modifying storage and technical space at the front and rear of the aircraft. The investment concerns 23 narrow-body Airbus aircraft.

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

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

Fleet

Fleet operated by Finnair

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

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

Fleet operated by Finnair on 31 December 2016*

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

* Finnair's Air Operator Certificate (AOC).
** Includes JOLCO-financed A350 aircraft.
*** Only one of the A340s was in operation at end-December.

Renewal of the long-haul fleet

Finnair has ordered a total of 19 Airbus A350 XWB aircraft from Airbus, three of which were delivered in 2015 and four in 2016. According to the current delivery schedule, Finnair will receive four new A350 aircraft in 2017 and the remaining eight between 2018 and 2023. Finnair's investment commitments for property, plant and equipment, totalling 1,601 million euros, include the upcoming investments in the long-haul fleet.

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

Fleet operated by Norra (purchased traffic)

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

Fleet operated by Norra on 31 December 2016*

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

* Nordic Regional Airlines Oy's Air Operator Certificate (AOC).
** Finnair's subsidiary Finnair Aircraft Finance has leased these aircraft and subleased them to Nordic Regional Airlines.

Air traffic services and products

Route network and alliances

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

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

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

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

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

Other renewals and services

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

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

Awards

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

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

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

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

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

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

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

Changes in senior management

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

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

Personnel

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

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

Shares and shareholders

Shares and share capital

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

Government ownership

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

Share ownership by management

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

Own shares

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

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

Flagging notifications

No flagging notices were issued in 2016.

Acquisition and delivery of own shares and returns of shares

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

Finnair Plc largest shareholders as at 31 December 2016

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

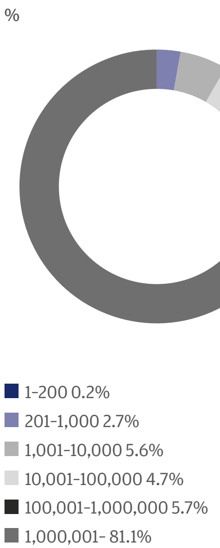
Shareholders by type at 31 December 2016

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

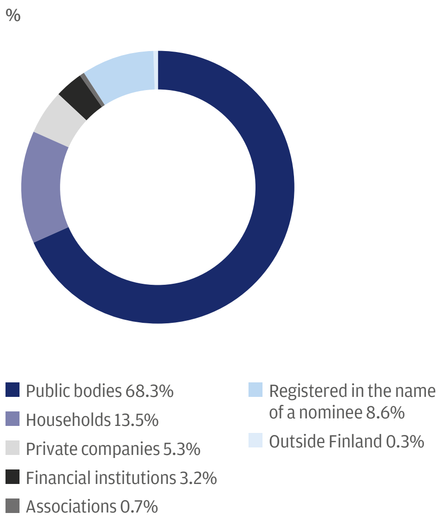
Breakdown of shares at 31 December 2016

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

Shareholding by number of shares owned



Shareholding by type



Shareholder agreements

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

Change of control provisions in material agreements

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

Share-based incentive schemes

Employee share savings plan FlyShare

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

Share-based incentive plan for key personnel

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

Share price development and trading

At the end of December 2016, Finnair's market value stood at 516.4 million euros (694.5), and the closing price of the share was 4.03 euros (5.42). In 2016, the highest price for the Finnair Plc share on the NASDAQ Helsinki Stock Exchange was 5.92 euros (5.50), the lowest price 3.80 euros (2.49) and the average price 4.74 euros (3.54). Some 28.1 million (25.5) of the company's shares, with a total value of 133.2 million euros (90.1), were traded. The number of Finnair shares recorded in the Trade Register was 128,136,115 at the end of the period. The Finnish state owned 55.8 per cent (55.8) of Finnair's shares, while 8.9 per cent (8.9) were held by foreign investors or in the name of a nominee.

Finnair share 2012–2016

Comparison European Airlines

Comparison Nasdaq Helsinki

Number of shares and share prices

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

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

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

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

Corporate responsibility

Economic, social and environmental sustainability is integral to Finnair’s overall business strategy and operations. Finnair wants to be a responsible global citizen and respond to its stakeholders’ needs, also from the perspective of corporate responsibility.

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

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

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

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

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

Significant near-term risks and uncertainties

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

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

Exceptional variations in fuel price and how these are passed on to ticket prices or affect capacity growth in Finnair’s main markets pose for Finnair’s revenue development, as do sudden adverse changes in foreign exchange rates and slowing demand growth.

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

The achievement of the strategic advantages and cost reductions sought through Finnair’s partnership and outsourcing projects involves risks. For example, quality or availability issues and/or unexpected additional costs of partnerships and suppliers can have a negative effect on Finnair’s product, reputation and profitability.

The delivery schedule and use of the Airbus A350 XWB aircraft involves risks associated with new technology and roll-out processes. In addition, the implementation of Finnair's strategy includes significant operating and internal changes, which involve risks. Finnair's growth plan and its resourcing could generate further cost pressure and operational challenges in the short term.

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

Geopolitical uncertainty, the elevated threat of terrorism and other potential external disruptions may, if they materialise, significantly affect the demand for air travel and Finnair's operations.

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

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

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

Seasonal variation and sensitivities in business operations

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

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

The company protects itself against the risks of currency, interest rate and jet fuel positions by using different derivative instruments, such as forward contracts, swaps and options, according to the risk management policy verified by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months.

Sensitivities in business operations, impact on comparable operating profit (rolling 12 months from date of financial statements)	**1 percentage (point)change**
Passenger load factor (PLF)	EUR 22 million
Average yield of passenger traffic	EUR 19 million
Unit cost (CASK ex. fuel)	EUR 18 million

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

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

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

Outlook

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

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

FINNAIR PLC
Board of Directors

Financial indicators 2012–2016

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

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

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

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

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

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

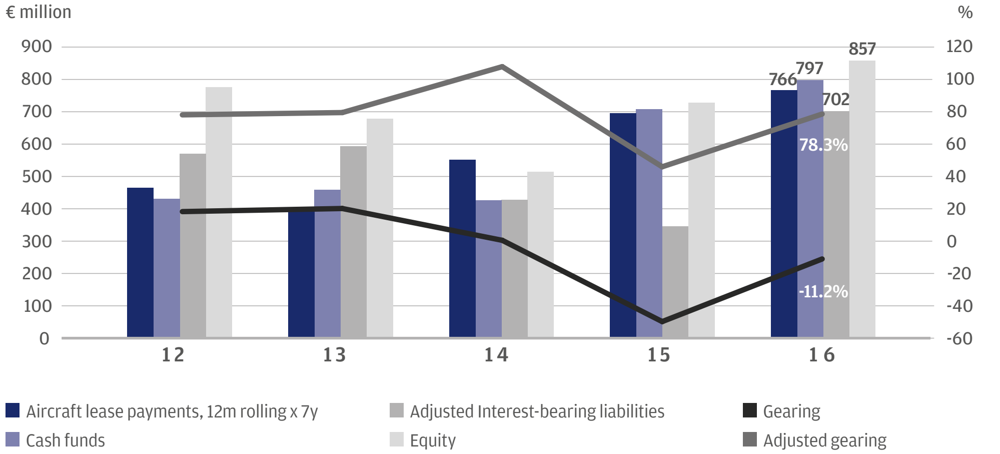
** The dividend for year 2016 is a proposal of the Board of Directors to the Annual General Meeting.

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

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

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

Gearing



= Highlights

FINANCIAL STATEMENTS 1 JANUARY–31 DECEMBER 2016

How to read Finnair Financial Statements?

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

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

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

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

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

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

Contents

Consolidated income statement

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

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

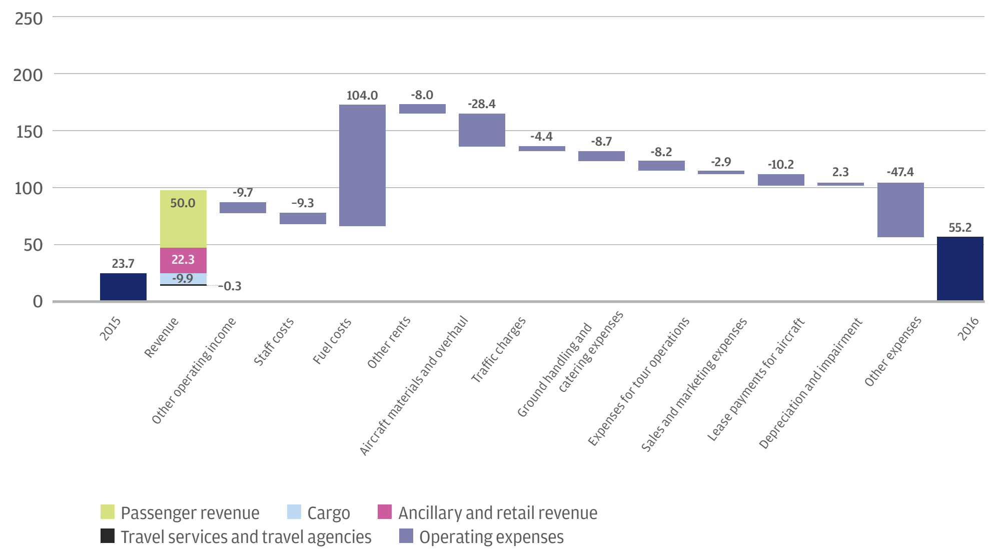
Positive profit performance continued in 2016 due to growing traffic, ticket revenue and ancillary sales. Operational costs were on previous year's level reflecting the low fuel cost, although accelerated growth caused extra costs and the strong USD increased the cost level.

Consolidated statement of comprehensive income

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

Change in comparable operating result 2016

€ million



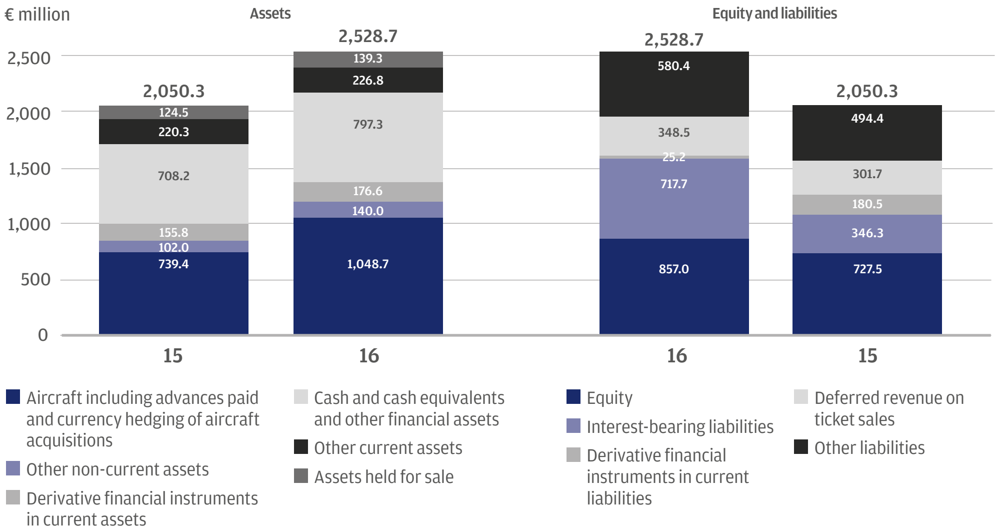
★ = Highlights

Consolidated balance sheet

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

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

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



★ = Highlights

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

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

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

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

Consolidated cash flow statement

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

★ = Highlights

Notes to consolidated cash flow statement

*** Non-cash transactions**

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

Other adjustments mainly include changes in maintenance and other provisions.

**** Liquid funds**

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

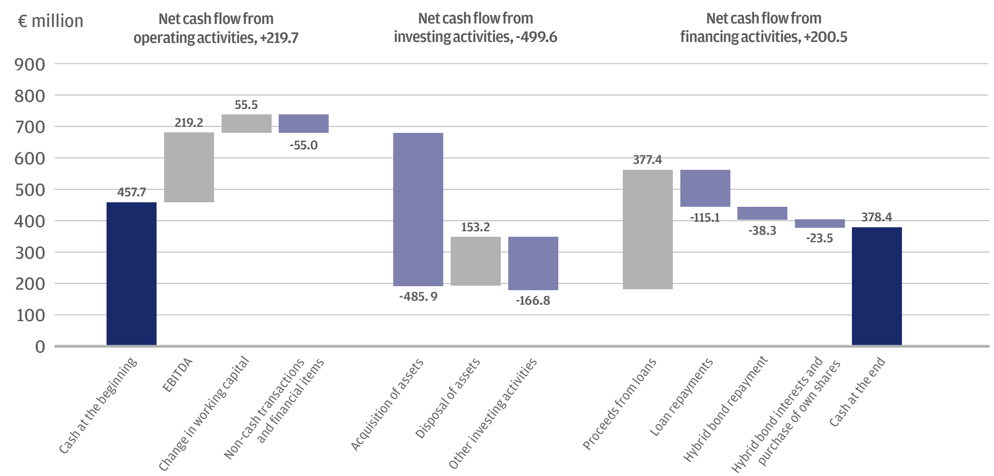
★ Strong financing position enables development of operations and financing of fleet transition

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

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

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

Cash Flow change 2016, -79.3 € million



Consolidated statement of changes in equity

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

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

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

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

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

★ = Highlights

Notes to the consolidated financial statements

Accounting principles

How should the Finnair's accounting principles be read?

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

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

Description of the company

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

Basis of preparation

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

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

Presentation of Consolidated Income Statement and Balance Sheet

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

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

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

Presentation of alternative performance measures

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

Use of estimates

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

Critical accounting estimates and sources of uncertainty

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

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

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

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

1 Segments and operating result

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

1.1 Segment information

A Segment reporting

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

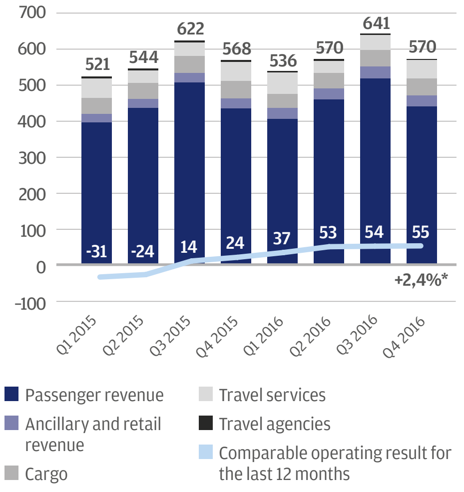
Due to Finnair's recent business developments and restructuring of organisation, Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is no longer reported. The previous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

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

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

Revenue and comparable operating result (unaudited)

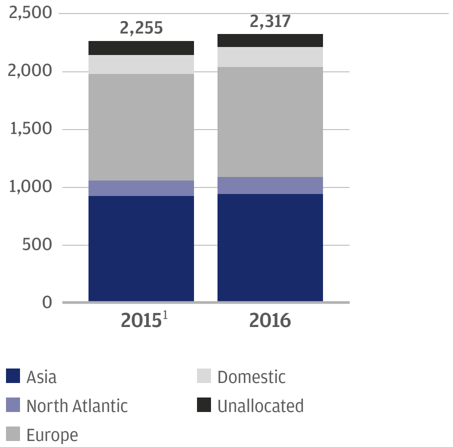
€ million



* Comparable operating result -%

Revenue by traffic area

€ million



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

1.2 Operating income

i Operating income section includes both income statement and balance sheet notes that relate to revenue. The aim is to provide more coherent picture of income related items effecting Finnair's result and financial position. Trade receivables and deferred income containing mainly prepaid flight tickets and travel tour services are presented in connection with this section, because those are an essential part in revenue recognition. 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. Unused tickets are recognised as revenue when the ticket expires and Finnair has no obligation to return the consideration to customer.

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

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

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

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

Trade receivables

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

! Finnair Plus Customer Loyalty Program

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

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

1.2.1 Revenue by product

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

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

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

1.2.2 Revenue by traffic area

2016

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

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

2015

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

1.2.3 Revenue by currency

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

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

1.2.4 Trade and other receivables

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

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

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

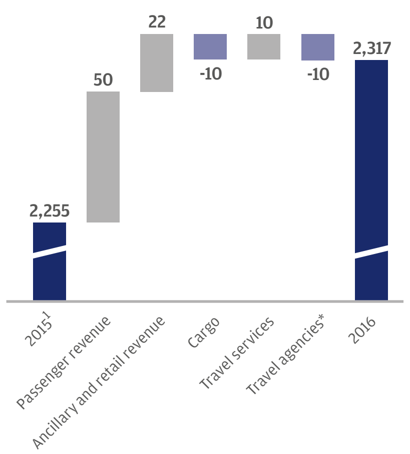
The Group has recognised a total of 1.3 million euros (2.4) of credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount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

Trade receivables by currency

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

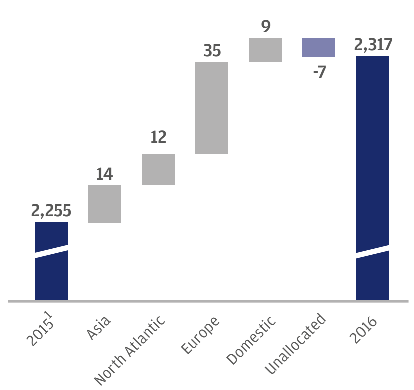
Revenue by product

€ million



Revenue by traffic area

€ million



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

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

1.2.5 Deferred income and advances received

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

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

1.3 Operating expenses

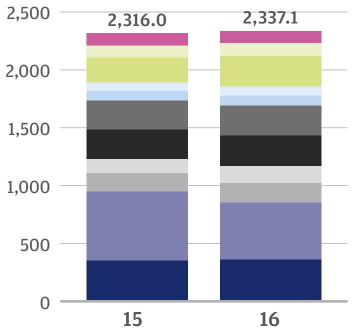
Operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this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

1.3.1 Operational expenses by currency

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

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

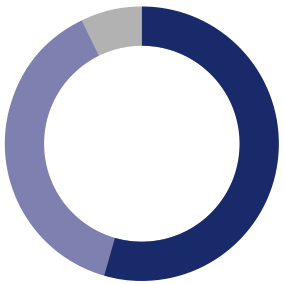
Operational expenses



- Staff costs, change +3%
- Fuel costs, change -17%
- Other rents, change +5%
- Aircraft materials and overhaul, change +24%
- Traffic charges, change +2%
- Ground handling and catering expenses, change +3%
- Expenses for tour operations, change +10%
- Sales and marketing expenses, change +4%
- Other expenses, change +22%
- Lease payments for aircraft, change +10%
- Depreciation and impairment, change -2%

Operational expenses by currency

%



- EUR 54%
- USD 38%
- Other currencies 7%

1.3.2 Leasing expenses

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

1.3.3 Other expenses

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

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

Audit fees in other expenses

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

1.3.4 Other liabilities

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

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

1.3.5 Provisions

A Provisions

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

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

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

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

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

! Aircraft maintenance provision

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

A = Accounting principles
! = Critical accounting estimates

1.3.6 Items excluded from comparable operating result

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

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

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

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

1.3.7 Employee benefits

1.3.7.1 Employee benefit expenses and share-based payments

A Share-based payments

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

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

Termination benefits

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

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

Staff costs

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

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

Transfer to Personnel Fund

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

Liabilities related to employee benefits

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

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

Management remuneration

The President and CEO and Executive Board remuneration

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

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

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

A = Accounting principles

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

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

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

Remuneration paid to Board of Directors

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

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

Share-based payments

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

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

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

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

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

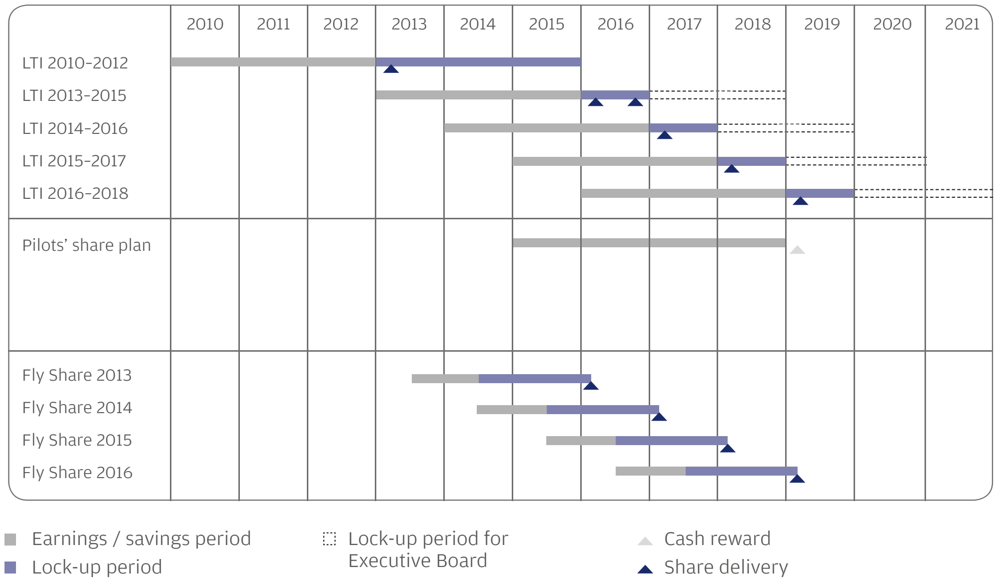
If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board participating in the program will be 30% of his or her annual base salary. If the performance criteria set for the plan are met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

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

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

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

Finnair share-based payment plans



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

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

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

FlyShare employee share savings plan 2013 onwards

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

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

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

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

A = Accounting principles
! = Critical accounting estimates

Long-term incentive plan for pilots

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

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

1.3.7.2 Pensions

A Defined benefit and defined contribution plans

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

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

Description of pension plans in Finnair

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

Exposure to most significant risks

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

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

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

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

Defined benefit pension plans

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

Items recognised in the balance sheet

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

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

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

Changes in pension obligations

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

Changes in plan assets

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

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

Plan assets are comprised as follows

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

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

Defined benefit plans: principal actuarial assumptions

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

Sensitivity analysis

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

Sensitivity analysis on principal actuarial assumptions

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

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

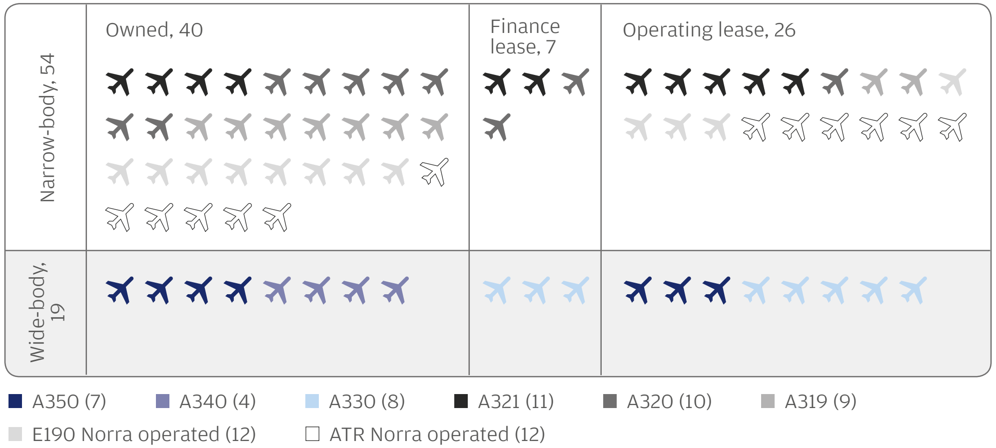
The duration of defined benefit obligation is 15.21 years. The duration is calculated by using discount rate of 1.52 %.

2 Aircraft and other intangible and tangible assets and leasing arrangements

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

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

Fleet



Fleet

Fleet in Finnair balance sheet

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

2.1 Tangible assets

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

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

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

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

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

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

Impairment

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

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

! Impairment testing

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

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

Tangible assets 2016

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

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

Tangible assets 2015

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

Capitalised borrowing costs

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

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

Pledged assets and other restrictions on tangible assets

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

Impairment test

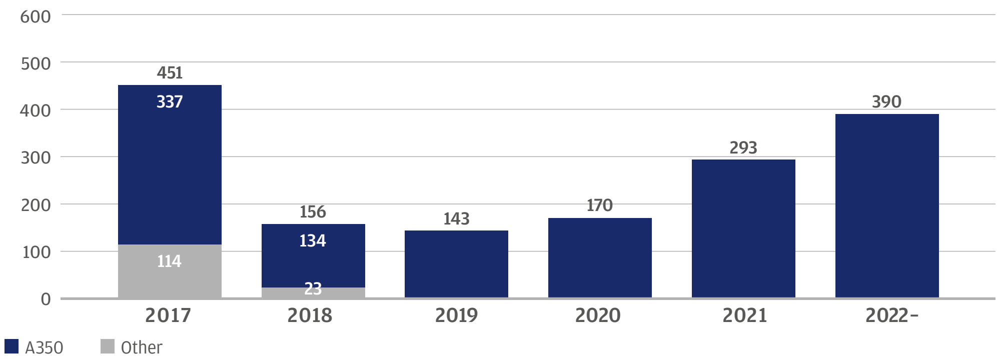
The impairment test of the aircraft based on the fair value has been done on the closing date. It did not cause any need for impairment. The test is sensitive to the exchange rate EUR/USD. The weakening of USD decreases the fair value of the aircraft. The fair value of the aircraft would still be higher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

Investment commitments

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

Investment commitments

€ million



2.2 Leasing arrangements

A The Group as lessee

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

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

The Group as lessor

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

Sale and leaseback transactions

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

! Critical accounting estimates and sources of uncertainty

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

Finance lease arrangements

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

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

Finance lease liabilities

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

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

Other lease arrangements

Minimum lease payments for irrevocable lease agreements, Group as lessee

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

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

Minimum lease payments for irrevocable lease agreements, Group as lessor

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

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

A = Accounting principles
! = Critical accounting estimates

2.3 Non-current assets and liabilities held for sale

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

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

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

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

The book value of the assets held for sale

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

2.4 Intangible assets

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

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

3 Capital structure and financing costs

3.1 Financial income and expenses

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

A Interest income and expenses

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

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

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

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

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

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

A = Accounting principles
i = Critical accounting estimates

3.2 Financial assets

A Financial assets

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

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

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

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

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

Impairment of financial assets

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

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

Cash and cash equivalents

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

3.2.1 Other current financial assets

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

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

3.2.2 Cash and cash equivalents

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

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

3.3 Financial liabilities

A Financial liabilities

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

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

Non-current liabilities

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

Current interest-bearing liabilities

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

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

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

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

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

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

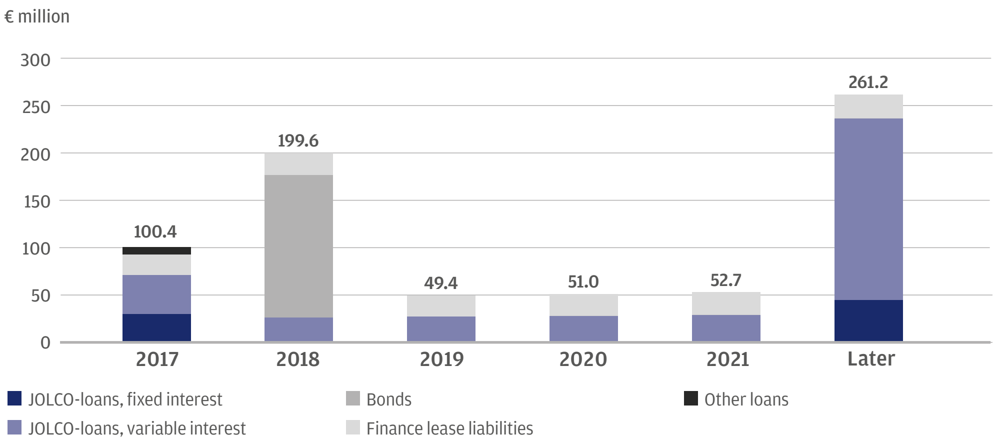
EUR mill.	2016	2015
EUR	249.5	316.3
USD	383.7	18.1
JPY	84.5	0.0
SEK	0.0	7.1
Total	**717.7**	**341.5**

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

Interest rate re-fixing period of interest-bearing liabilities

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

Maturity dates of interest-bearing financial liabilities



3.4 Contingent liabilities

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

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

3.5 Management of financial risks

Principles of financial risk management

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

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

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

Fuel price risk in flight operations

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

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

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

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

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

Foreign exchange risk

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

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

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

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

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

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

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

Foreign exchange P&L exposure

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

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

Foreign exchange investment exposure

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

Foreign exchange P&L exposure

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

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

Foreign exchange investment exposure

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

Interest rate risk

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

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

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

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

Credit risk

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

Liquidity risk

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

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

Capital management

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

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

Sensitivity analysis of the fair value reserve

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

3.6 Classification of financial assets and liabilities

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

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

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

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

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

Fair values at the end of the reporting period

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

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

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

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

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

3.7 Offsetting financial assets and liabilities

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

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

3.8 Derivatives

A Derivative contracts and hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A = Accounting principles

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

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

Ratings of derivative counterparties

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

Realised derivatives

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

3.9 Equity-related information

A Shareholders' equity

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

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

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

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

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

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

A = Accounting principles

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

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

The Group's hedging reserve and other OCI items

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

Maturity dates of fair values recognised in the hedging reserve

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

Hybrid bond

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

Earnings per share

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

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

Dividend

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

Finnair Plc's distributable equity

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

4 Consolidation

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

4.1 General consolidation principles

Consolidation

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

Translation of foreign currency items

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

4.2 Subsidiaries

A Consolidation principles of subsidiaries

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

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

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

Non-controlling interest and transactions with non-controlling interest

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

Subsidiaries

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

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

4.3 Acquisitions and disposals

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

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

i = Content of the section
A = Accounting principles

4.4 Investments in associates and joint ventures

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

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

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

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

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

The disposals in 2016 include associated company Amadeus Estonia.

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

Information on the Group's associates and joint ventures 2016

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

*The presented figures are preliminary and unaudited.

Information on the Group's associates and joint ventures 2015

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

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

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

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

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

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

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

Other associated companies

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

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

4.5 Related party transactions

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

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

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

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

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

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

Finnair pension fund

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

4.6 Application of new and amended IFRS standards and IFRIC interpretations

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

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

IFRS 9

IFRS 9 replaces IAS 39 and addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new hedge accounting rules will align the accounting for hedging instruments more closely with Finnair's risk management practices. Under IFRS 9, more hedge relationships are eligible for hedge accounting. The change will decrease volatility in Finnair's operating result, because unrealised fair value changes of derivatives are recognised in other comprehensive income instead of operating result when cash flow hedge accounting is applied. Changes related to the classification and impairment of financial instruments will not have any significant effects on Finnair. The key changes impacting Finnair's financial statements are described in more detail below.

Hedge accounting

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

Hedge effectiveness – Under IFRS 9, IAS 39 requirements for retrospective effectiveness testing as well as for hedge effectiveness of 80 to 125 per cent are removed. Finnair expects that the hedge ineffectiveness will also be minor for hedge relationships that become eligible for hedge accounting under IFRS 9.

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

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

Impairment model

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL), rather than only incurred credit losses as is the case under IAS 39. The change results in earlier recognition of credit losses on trade receivables. The credit loss allowance is adjusted at the beginning of 2017 accordingly, but the impact recognised in retained earnings is minor (1.2 MEUR). The yearly recognition of credit losses in profit and loss is expected to be low due to nature of the business; flight tickets and other services provided by Finnair are usually paid before the service is delivered. The impairment model does not affect investments in bonds and money market funds included in other financial assets as those are measured at fair value through profit and loss both under IAS 39 and IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Classification

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

IFRS 15 Revenue Recognition

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

5 Other notes

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

5.1 Income taxes

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

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

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

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

Income taxes

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

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

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

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

Deferred tax assets and liabilities

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

Changes in deferred taxes during 2016:

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

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

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

Changes in deferred taxes during 2015:

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

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

5.2 Disputes and litigation

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

5.3 Events after the closing date

There have not been remarkable events after closing date.

5.4 Restatement of operating income and key ratios

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

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

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

Consolidated Income Statement

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

Cumulative key figures

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

Revenue by product

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

6 Parent company financial statements

Finnair Plc income statement

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

Finnair Plc balance sheet

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

Finnair Plc cash flow statement

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

Notes to Finnair Plc financial statements

6.1 Accounting principles

Restatement of operating income

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

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

Foreign currency items

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

Derivative contracts

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

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

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

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

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

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

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

Financial assets and liabilities

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

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

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

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

Fixed assets and depreciation

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

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

Research and development costs

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

Leasing

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

Appropriations

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

Income taxes

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

Pension schemes

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

Provisions

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

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

6.2 Revenue by business area

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

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

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

6.3 Other operating income

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

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

6.4 Materials and services

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

6.5 Staff costs

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

6.6 Planned depreciation and amortisation

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

6.7 Other operating expenses

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

6.8 Financial income and expenses

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

6.9 Appropriations

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

6.10 Income taxes

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

6.11 Intangible assets

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

6.12 Tangible assets

Tangible assets 2016

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

Tangible assets 2015

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

6.13 Investments

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

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

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

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

6.14 Non-current loan and other receivables

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

6.15 Deferred tax assets

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

6.16 Current receivables

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

6.17 Investments

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

6.18 Cash and bank equivalents

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

6.19 Equity

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

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

Distributable equity

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

6.20 Accumulated appropriations

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

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

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

6.21 Provisions

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

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

6.22 Non-current liabilities

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

6.23 Current liabilities

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

6.24 Collateral, contingent liabilities and other commitments

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

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

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

6.25 Derivatives

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

Fair value changes of derivatives

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

Changes in fair value reserve

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

Realised derivatives

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

6.26 Financial assets and liabilities measured at fair value

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

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

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

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

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

Calculation of key ratios

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

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

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

EBITDA:
Operating result + depreciation

Shareholders' equity:
Equity attributable to owners of the parent

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

Liquid funds:
Cash and cash equivalents + other financial assets

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

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

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

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

Earnings per share:

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

Equity/share:

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

Dividend/earnings, %:

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

Dividend yield, %:

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

Cash flow from operating activities/share:

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

Price/earnings ratio (P/E):

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

Equity ratio, %:

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

Gearing, %:

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

Adjusted gearing, %:

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

Return on equity (ROE), %:

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

Return on capital employed (ROCE), %:

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

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

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

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

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

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

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

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

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

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

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

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

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

Board of Directors’ proposal on the dividend

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

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

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

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

Klaus Heinemann

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Jussi Itävuori

Gunvor Kronman

Jaana Tuominen

Nigel Turner

Pekka Vauramo
President and CEO of Finnair Plc

AUDITOR'S REPORT (TRANSLATION FROM THE FINNISH ORIGINAL)

To the Annual General Meeting of Finnair Oyj

Report on the audit of the financial statements

Opinion

In our opinion,

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

What we have audited

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

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

Basis for opinion

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

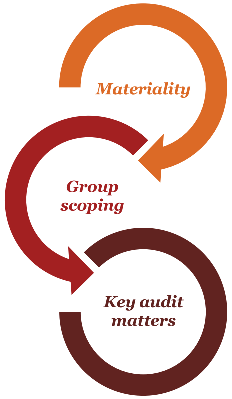
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Materiality

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

Group scoping

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

Key audit matters

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

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

Materiality

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

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

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

How we tailored our group audit scope

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

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

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

Key audit matters

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other reporting requirements

Other information

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

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

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

In our opinion

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

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

Other statements

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

Helsinki February 14th 2017
PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant